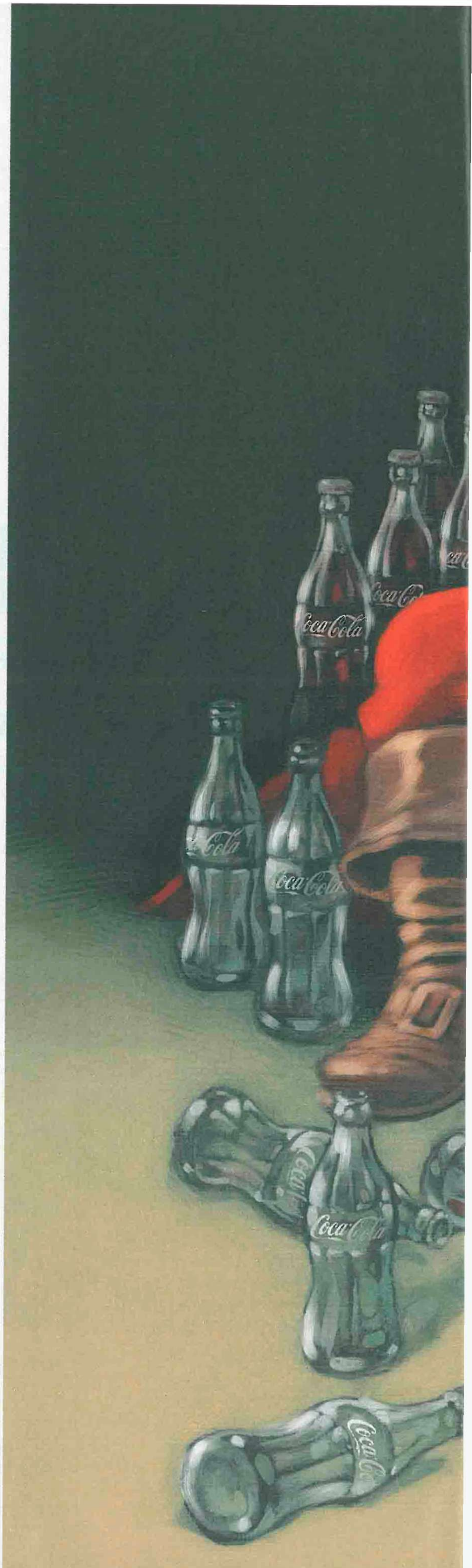
Coke Is Ready To Talk About Its Problem

Inside the relaunch of America's No.1 soft drink

By Claire Suddath with Duane Stanford
Illustration by David Parkins



Sandy Douglas drinks one Coca-Cola every day. He likes it early, before noon, sometimes accompanied by a cup of coffee. "You get an espresso, you get your caffeine and have this for lunch, and you're ahead," he says between sips from Coke's old-fashioned 8-ounce glass bottle. When it's over, he doesn't allow himself a second. "I will probably have a Coke Zero in the afternoon at some point," he concedes, but not another regular one because it has too many calories. "That's approximately my daily regimen."

For anyone else this is unremarkable, but Douglas is president of Coca-Cola North America, which means it's his job to sell as much of the fizzy, sugary soda as possible, and admitting that he limits himself to less than a can of Coke a day for health reasons might not seem the best way to go about it. At 52, Douglas has been with Coca-Cola for 26 years and is very much the company man. He dresses in dark suits. He looks golf-course tan. He carries himself like someone who's always ready to lecture on the benefits of the product he's selling. He talks in a form of Coke-speak—"the pause that refreshes," "our job is to refresh the world"—that would have any public-relations manager giddy with delight.

Coca-Cola Chairman and Chief Executive Officer Muhtar Kent gave Douglas the North America job in January, essentially asking him to turn around a decade-long decline in American soda sales. Most days since then, Douglas has walked the hallways of the company's Atlanta headquarters, past the polished wood walls adorned with vintage Coca-Cola ads and display cases full of knickknacks and long-expired coupons for 5¢ Cokes, thinking about the nearly impossible task ahead of him. There are 41 bottles of Coca-Cola in the conference room where he's holding a meeting—2-liters and tallboys, plastics of all sizes, aluminum bottles, and the classic red can. They speak to a specific type of American culture where bigger is better, one that exists outside of foodie-ism and Michelle Obama's nutrition campaign and the general explosion in health consciousness that has lately put Coke on the wrong side of just about every consumer lifestyle trend. Douglas believes Coca-Cola needs to refocus on the one thing it does best: sell bottles of Coke. This is the beginning, he says, of "what I might call the phased relaunch of Coca-Cola in the U.S."

