

# CHAPTER 10 Planning and Strategic Management

BEFORE YOU READ take an *Overview* of the subject matter by *Assessing Your Prior Knowledge*. AS YOU READ apply the new *Reading Technique*, learn the *Vocabulary*, and complete a *Language Activity*. AFTER YOU READ check your understanding through *Fact and Idea Review*, *Critical Thinking Question*, *Guided Discussion*, *Authentic Assessment*, and *Mini-Quiz*.

## "The Name Coke Now Scares People"

### The contamination mishap could slow its advance in Europe

by William Echikson in Brussels with David Rocks in Atlanta

The European bans on Coca-Cola sales are starting to be lifted. Belgium announced on June 23 that it was ending its prohibition on all Coke sales except those from vending machines. But it will be a long time before the Belgians—or many other Europeans—let the soft-drink company forget the recent Coke contamination or the company's defensive public denial after some 200 youthful Coke drinkers first took sick on June 9.

For Coke and its chairman, M. Douglas Ivester, that may mean more than just some serious groveling will be necessary. Coke could be forced to scale back its efforts to expand and consolidate bottling in Europe. At the very least, according to Stephen Kinsella, a Brussels-based antitrust specialist with the British law firm of Herbert Smith, Coke's plans will likely receive additional scrutiny from regulators. "The name Coke now scares people," he says. "It's going to be trickier for [Coke] to take offensive moves in Europe." Most at risk: a scheme to buy Groupe Pernod Ricard's Orangina.

**ALREADY HOSTILE.** This is hardly the first time Coke has left a sour taste in European regulators' mouths. Last December, it infuriated European Commission antitrust authorities, including Commissioner Karel Van Miert, by structuring a planned purchase of Cadbury Schweppes PLC's non-U.S. soft-drink business to avoid regulatory scrutiny. "Coke surprised us," says Stefan Rating, a Van Miert aide. Van Miert threatened to review the deal despite Coke's maneuver. In May, Coke withdrew its request to take over Cadbury's brands in most of Europe.

The current mess stands to make Coke even less popular with European authorities. That could also affect Coke's plans to consolidate its European distribution, for example. The company wants to consolidate around four anchor bottlers. Coca-Cola Enterprises Inc. recently announced plans to merge with Greece's Hellenic Bottling Co. But the

European Commission has said that Coke's increased control over the soft-drink distribution channel could hurt competing brands. "We'll take a close look," promises Rating.

Unfortunately, Coke's size works against it in Europe. When it tried to take over Orangina, French regulators bristled because Orangina also distributed Pepsi in France. Coke has offered to create an independent distribution company, but many French politicians still dislike the idea of Orangina being anything but French. "There's a definite fear here of Coke's domination," says Luis Mariani, an analyst at J.P. Morgan & Co.

And why not? Coke has made major inroads in Europe. Per capita consumption of all Coca-Cola soft drinks has risen from 63 eight-ounce servings in 1993 to 93 in 1998. Today, the company outstrips Pepsi's sales in parts of Europe by as much as nine to one, according to Donaldson Lufkin & Jenrette. Although Coke now has 49% of the European soft-drink market, it can't afford to lose ground. Europe provides 26% of the company's \$18 billion in revenues.

Coke also has to worry about whether the turmoil will prompt consumers to switch. While Pepsi says it will do nothing to take advantage of Coke's problems, it is boosting production to meet demand, a spokesman says. Meanwhile, Chaudfontaine, Belgium's beverage company, says sales of its own soft drinks and its licensed Virgin Cola have been running 10 times higher than normal since Coke was banned.

Still, many industry watchers are confident Coke will bounce back. "I think now they're doing the right thing," says Marc Cohen, a beverage analyst at Goldman, Sachs & Co. For its part, Coke is determined to regain its footing. "We'll spend whatever is necessary to regain the confidence of Belgian consumers," Ivester told reporters on June 23, predicting that Coke would double European sales over the next decade.

But first Coke has a lot of catching up to do. Ivester conceded that the company must "take a low profile and be respectful of the government agencies" in its future dealings in Europe. Per capita consumption of soft drinks remains well below American levels in much of Europe. But it may be a while before Europe lets Coke capitalize on those expansion possibilities.

*Reprinted with permission from Business Week, July 5, 1999.*

## Things Aren't Going Better with Coke

### The European scare is among the company's worst PR crises

by William Echikson in Brussels with Stephen Baker in Paris and Dean Foust in Atlanta.

Veronique Mees used to think nothing was safer than Coca-Cola. But as the Belgian housewife pushed her baby daughter's stroller into her local Brussels supermarket on June 16, the shopkeeper was pulling cans and bottles of the soft drink from shelves. Across the country, supermarkets were doing the same. More than 200 Belgians and French were suffering from stomach upsets, nausea, and head-aches after drinking Coke produced at bottling plants in Antwerp and Dunkirk. "I'm afraid," Mees says.

