EXHIBIT 3
Strategy Report Card

New York Times Co. aims to deliver top-notch journalism in any form, anyplace.

PRINT Instituted a radical plan to take the flagship paper national. For years, it looked like a masterful stroke as new ads and subscribers poured in. In an effort to build a presence in all markets, the *Times* prints at 20 plants across the nation. Lately, though, circulation growth has hit a wall.

GRADE: B+ (was A last semester)

TELEVISION Has pursued several ventures for translating *Times* stories into documentaries. Two years ago the *Times* spent $100 million for a one-half interest in Discovery Times, a cable channel. Efforts so far have been good for the brand, but not much of a moneymaker.

GRADE: C+

DIGITAL the *Times* was early to see the potential of the Web. Today the *Times* Web site is attracting nearly 18 million visitors each month, and ad sales are growing 30% to 40% a year. The result: a $100 million business in NYT.com with healthy margins and robust growth.

GRADE: A–

INTERNATIONAL Squeezed out *The Washington Post* in 2002 to gain full ownership of the *International Herald Tribune*. The *IHT* has more cachet overseas than the *Times*, so it won't carry the flagship brand for now. But it's getting a *Times*-style makeover. Growth prospects are uncertain.

GRADE: INCOMPLETE

the issue of how comfortable are we training a generation of readers to get quality information for free," he says. "That is troubling."

What's a platform agnostic to do? *The New York Times*, like all print publications, faces a quandary. A majority of the paper's readership now views the paper online, but the company still derives 90% of its revenues from newspapering. "The business model that seems to justify the expense of producing quality journalism is the one that isn't growing, and the one that is growing—the Internet—isn't producing enough revenue to produce journalism of the same quality," says John Battelle, a co-founder of *Wired* and other magazines and Web sites.

Today, Sulzberger faces an even bigger challenge than when he took charge of the *Times* in the mid-1990s (Exhibit 3). Can he find a way to rekindle growth while preserving the primacy of the *Times*'s journalism? The answer will go a long way toward determining not only the fate of America's most important newspaper but also whether traditional, reporting-intensive journalism has a central place in the Digital Age.

—With John Rossant in Paris and Lauren Gard in New York

Source: Anthony Bianco, "The Future of the New York Times," *BusinessWeek*, January 17, 2005, 64–72.

Case 1-3

Coca-Cola Co. (A)

When former Coca-Cola co. executive E. Neville Isdell agreed last May to come out of retirement and become chief executive of the beleaguered soda giant, he brimmed with confidence. No Coke newcomer, Isdell had spent 35 years inside the vast Coke system as the Atlanta company built itself into the world's most recognized global brand, retiring in 2001 after a three-year stint as head of a large European Coke bottler. "Th system isn't broken," Isdell told a *BusinessWee* reporter at the time. "There's still opportunity for bot Coca-Cola and the other brands."

All it took was a tour of Coke's operations in India China, and 14 other key markets this summer for Isdel to see a different reality: Coca-Cola was a trouble company. Things looked so bad that just 100 days int his new job the 61-year-old Irishman interrupted hi fact-finding mission to deliver a surprise warning t Wall Street. Coke, which had been struggling since th death in 1997 of its revered CEO, Roberto C. Goizueta, had made little progress in its efforts to meet the rising challenges of noncarbonated drinks. The soda giant would fall short of the meager 3% growth in earnings that analysts were resigned to for the third and fourth quarters. Moreover, Isdell was clearly prepping Wall Street for perhaps another year—or longer—of underperformance. "We've got a long way to go," a chastened Isdell told analysts. "The last time I checked, there was no silver bullet. That's not the way this business works." Coke later announced that third-quarter earnings had fallen 24%, the worst quarterly drop at Coke in recent history.

As late as the 1990s, Coca-Cola Co. was one of the most respected companies in America, a master of brand-building and management in the dawning global era. Now the Coke machine is badly out of order. The spectacle of Coke's struggles has become almost painful to watch: the battles with its own bottlers; the aged, overbearing board; the failed CEOs and failed attempts to recruit a successor; the dearth of new products; the lackluster marketing. "They've been their own worst enemy, a casualty of their own success," says Emanuel Goldman, who has followed Coke as an analyst since the 1970s (see Exhibit 1).