Sandy Douglas

Given all the choices out there, people just aren't drinking as much Coke. Douglas has watched this happen from his perch at headquarters, checking numbers reports and meeting with the company's vast network of bottlers. And you don't need inside access to the data to detect the trend. Just ask Joe Davis, a self-described "frontline stocking grunt" at a Walmart in Spokane, Wash. "Coke doesn't move as much as we've seen it move in the past," he says.

Across the country, Sevan Curukcu, who owns and runs a BP station in Lodi, N.J., has noticed the same thing. When Curukcu moved his family to the U.S. from Turkey in 2001, he opened the BP franchise and quickly found that all anyone ever wanted to buy was a Coke or maybe a Snapple. Today? "It's all Red Bull or water." In his gas station, Curukcu has relegated Coca-Cola and its carbonated competitors (Pepsi, Dr Pepper, and all the decaffeinated, low-calorie iterations thereof) to one refrigerator in the corner. The rest of the store is stocked with iced tea, juices, and lots of water and energy drinks. "See what I mean?" he asks as a 20-year-old waitress walks up to his counter and purchases two liters of water and two 20-ounce cans of Red Bull.

Her name is Anna Antonova. A few years ago she gave up her two-liter-a-week Coca-Cola habit and dropped seven pounds. She's never returned to soda. Coca-Cola desperately needs to get her back, and everyone like her. "But soda is so bad for me, I feel so much better without it," Antonova says.

Americans may not have figured out the answer to the obesity epidemic, but for years they've pointed to Coca-Cola and other soda as one of the causes. Coke has tried fighting against this. It's tried ignoring it. Now it accepts this as a reality. This is the problem Douglas has to confront. He has to persuade people to drink Coca-Cola again, even if they don't guzzle it like water the way they did before.

Cultural shifts don't happen overnight. They build slowly—a sip of coconut water here, a quinoa purchase there, and suddenly the American diet looks drastically different than it did 10 years ago. Nowhere is this more pronounced than in the $75 billion soda industry. For decades, soft-drink companies saw consumption rise. During the 1970s, the average person doubled the amount of soda they drank; by the 1980s it had overtaken tap water. In 1998, Americans were downing 56 gallons of the stuff every year—that's 1.3 oil barrels' worth of soda for every person in the country.

And then we weren't as thirsty for soda anymore, and there were so many new drink options that we could easily swap it out for something else. Soft-drink sales stabilized for a few years; in 2005 they started dropping, and they haven't stopped. Americans are now drinking about 450 cans of soda a year, according to *Beverage Digest*, roughly the same amount they did in 1986.

"We actually believe that if you let this go too long, another three or five years, the consumer will walk away from carbonated soft drinks," Indra Nooyi, the CEO of PepsiCo, told investors last year, in a shockingly blunt assessment of soda's future. This is a real problem for her, but at least PepsiCo has the Frito-Lay food business to cushion some of the blow. Coke doesn't have that. Soda still makes up 74 percent of its business worldwide and about 68 percent in the U.S. Sales of Coca-Cola's carbonated sodas fell 2 percent in the U.S. last year, according to *Beverage Digest*, the ninth straight year of decline. Diet Coke tumbled especially hard, dropping 7 percent, almost entirely the result of the growing unpopularity of aspartame amid persistent rumors that it's a health risk. Coca-Cola made $46.8 billion last year, down from $48 billion in 2012. That's what Douglas is worried about.

It's strange to think about now, but Coca-Cola actually started in response to a health trend. In 1886 an Atlanta pharmacist named John Pemberton, reacting to the local temperance movement, removed the alcohol from his medicinal French Wine Coca tonic and refashioned it as Coca-Cola. Today it's the world's largest beverage company. Coca-Cola has 130,600 employees and makes 500 different beverages that people around the world drink 2 billion servings of every day. A quarter of all carbonated beverages consumed globally are made by Coke; Pepsi is far behind at 11 percent. "Coca-Cola is the soda industry," says Mike Weinstein, a former president of A&W Brands who made his fortune turning around the once-ailing Snapple and now runs his own beverage consultant firm. "Whatever Coke does, it's seen as what the soda industry does. What happens to Coke eventually happens to everyone."

Ask anyone in the soda industry to explain the consumption decline, and they'll point to the 1980s. That's when Coke and Pepsi, during the height of the soda wars, started selling the stuff in bigger and bigger sizes to get people to drink more—which meant they sold more product.