The Belgium scare marks one of the worst public relations problems in Coke's history. For the first time, the entire inventory of Coke products in one country was banned from sale. After Belgium's action, Luxembourg and the Netherlands followed with similar recalls of Coke products. The Antwerp plant apparently had used substandard carbon-dioxide to produce Coke. And France suspended sales of Coke from a plant in Dunkirk after it learned that some cans were contaminated with a wood preservative during shipping. To contend with the crisis, the Atlanta-based company quickly dispatched a team of scientists to Europe. "We deeply regret any problems encountered by our European consumers in the past few days," said CEO M. Douglas Ivester in a statement.

But these moves may not be enough to calm European fears—and restore Coke's image. The scare is just the latest of a series of controversies over tainted food in Europe. It follows revelations that huge quantities of Belgian pork and chicken

contained cancer-causing dioxin. The public was so outraged that it toppled the Belgian government in June 12 general elections.

Now, despite Coca-Cola's initial steps, European analysts already are raising questions about the company's handling of the crisis. And they are concerned about quality control at its European plants. "No one would have thought that this would happen to [Coke]. But they should have planned for it," says Jan Lindemann, director for brand valuation at Interbrand Group in London. The worry for Coke, he adds, is that its image will be long tarnished just as Perrier's was in the 1980s when benzene was found in water shipments. It took years for Perrier's sales to recover.

**INSURANCE.** For now, the financial impact on Coca-Cola is tiny. The four countries account for less than 2% of the company's annual global sales. Coca-Cola's revenues were \$18.8 billion in 1998. "It's not going to make or break them," says Emanuel Goldman, a Merrill Lynch & Co. beverage analyst. By rooting out the cause of the contamination and correcting it, Coke is hoping to convince the governments to allow sales to be fully restored within days. "Our strategy is to quickly identify the problem, take corrective action, and work closely with the government to make sure that they have all the necessary insurance," says Paul Pendergrass, director of communications in London.

A more high profile approach may be necessary. "I think Ivester should consider a trip," says Patrick Worms, a crisis manager at Ogilvy & Mather in Brussels. "Coke must get out in front and give an impression of openness—and only the top guy can do it." Until that happens, even if the company succeeds in solving quality-control problems at its plants, Coke may still have a lot of work to do to win back European consumers.

*Reprinted with permission from Business Week, June 28, 1999.*

## BEFORE YOU READ

### Overview

Success is never foolproof—not even for the largest corporate giants. Just one careless mistake can sometimes cause a crisis situation that undermines years of trust-building with the public. For example, there was no way soda pop king Coca-Cola could have imagined the fiasco they would have to face after the accidental distribution of contaminated products in Europe. The widespread bans and criticism that resulted left one of the world's most prestigious conglomerates scrambling to reexamine itself.

### Assessing Prior Knowledge

1. Quite often the news media will publicize a ban or a recall certain foods or manufactured products, which have been found to present a danger to consumers. What banned or recalled goods have you heard or read about recently? How did the company handle the crisis? Did they offer any monetary compensation, product replacement, or repair? Have you or someone you know ever been personally involved or affected by this type of situation?

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2. Are you familiar with any brand name foods or goods that are specifically manufactured and sold by a particular country or region? Does the company's advertising make a point to connect this product with the place of origin, and how does it impart this feeling or association? Name several products that you can automatically relate to a specific nation, culture, or locale. Do these products somehow seem more exotic or authentic because of this association?

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## AS YOU READ

### Reading Technique

On a separate sheet of paper, write down several questions to guide you in understanding the information. Consider the different types of information provided. Make a list or outline of all the main points.

### Vocabulary

**scale back** To reduce by a certain proportion in relation to the previous amount.

**consolidate** To combine into one; unite, join, merge, amalgamate; to solidify, strengthen, make firm or secure

**scrutiny** A close examination or careful inspection; looking searchingly at something or someone; a searching gaze

**anchor bottlers** A group of bottling companies held in place as with an anchor, thereby providing security and safety to the employing corporation; businesses whose function is to fill and seal bottles or other containers for beverages.

**distribution channel** The particular means by which a company moves or carries its products or services out to retailers or customers

**per capita** For each person; in legal context: divided among a number of individuals in equal shares, as an inheritance or estate.

**conceded** To admit as true; to acknowledge; to allow formally for the sake of argument; to grant, yield, accord; to make a concession

**capitalize (on)** To take advantage of; use to one's own advantage; to turn into or use as capital, an amount of money or property which a company can employ in funding a business

**tainted** Affected with a trace of harmful or undesirable quality; a condition of contamination, infection, spoilage, decay, or other corrupting influence; having a tinge or shade of discoloration, spotting, staining, or blemish

**quality control** The inspection of manufactured products to insure that they meet the standards of quality set by the manufacturer.

### Language Activity

The title of the article, *Things Aren't Going Better With Coke*, is a satirical play on words of that company's advertising slogan. Do you know what that slogan is? On a separate piece of paper, make a list of some other product slogans, that are meant to be remembered by consumers. Examine their meanings, and consider how each statement serves the particular product. In what way are the slogans intended to manipulate the point of view of those who hear or read them?