Yet as grave as those problems are, they only hint at the real dimensions of Coke's woes. The Coca-Cola organization is stuck in a mind-set formed during its heyday in the 1980s and '90s, when Goizueta made Coke into a growth story that captivated the world. An unwillingness to tamper with the structures and beliefs formed during those glory years has left the company unable to adapt to consumer demands for new kinds of beverages, from New Age teas to gourmet coffees, that have eaten into the cola king's market share. "The whole Coke model needs to be rethought," says Tom Pirko, president of BevMark LLC, a Santa Barbara (Calif.) consulting firm. "The carbonated soft-drink model is 30 years old and out of date."

Of all the problems that can beset a corporation, a dysfunctional culture has to be one of the toughest to fix. How do you get thousands of employees suddenly to change their most basic assumptions about their company? After all, the beliefs and attitudes that make up a culture filter into everything else: decisions on basic strategy, management style, staffing, performance expectations, product development. That's why the problems at Coke have proven so intractable. A succession of managers has focused on trying to do what Coke has always done, only better. Meanwhile, rival

EXHIBIT 1
Coke's Challenges

Break-Down

Coke today struggles to do the things that once made it great

MEDDLING BOARD

Coke's star-studded group of directors, many of whom date back to the Goizueta era, has built a reputation for meddling. Some insiders believe the last CEO, Doug Daft, never recovered after the board unexpectedly vetoed his 2000 deal for Quaker Oats.

MORIBUND MARKETING

Once world-class, critics say that today the soda giant has become too conservative, with Norman Rockwell-like ads that don't resonate with the teenagers and young adults that make up its most important audience.

LACK OF INNOVATION

In the U.S. market, Coke hasn't created a best-selling new soda since Diet Coke in 1982. In recent years, Coke has been outbid by rival PepsiCo for faster growing noncarb beverages like SoBe and Gatorade.

FRICTION WITH BOTTLERS

Over the past decade Coke has often made its profit at the expense of bottlers, pushing aggressive price hikes on the concentrate it sells them. But key bottlers are now fighting back with sharp increases in the price of Coke at retail.

INTERNATIONAL WORRIES

Coke desperately needs more international growth to offset its flagging U.S. business, but while some markets like Japan remain lucrative, in the large German market Coke's had so many problems it's rebidding all bottling contracts in 2007.

PepsiCo Inc. has a much different view of its mission (hint: it's not just about soda pop)—one that has helped it adapt far more successfully to a changing marketplace. Until Coke can lay the ghost of Goizueta to rest and let go of some long-cherished beliefs, it's unlikely to fix its problems.

Frozen in Time

Is the latest Coke CEO capable of leading Coke out of the valley? It's too early in Isdell's tenure to say for sure, but the early signs are not promising. Although he earned a reputation for bold decision-making as a young executive, Isdell seems to have fallen into lockstep with the reigning Coke orthodoxy. He says the company's salvation lies in simply tuning up the soda operations and capitalizing on existing brands. "We are not talking about radical change in strategy," he told Wall Street analysts in November. "We are talking about a dramatic change in execution."

That was more or less the playbook used by Roberto Goizueta, a charismatic CEO. The Cuban-born executive sold off ancillary businesses and refocused the company on what it did best: selling carbonated soft drinks. At the same time he engaged in some sophisticated reengineering of the company's financial structures. In 1986, Coke spun off a 51% stake in its U.S. bottling operations, a shrewd bit of financial alchemy that let it dump billions of dollars of bottling-related debt off its balance sheet while allowing it to continue pulling the strings at the spin-off. Thanks to near-constant buying and selling of small bottling operations, the deal also helped Coke achieve consistent profit gains, turning the once-stodgy company into—shazam!—a growth stock.