Coca-Cola is famously closed to outsiders and is so secretive about its namesake product that executives used to

Coke Busters

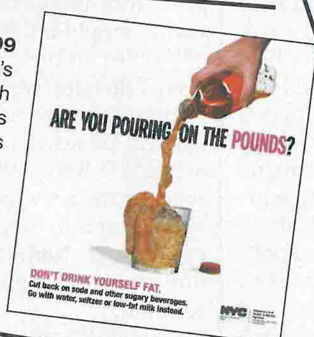
Urban myths and activist attacks

1911
The U.S. government sues Coca-Cola, claiming that caffeine is a poisonous additive. The "40 Barrels and 20 Kegs" case went to the U.S. Supreme Court, but by then Coke had lowered its caffeine content.

1950
Cornell University professor Clive McCay testifies before Congress that Coca-Cola can dissolve everything from teeth to the Capitol's steps. It isn't true.

2006
Labor activist Ray Rogers protests the death of eight employees of Coke bottlers in Colombia.

2009
New York City's Department of Health plasters subway cars with anti-soda ads urging people not to "drink yourself fat." Note the unmarked red bottle.



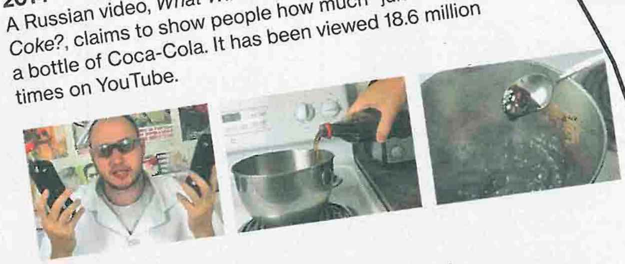
2012
The Center for Science in the Public Interest releases a video in which soda-guzzling polar bears get erectile dysfunction and diabetes.

Boycott Coca-Cola

2013
Healthy living advocate Ocean Roberts launches an online campaign to boycott Coca-Cola because it belongs to the Grocery Manufacturers Association, which lobbies against labeling genetically modified organisms.

2013
Coca-Cola releases its first anti-obesity ad, saying "if you eat and drink more calories than you burn off, you'll gain weight. That goes for Coca-Cola and everything else with calories."

2014
A Russian video, *What Will Happen If You Boil Coke?*, claims to show people how much "junk" is in a bottle of Coca-Cola. It has been viewed 18.6 million times on YouTube.



remove ingredient labels so that no one, not even the employees who mixed the syrup, knew what was in it. That level of secrecy may have worked for ad campaigns and product launches, but over the past decade the company has learned the hard way that when people are concerned that your products are harmful, it's not all that helpful to stay silent. And so, in its own slow corporate way, Coca-Cola is trying to open up. It has no other choice.

"We talked a lot about volume, unit case volume. We talked a lot about per capita," says Douglas. "And when you get paid by your bottlers for gallons of syrup, it's logical." The "upsizing" phenomenon was unique to the American market; in other countries the focus was still on introducing people to the drink. By 1990, U.S. fountain drink sizes had grown more than 50 percent. In 1994, the year Douglas became vice president of what was then called Coca-Cola USA, Coke introduced the 20-ounce plastic bottle, a serving size that was more than three times bigger than its original 6-ounce glass one. "A whole lot of the problems we're addressing in North America were created while I was in a pretty big job," he concedes. "We can stare at those honestly. We don't have to pretend they don't exist. That raises all the way up to the top of the company." That's as close as he'll get to admitting that Coca-Cola might have made a mistake by selling its drinks in such aggressive sizes.

While this was happening, rates of obesity, diabetes, and other weight-related health issues in the U.S. soared. By 1999, according to the Centers for Disease Control and Prevention, a fifth of all U.S. adults were obese; today that number is 35 percent. Obesity rates among children have tripled since the 1970s. The scientific community quickly zeroed in on fast food and sodas as a major cause. In 1998 a Washington consumer advocacy nonprofit called the Center for Science in the Public Interest (CSPI) released an industry-shattering report called "Liquid Candy" that laid bare just how many calories people were unknowingly slurping. Books such as *Fast Food Nation* shot to the top of the best-seller list. In 2005 the documentary *Super Size Me* was nominated for an Oscar.