## AFTER YOU READ

### Fact and Idea Review

1. What actions did the Coca-Cola company take when the contamination crisis became apparent? What did they try to accomplish with this response?

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2. How did the European public and the business community feel about the way Coca-Cola handled the contamination problem and the subsequent public relations challenge?

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3. What are some of the effects this contamination mishap could have on Coca-Cola's intended plans for future expansion and consolidation? What strategy does the company's CEO plan to use in order to smooth out their foreign conflicts?

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4. Why hasn't Coca-Cola's plan to buy the Orangina division been successful? What offer did the beverage giant make in order to alleviate the concerns about a distribution monopoly?

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### Critical Thinking

The two articles both mention the financial impact that the contamination scare would have on Coca-Cola, yet each seems to draw a very different conclusion. On a separate piece of paper, evaluate the approach taken in each article, and analyze the distinct arguments and opinions presented regarding the crisis' economic effect on the beverage company.

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### Guided Discussion

Note how the two articles focused on the tarnished image, financial losses, and thwarted future business strategies of the beverage giant. As a class, discuss your reaction to the event itself.

- 1) How do you feel about the fact that real people were made physically ill by the product?
- 2) Discuss your opinions about the responsibility companies have toward their consumers. What kinds of compensation should be offered to the victims?
- 3) What kind of functional strategic plans should the company have had in place beforehand in order to deal more tactfully and sensitively with the victims of such a crisis?

### Authentic Assessment

#### Create a Turnaround Strategy Advertisement

Imagine that you are employed by Coca-Cola, and you have just been assigned the task of creating a sensitive and reassuring advertisement to help the company regain public trust in the United States.

- 1) On a separate piece of paper, write a brand new slogan for the company. You may want to start with a list of key words that you feel would be important to communicate to your audience. Consider how you can assure them that it is safe to drink Coke.
- 2) Choose one or several visual images that you'd like to use in the ad. Make sure your visuals correspond with the slogan you just developed. You may draw your own sketches or create a collage using photographs or images from magazines or newspapers.
- 3) Combine the slogan with the images you prepared. Use a large poster board for your presentation. Share your advertisement with the class, and get feedback on whether or not it gives the message you intended.

**Mini-Quiz**  
**True/False**

Please indicate which statement is FALSE in each of the following groups of statements.

1.
  - a) Per capita consumption of Coke has jumped greatly in the last decade.
  - b) Per capita consumption of Coke is lower in Europe than in the U.S.
  - c) Per capita consumption of Coke is lower in the U.S. than in Europe.
  - d) Coca-Cola controls almost one-half of the European soft-drink market.
  
2.
  - a) Coca-Cola has antagonized European antitrust authorities.
  - b) Coca-Cola has infuriated the European Commission by using underhanded tactics to avoid regulatory scrutiny.
  - c) Coca-Cola has alienated French politicians by attempting to take control of soft-drink distribution in that country.
  - d) Coca-Cola has always kept a low profile and conformed readily to the wishes of foreign governments.
  
3.
  - a) A result of the crisis will be an indefinite ban by a group of supermarkets.
  - b) A result of the crisis will be the quality control concerns of the consumers.
  - c) A tarnished image and feelings of fear will inevitably result from Coke's contamination crisis.
  - d) The inability to progress with plans for expansion and contraction will be one result of Coke's contamination crisis.
  
4.
  - a) Belgian pork and chicken were found to contain huge quantities of cancer-causing dioxin.
  - b) Substandard carbon monoxide was used to produce Coke in the Antwerp manufacturing plant.
  - c) Discovery of benzene in Perrier Water in the 1980s long tarnished that company's reputation.
  - d) France suspended Coke sales immediately after learning that the Dunkirk plant had contaminated the beverage during shipping.

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5. a) France, Belgium, Luxembourg, and the Netherlands were the countries that chose to ban, recall, or suspend sales of Coke products.
- b) Belgium eventually ended its prohibition on all Coke sales except for those from vending machines.
- c) The Belgian public was so outraged that it toppled the government in the next general elections.
- d) France, Brussels, Germany, and Greece were the countries that chose to ban, recall, or suspend sales of Coke products.
6. a) Coke released an apologetic statement to European consumers in response to the contamination crisis.
- b) Coke paid ample compensation to the 200 afflicted youth who had suffered upset stomachs, nausea, and headaches from drinking the contaminated product.
- c) Coke dispatched a team of scientists from Atlanta to Europe.
- d) The CEO of the Coca-cola company refused to fly to Europe to face the contamination crisis.
7. a) A quick identification of the problem and immediate corrective action sum up the strategies Coke chose to use in response to the crisis.
- b) A part of Coke's strategy for the crisis consist of working closely with the European governments to make sure they have all the necessary insurance.
- c) Vertical integration, followed by divestiture and liquidation sum up the strategies Coke chose to use in response to the crisis.
- d) Part of Coke's strategy for the crisis consist of taking a low profile and being respectful of government agencies in its future dealings in Europe.