Meanwhile, Coke was able to ride the global boom like few other companies, rushing into once-closed economies such as China, East Germany, and the Soviet Union and sating their pent-up demand for a taste of America. The result: Coke stock soared 3,500% during Goizueta's 16-year reign, helping to make him one of the first supercompensated CEOs and the first professional manager to break the $1 billion pay barrier. After his death from lung cancer in October, 1997, Goizueta was all but deified, his financial structures, his cola-centric philosophy, and even his board of directors frozen in place ever since.

The ensuing years have seen a long and painful descent. After generating average annual earnings growth of 18% between 1990 and 1997, Coke's net income in recent years has grown an average of just 4%. Shares have fallen hard, currently trading at less than half their 1998 peak as more and more investors conclude that Coke's best days may be behind it. "At Coke," says Brian Holland, research director at Boyd Watterson Asset Management LLC, a Cleveland money manager that has cut its Coke holdings by 84% since last December, "there's a lot to fix, and there's no short-term solution."

In the absence of a clear vision, Coke's desire to cling to its past is not hard to understand. After all, in Coke Classic, the company is blessed with a flagship product that remains, for all of the management missteps of the past decade, one of the most powerful brands in the world. And despite the company's problems, it is still a cash cow. Helped by the dollar's decline against other major currencies, Coke is expected to generate roughly $5 billion in operating profits this year, far beyond such companies as Nike, Colgate-Palmolive, and McDonald's that have similar global ambitions. Indeed, part of Coke's paralysis is a fear that nothing else the company enters will ever match the extraordinary margins of soda concentrate.

"Smoke and Mirrors"

Goizueta's most ingenious contribution to Coke, the ingredient that added rocket fuel to the stock price, was a bit of creative though perfectly legal balance-sheet rejiggering that in some ways prefigured the Enron Corp. machinations. Known inside the company as the "49% solution," it was the brainchild of then-Chief Financial Officer M. Douglas Ivester. It worked like this: Coke spun off its U.S. bottling operations in late 1986 into a new company known as Coca-Cola Enterprises Inc., retaining a 49% stake for itself. That was enough to exert de facto control but a hair below the 50% threshold that requires companies to consolidate results of subsidiaries in their financials. At a stroke, Coke erased $2.4 billion of debt from its balance sheet. Just as important, it was able to command six board seats at CCE, which it packed with current or former Coke executives, including then-Coke President Donald R. Keough. With effective control, Coke for years could ensure that CCE was run to Coke's benefit. "Coke was creating a special-purpose entity, like Chewbacca from Enron," marvels one Wall Street analyst, referring to Enron's Chewco Investments limited partnership. Coke disputes any comparison to Enron and says the spin-off was simply a way "to leverage substantial efficiencies and adapt more rapidly to the changing trade landscape in the U.S."

Its behind-the-scenes control of CCE allowed Coke to extract a series of advantages, from pricing to deciding how many vending machines CCE purchased. Coke had tacit control over how much its largest customer—CCE—paid for the concentrate Coke sold it, as well as how much CCE charged retailers for the actual soda. Thus the escalating price wars between Coke and Pepsi came much more out of CCE's margins than Coke's, especially since Coke also required CCE to shoulder a growing portion of its brands' marketing costs.

But that was just one aspect of this unusual relationship. In the '80s and '90s a generation that ran small, family-owned bottlers was looking to retire. Coke had been snapping up these operations as a way to assure quality and to keep them from falling into the hands of leveraged-buyout artists, who would likely bleed them for their cash flow. In CCE it had another so-called anchor bottler, one of roughly a dozen around the world, from which it could exact ever-higher profits as it resold these smaller bottlers to the anchors. There were so many such deals that Coke was able to convince analysts the resulting profits should be considered part of normal operations and not extraordinary income.

For a time, this flurry of dealmaking masked the problems building in Coke's international business. But by the end of the '90s, Coke simply ran out of assets to resell, and its largest bottlers began to sink fast under all the debt-financed acquisitions they had made at Coke's behest. The result: Coke's profits stalled, with operating income falling from $5 billion in 1997 to as low as $3.69 billion in 2000. "In hindsight, a lot of what Coke was doing was smoke and mirrors, stuff that wouldn't pass the accounting standards of today," notes Douglas C. Lane, a private fund manager who now holds 400,000 Coke shares. "And at the time it created expectations of growth that weren't real." Coke notes that all such transactions were fully disclosed at the time.