Obesity researchers such as Kelly Brownell, dean of Duke University's Sanford School of Public Policy, lobbied state governments to pass soda taxes. "Almost no one in the policy world listened to me at first," says Brownell, who first raised the issue in 1994. "Then around 2009 the idea started becoming more popular." Since then 30 states have proposed soda taxes, although thanks in part to intense lobbying efforts by the American Beverage Association—of which Douglas is a board member—none have passed. In 2012, New York's then-Mayor Michael Bloomberg, who's the majority owner of *Bloomberg Businessweek*'s parent company, Bloomberg LP, tried to cap most fountain drink sizes at 16 ounces within the city. (New York's highest court struck the law down in June.) If these laws didn't pass, they had everyone talking.

In its campaigns, the CSPI has gone after Coca-Cola in particular, often co-opting the company's advertising images to get its message across. In 2012 it released an educational video featuring Coca-Cola-esque polar bears who drink too much soda, get diabetes, then have their legs cut off. And it funded this year's Katie Couric-narrated documentary *Fed Up*, which opened at Sundance and spends a lot of time demonizing the red can. According to former Coke employees, there's a feeling within the company that it's been unfairly targeted. "I don't know how we [Snapple] escaped it, because Snapple is essentially soda without carbonation," says Weinstein. "We had all the same stuff in there—sugar, flavoring—but we never had the heat put on us the way Coke did."

"I'm not trying to have an intellectual argument with a food scientist who has a point of view," says Douglas. He also calls consumers' growing distrust of aspartame "an Internet rumor." That's partially true; dozens of scientifically dubious websites claim that aspartame is a carcinogen even though the Food and Drug Administration says it's not. But perception is reality in the drinks business, and if people don't trust something, they won't drink it. In its annual reports, Coca-Cola regularly cites "obesity and other health concerns" as the biggest risk to the company's future.

For a while, Coca-Cola tried to grow by focusing its efforts on international markets such as India and Africa, where consumption of soda is still much lower than it is in the U.S. So far it's worked–global revenue for all of Coca-Cola's major soda brands (except Diet Coke) went up last year. And in North America, Coke started to position itself as not just a soda company but something bigger and broader, a sort of Procter & Gamble of beverages.

In 2007 the company commissioned a study of every nonalcoholic drink it could find and came up with 2,650. It also found that 20 percent of the sales and 50 percent of the growth in the $120 billion beverage industry came from small, independently owned brands, a third of which hadn't existed five years before. That year, Coke launched its Venturing & Emerging Brands (VEB) division to cultivate relationships with and ultimately purchase some smaller startups.

In the seven years since, Coca-Cola has invested in at least five smaller companies and bought three. It owns Fuze tea, Zico coconut water, and the organic Honest Tea. It prefers regional brands with at least $10 million in sales, which it then tries to expand to $1 billion. So far, none have made it. "You pick these brands, half of which don't work–in fact only 1 in 10 succeed," says Coca-Cola's Deryck van Rensburg, who launched VEB. Next year the company hopes for a national rollout of Fairlife, milk in which the molecules have been disassembled and then reformed to create different variations (high-protein, lactose-free milk) that taste like the regular thing.

While the company experimented, it ran into unexpected slowdowns in markets such as China and Latin America. When revenue fell last year, investors questioned whether Kent was doing the right things to improve the business.

The health community's criticisms have also tainted its new ventures. In 2009, the CSPI filed a lawsuit on behalf of Vitaminwater drinkers in New York and California, alleging that Coca-Cola, which had purchased Vitaminwater parent Glacéau in 2007 for $4.1 billion, had deceptively marketed the drink as healthy when it had almost as much sugar as a regular 12-ounce can of Coke. Coke denied any deception, and the suit is ongoing. In 2012, when Coke briefly looked into buying energy drink company Monster Beverage, Coke's board debated whether to take on the regulatory risk after U.S. regulators investigated whether its high-caffeine content harmed young people. (Monster denied that it causes any damage.)

Coke ultimately declined to buy Monster, saying its owners wanted too much money, though the actual figure's never been disclosed. Energy drinks are the one type of soda that's actually gaining customers; they're very popular with teenagers, who don't care too much about nutrition but do care about what's cool.