The next move was inevitable: Coke imposed a crushing 7.6% price hike on its bottlers in the late '90s as Ivester, now CEO, desperately tried to sustain Goizueta's profit streak. Coke's U.S. bottlers, livid over the price increase, burned up the phone lines to some key Coke board members and succeeded in pushing the already embattled Ivester over the ledge. In late 1999, he resigned.

Ivester's successor, Douglas N. Daft, tried to work with bottlers, but relations have steadily deteriorated since. (Daft serves on the board of The McGraw-Hill Cos., which publishes *Business Week*.) In a sign of disunity that would have been unthinkable in the Goizueta era, some bottlers are beginning to push back with price hikes that could boost their own profits—at Coke's expense.

While those hikes could dampen sales—and thus reduce the amount of concentrate bottlers need to purchase from Coke—the bottlers are clearly banking on the belief that they will come out ahead, even if Coke doesn't. At the same time, many bottlers have refused to carry some of the company's new noncarbonated niche offerings that Coke acquired, such as Mad River teas and Planet Java coffee, forcing the company to bury both products last year. While CCE executives maintain that relations have improved under Isdell, Trevor Messinger, a Coke bottler in Rapid City, S.D., readily admits relations between Coke and some bottlers are contentious. "I don't think everybody is on the same page of the playbook," he says.

If the friction between Coke and its bottlers worsens, some analysts believe that Isdell will have no choice but to resort to radical measures to defend Coke's interests—such as reacquiring the 62% of CCE it doesn't own. (Coke's stake has declined to 38% because of dilution.) If CCE continues to raise prices, then reabsorbing the bottler could be the only means left for Coke to ensure that it maintains its share of the pie, reasons Morgan Stanley analyst William P. Pecoriello.

Another scenario swirling inside the Coke system would have Isdell reacquiring CCE and then breaking up its assets and territories for resale to smaller bottlers or even major U.S. beer distributors—which as private companies may be content to work on lower margins than publicly traded CCE. But for now, Coke shows little willingness to tamper with this vestige of the Goizueta era. "I think that there are a number of things that we can do together without having to consider changing the model," Isdell said in an interview.

Nowhere is the Goizueta orthodoxy more apparent than in the company's unwavering focus on its aging group of soda-pop brands, especially the hallowed four: Coca-Cola, Diet Coke, Sprite, and Fanta. Goizueta was fond of discussing Coke's market share in terms of "share of stomach," as though, with the right marketing, people could be induced to give up coffee, milk, and even water in favor of Coke. Seven years after his death, the company remains fixated on making its flagship Coke brand the universal beverage from Stockholm to Sydney. Coke's sodas constitute 82% of its worldwide beverage sales, far more than at Pepsi, which is gaining on Coke's lead in the U.S. beverage market and numbers Tropicana juice, Gatorade sports drinks, and Aquafina water among its billion-dollar beverage brands.

Coke loyalists still believe in the the mantra first coined by legendary Coke Chairman Robert W. Woodruff and often repeated by Goizueta, of putting a Coke within an "arm's reach of desire" of consumers around the globe. But increasingly, consumers are reaching for anything but a soda. The mass market that Coke was so adept at exploiting has splintered. Consumer tastes have shifted from sodas to an array of sports drinks, vitamin-fortified waters, energy drinks, herbal teas, coffee, and other noncarbonated products, some of which are growing as much as nine times faster than cola. After rising steadily during the '80s and '90s, per capita soda consumption in the U.S. has declined every year since 1998. Yet when Daft tried to push Coke to become a "total beverage company," he met with resistance from Coke's board.

In an interview early in the Daft years, investment banker and director Herbert A. Allen dismissed Daft's efforts, declaring: "That's all fine and good, but I still believe that getting the four core [soda] brands right is 85% of the equation." That attitude still seems to dominate. One director, speaking on the condition he not be named, recently dismissed bottled water as "something I guess we have to carry. But the fact is we're still the kings of carbonation—always have been, always will be."

1 Coke's cultural resistance to diversification has become an enormous liability. South Beach Beverage Co., for example, negotiated with Coke for two years before the soda giant decided against acquiring the New Age juice company. It took Pepsi just two weeks to make an offer. Is SoBe a huge brand? No, but it gives Pepsi access and insight into a market that its soda pop completely bypasses. If you think of yourself as a beverage-and-snack company, as Pepsi does, that's valuable. If you think of yourself as a soda company, as Coke does, it's not.

EXHIBIT 2 Coke vs. Pepsi

Pepsi never quite caught Coke in the cola wars, but its portfolio strategy has made it the long-term winner

COKE	PEPSI
Sales $21 BILLION	Sales $27 BILLION
Sales Growth* 2%	Sales Growth* 4%
Earnings $4.3 BILLION	Earnings $3.6 BILLION
Earnings Growth* 4%	Earnings Growth* 12%
Stock** –40%	Stock** 38%
Business Breakdown 100% BEVERAGE	Business Breakdown 37% BEVERAGE 58% FRITO-LAY SNACKS 5% QUAKER CEREAL

*Five-year average
** Five-years ended 12/3/04

Data: Bloomberg Financial Markets

Pepsi Generation

2 Its portfolio of beverages and its faster-growing snack foods give Pepsi enormous clout with retailers (see Exhibit 2). Pepsi boasts that it has become the second-largest generator of revenues, after Kraft Foods Inc., for its largest grocer customers. Pepsi isn't shy about using that clout to try to wrest shelf space from Coke and other rivals. "If we were only playing in carbonated soft drinks, competitively we would be disadvantaged in many ways," says PepsiCo CEO Steven S. Reinemund. "Being outside carbonated [soft drinks] makes sure we're growing in the areas where there is growth."

Isdell has said he'll explore new beverage categories. If so, he'll be starting well behind Pepsi. Pepsi got a two-year jump on Coke in bottled water and later outmaneuvered Big Red to acquire both SoBe and Gatorade. As a result, Coke's Powerade has just a 17% share of the fast-growing sports-drink segment in the U.S., vs. 81% for PepsiCo's Gatorade brand. And after garnering just a 2.8% share of the popular energy-drink category—vs. 58.5% for independent rival Red Bull—Coke plans to try again with a second energy drink, Full Throttle, in January.

But in reaching into new categories, Coke may have to figure out how to get these beverages to market using food brokers, since its dedicated bottlers have been loath to handle new products that don't approach the high volumes of soda. Here, too, Pepsi has a head start. Gatorade is already distributed through a well-established system of brokers. Coke also may have to reduce its profit expectations, since the margins on noncarbonated drinks are generally lower. "Even with premium price, they cannot achieve those [soda] margins in the New Age category," warns Lance Collins, founder of New Jersey-based Fuze Beverage LLC, whose products include a diet pomegranate white tea.

The one area at Coke where the thinking has changed since the height of the Goizueta era, though not necessarily for the better, is marketing. At his Atlanta funeral, Goizueta was eulogized to the strains of *I'd Like To Teach the World To Sing* from Coke's syrupy but unforgettable commercials of the '70s. At the height of its powers, the Coke marketing machine could turn even disaster into triumph, as it did when Coke tampered with its historic concentrate formula in 1985. The sweeter new concoction backfired, but Coke seized the opportunity to build intense loyalty for Coca-Cola Classic.

The marketing magic at Coke had begun to fade even before Goizueta's death. In the late '90s, Ivester began shifting resources away from advertising and into blanketing the world with as many vending machines, refrigerated coolers, and delivery trucks as Coke and its bottlers could muster. The goal was simple ubiquity, while the niceties of brand-building were ignored. "There was no vision, no marketing," recalls one former executive. "It was all growth through distribution."