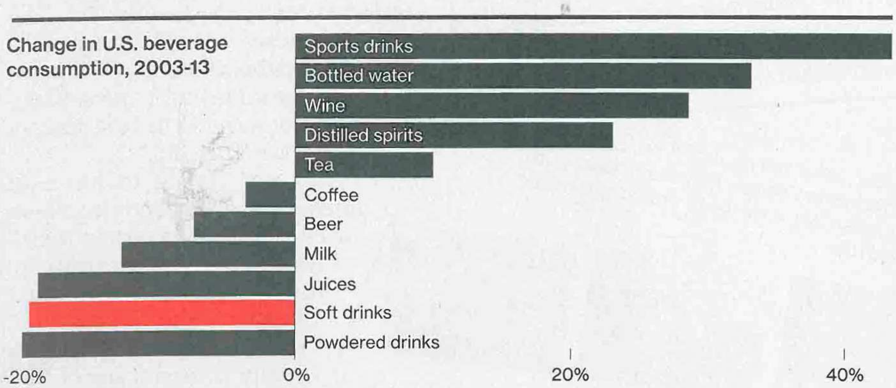
"I go into high schools sometimes to talk to kids about what they drink. I ask them, 'Can you name Coke's ad slogan? Can you name Pepsi's?' And they can't," says Weinstein, the consultant. "Then I ask them, 'What's Red Bull's?' They always say, 'Red Bull gives you wings.' "

In February, Kent announced plans for a reintroduction of Coca-Cola, accompanied by a two-year, $1 billion marketing push, with the goal of driving "sparkling" (the company's euphemism for soda) back to where it once was. "It's going to take a while, this is not ... an immediate fix, but we know it's going to be a steady improvement," he said during the company's fourth-quarter earnings call in February. So far this year, "sparkling" consumption in North America remains flat.

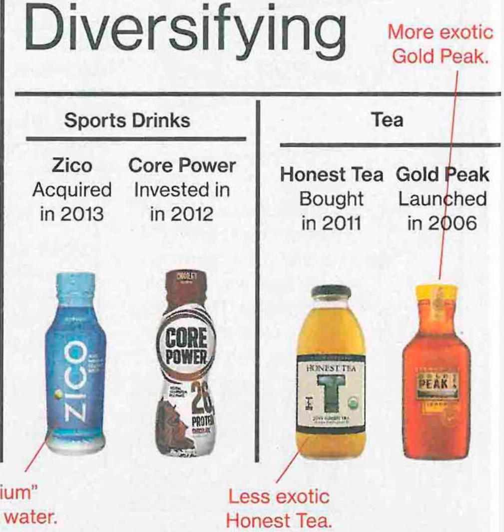
For its relaunch to succeed, Coca-Cola first has to reposition itself so that people stop feeling guilty when they drink it, or, ideally, come to see a Coke as a treat. That's why Douglas is so intent on pushing Coca-Cola away from the supersize drinks and back to the older, smaller sizes. A few years ago the company renegotiated its bottler contracts to charge them based on total revenue rather than sales volume. In 2009 it started experimenting with smaller package sizes, offering a 7.5-ounce minican that had fewer than 100 calories and retailed for an average of 50¢. The larger traditional can sells for 35¢ when it comes in packs, but soda is priced so low anyway that the per-ounce increase doesn't seem to put many people off. "We've done a bunch of studies on this, and we've found that even if this stuff were free, only 11 percent of people say they'll drink more of it," says Ali Dibadj, a beverage analyst with Sanford C. Bernstein. The minicans have seen strong growth, even at places such as Walmart. In theory, if Coca-Cola sells enough of them, it could make a lot more money by giving people a lot less to drink.

Douglas points to the minicans and glass bottles as proof that "we don't need gluttony to grow." But for all their adorableness, the petite containers are never going to replace the jumbo sizes in the grocery aisle, or the 50-ounce Double-Gulps at 7-Eleven. Regular cans and 2-liter bottles still account for 75 percent of Coca-Cola's soda sales in the U.S., and Douglas says that

People Are Drinking Less Soda...



...So Coke Is Diversifying



COURTESY THE COCA-COLA COMPANY (10); DATA: BEVERAGE DIGEST number won't change drastically anytime soon. "It's complicated," he says. "You've got lots of history, lots of habits, and lots of retailers who think that all that matters is a 12-pack or a 2-liter price."

A former Coca-Cola employee, who declined to be identified because he didn't want to anger his old employer, says the company has a hard time getting restaurant and convenience store chains to reduce their sizes because they make so much money off them.

One way Coca-Cola can control its portions is simply to invent a new way to buy Coke. It lucked into an opportunity in 2012, when Brian Kelley, a Coke executive, left to become CEO of Keurig Green Mountain. When he got there, Kelley discovered that for five years Keurig had been quietly working on a cold brew machine, allowing people to make single servings of sodas and other drinks at home. "I thought this made good sense to talk to Coke about," he says. Coca-Cola now has a 16 percent share in Keurig, and Van Rensburg has left VEB to oversee the joint venture. Keurig and Coca-Cola will release their cold brew machine sometime next year.