This proved to be a costly shift. For one, vending machines that were put into unconventional locations such as auto-parts stores didn't always pay off. Coke's lackluster advertising didn't help, either. Ivester, who had a deep distrust of Madison Avenue, tended to starve the ad budget, believing that the iconic Coke brand was powerful enough to sell itself. That began to change under Daft, who hired Steven J. Heyer, a former ad exec, and promoted him to president. Then, to evade the stifling Atlanta bureaucracy, he and Heyer pushed decision-making out into the field. But the move went wrong when Coke's local marketers, suddenly unshackled, began producing racy ads, including an Italian spot featuring a couple skinny-dipping. That prompted Coke headquarters to reclaim control and revert to bland Norman Rockwell-type ads. The result, says one former marketing executive, is an erosion of Coke's perceived value as a brand: "Starbucks can charge $2 for a cup of coffee, and they can barely sell a 12-pack of Cokes for $2."

In recent years, Coke showed signs of regaining its footing on the marketing front, thanks in large part to Heyer. But Heyer's departure in June after he was passed over for the top job was viewed as a big loss and is likely to lead to an exodus of the talent he brought to Coke during his three-year tenure. His successor, longtime Coke exec Charles B. "Chuck" Fruit, contends that Coke is producing good ads but has been hurt by a propensity to careen from campaign to campaign. "We've suffered from an impatience that we're going to have to overcome," he says. "When we change campaigns and have 11 different looks to a brand at any one time, we're swimming upstream."

"Simple Little Things"

To really break out, Coke could make a transformative acquisition, as Pepsi did in the 1970s when it bought Frito-Lay Inc. But Isdell is downplaying the notion of a big, audacious fix for Coke's troubles. In fact, he readily admits that during one of his European tours he passed on the chance to acquire Red Bull—the independently owned, market-leading energy drink. Rather than a gaudy acquisition, Isdell maintains that Coke's redemption will come from its ability to better perform the "millions of simple little things" that Coke employees do around the globe each day. And Isdell is adamant that there's still growth in carbonated soft drinks. The reason goes back to the bottom line: He says there just aren't many businesses for sale that produce the lush margins—around 30%, some analysts estimate—that Coke makes from selling its proprietary concentrate to bottlers. In the end, Isdell has come around to the view that there's plenty of growth left in soda pop. "Regardless of what the skeptics may think, I know that carbonated soft drinks can grow," he told analysts in mid-September.

That's a remarkably conservative strategy for a man who made his name as a change agent at the soda giant. During his years of helping Coke crack emerging markets in Africa, Asia, and Eastern Europe—assignments that earned him the reputation as the "Indiana Jones of Coke"—the gregarious former rugby player made his mark as the revolutionary who was always willing to challenge the corporate dogma. As a European executive in the late 1980s, Isdell pushed the company into bottled water—a full decade before the cola-centric managers did the same back in the U.S. "He got an awful lot of grief from headquarters," recalls Gavin Darby, a former Coke executive.

And when Coke was poised to reenter India in 1993 after a 17-year absence, Isdell allowed his local managers to establish a beachhead by purchasing the leading India soda maker, Parle, even though Coke had long frowned on acquiring rival soda makers. Coke's former India chief, Jay Raja, recalls Isdell telling him to go for it: "We agreed that we would ask for forgiveness instead of permission." Isdell's instincts were proven right: At a later board meeting, Goizueta hailed Isdell's move, which gave Coke 60% of the Indian soda market almost overnight, as "the deal of the decade," recalls Raja.

Notorious Board

Perhaps the biggest impediment Isdell faces, outsiders say, is Coke's board. More than anyone else, the directors, especially the powerful triumvirate of Warren E. Buffett, Herbert A. Allen, and Donald Keough, are the keepers of the flame at Coke. Over the years they have strictly enforced obedience to the Goizueta Way. This politburo of the Goizueta era (of 14 directors, 10 date back to the late CEO) has chewed through two CEOs in the past five years. Three directors are over the age of 70, but don't look for any departures soon. Earlier this year the board waived Coke's mandatory retirement age, 74, to allow Buffett to remain and Keough to rejoin.