Coca-Cola can't solve its image crisis by distracting everyone with a new machine and tiny bottles. It also has to address the consumer anxiety plaguing Diet Coke. Douglas likes to say that the company will make and sell whatever people want it to. He calls these moves "following the consumer." Don't want aspartame? Fine, Coca-Cola is test-marketing an all-natural stevia-based low-calorie cola called Coca-Cola Life. It's already available in Argentina and Chile, and this fall it's coming to the U.K.

"We had all the same stuff in there—sugar, flavoring—but we never had the heat put on us the way Coke did"

But it might have a rocky debut when it hits the U.S.; stevia doesn't taste great in colas. When the company switched Vitaminwater to a stevia-and-sugar-based combination in June, people flooded the brand's Facebook page with angry posts. "I know they're full of sugar. I can read it on the label," says Myko Bocek, a 44-year-old Vitaminwater devotee from Phoenix. "If I want to cut out sugar, I can get the diet version. Why are they doing it for me?"

Coca-Cola's other challenge doesn't have anything to do with nutrition. It has to do with choice. There are 4,200 beverages out there today, thousands more than existed just a few years before. In 2009, Coca-Cola introduced its touch-screen Freestyle soda fountain machine that offers more than 100 different drink choices; some, such as orange Coke, aren't even available in cans. It's now the standard drink machine at fast-food chains such as Five Guys and Burger King—where the largest fountain drink is 40 ounces, or more than three cans of soda. Coca-Cola says that in the five years since its debut, it has consistently raised drink sales by double digits every year. Freestyle sends consumers' choices to Coca-Cola, which it carefully analyzes. Coca-Cola now knows that 40 percent of the drinks customers buy have an added flavor and that people over 34 drink mostly caffeine-free Coke in the afternoon. It discovered that so many people like Cherry Fanta that it released the product in bottles and cans. The Keurig machine will also send consumption data back to Coca-Cola. "We'll know exactly—with the consumer's permission, of course—what they're drinking and when they drink it in their home," says Van Rensburg. "Imagine what you can do with that."

There's another piece of information that Freestyle gave Coca-Cola: Even with so many options, the single most popular drink that people order is still regular, classic Coke. It's the same drink that came out of soda fountains 100 years ago. And amazingly, it's still the company's best-selling product. That's where Douglas tries to find a little optimism in an otherwise discouraging landscape. "We're about 3 percent of the way to great here," he says. Now all he has to do is figure out how to take the company the other 97 percent.

Douglas thinks about Coke's relaunch all the time. Is it going all right? What should he tinker with next? No one wants to be responsible for another New Coke. "I almost need to work on the messaging around 'relaunch,' " he says, almost as if to himself. "I said 'phased relaunch.' It's kind of like a reintroduction." Lately he's been admiring General Motors' new ad campaign for Buick, the one where people stare at the newly hip car and say, "Sure doesn't look like a Buick!" "I don't want to compare Coke to Buick or something, but [GM] is completely relaunching Buick right now," he says. He wonders if Coke needs to do something like that.

There's one weapon left in Douglas's arsenal that might ultimately save Coca-Cola: its gift for advertising. The company is masterful at selling emotion along with its drinks. Almost anyone who was alive at the time remembers *I'd Like to Teach the World to Sing*, which was originally a 1971 commercial jingle called *I'd Like to Buy the World a Coke*. Douglas thinks of the company's iconic ads the way he thinks about Christmas, which is greater in myth and memory than it is on the actual day.

This summer the company printed the 250 most common names of U.S. teens on Coke bottles, hoping that millions of kids will want to buy drinks with their names on them. So far it seems to be working: In the last three months, sales of Coca-Cola have inched up 1 percent in North America. During this year's Super Bowl, Coca-Cola aired a one-minute commercial in which children of all different ethnicities sang *America the Beautiful* in their native languages. The ad sparked a xenophobic backlash on Twitter that within days had evolved into a large-scale defense of both America and Coke. "America the Beautiful" turned out to be the company's most successful campaign in years. Young people ages 19 to 24 bought Coca-Cola products 20 percent more often than they did the month before. "Interestingly enough on the Web," says Douglas, "mentions about obesity got almost quiet for a month." Ⓑ