This is a group that believes in getting involved—very involved—in company affairs. Many Coke insiders feel that Daft, Isdell's predecessor who abruptly announced his retirement last February, never recovered from Buffett's 11th-hour veto of his attempt to steal Quaker Oats Co. from Pepsi in November, 2000. The deal was quashed when the legendary financier declared at a special board meeting that Quaker and its powerful Gatorade brand weren't worth giving up 10.5% of the Coca-Cola Co. Daft declined to speak for this article except to say he retired for health reasons. "The board has to challenge management's plan but should not challenge its authority. The Coke board was micro-managing," says John M. Nash, a board consultant and former president of the National Association of Corporate Directors.

So notorious is the Coke board that many blame it for the humiliating rejections Coke received from a string of CEO candidates the board courted before anointing Isdell. Even Buffett's prestige were not enough to persuade James M. "Jim" Kilts, head of Gillette Co., where Buffett was a director for years. Like Robert A. Eckert of Mattel Inc. and Carlos M. Gutierrez of Kellogg Co., Kilts passed on the opportunity to head the world's most powerful brand. (Indeed, one executive that Coke approached for the job was rankled by the way Coke's board leaked the names of people it was pursuing. "It was like the search was playing out on CNN," he says. "One of the greatest legacies that [Isdell] can leave behind is a reshaped board.")

Board members have made clear their opposition to product diversification, as well as their belief that mergers aren't what's needed. At times they've even involved themselves in operations. Keough rankled some marketing staffers when earlier this year he personally killed an edgy TV ad—in which a teen wipes a Coke can under his armpit before handing it to an unwitting friend—that he deemed in poor taste. Isdell maintains that he'll be able to stand his ground with Coke's board. Sonya H. Soutus, a Coke spokeswoman, says it is "presumptuous and unfair" to criticize Coke's board members, who she says have substantial stockholdings, bring a wealth of experience, and have taken steps to address Coke's problems.

Can Isdell return Coke to greatness? In some ways, the clock is working against him. At 61, he may be only a transitional CEO. Still, long-timers can sometimes bring special skills to rejuvenating a tired corporate culture. "A.G. Lafley was a product of Procter & Gamble, and William Johnson was a product of [H.J.] Heinz," notes Gary M. Stibel, a management guru at Westport (Conn.)-based New England Consulting Group. "They remembered what it was like when their companies were great, and they returned them to that greatness." There are plenty of other examples, though, such as Eastman Kodak Co., where a succession of CEOs was unable to break from the past and continued to ride outdated models and product lineups nearly into oblivion. As two CEOs have already discovered at Coke, it isn't easy following in the footsteps of a legend.

Source: Dean Foust, "Gone Flat," *BusinessWeek*, December 20, 2004, 76–82.

Case 6-6

Coca-Cola Co. (B)

Mary Minnick is not a pat-you-on-the-back kind of boss. She heads marketing, strategy, and innovation at Coca-Cola Co., and if ever there was a company that does not deserve pats on the back, Coke is it. "I tend to be quite discontented in general," she told investors last December. "It will never be fast enough or soon enough or good enough."

Minnick is blunt. She's also worldly and smart, with an acerbic sense of humor. She can be charming when she's not being stern. In her first year in the newly expanded post, she has been a shock to the sclerotic complacency that has marked Coke for the past decade. "There was a culture of politeness and consensus and talking around an issue, rather than taking it head-on," she says. If Coke employees are upset by the change, too bad: "That's one thing I won't work on."

Minnick, 46, advocates a strategy that would have been heresy to legendary ex-Chief Executive Roberto Goizueta and the old, Warren E. Buffett-backed board. They turned the company into one of the world's preeminent blue chips in the 1980s and '90s by focusing squarely on soda. To Minnick, growth means more than simply boosting sales of Coca-Cola Classic. And innovation involves more than repackaging existing beverages in slightly different flavors. Minnick is exploring new products as far afield as beauty and health care. If she accomplishes even half of what's on her drawing board, she'll usher in the greatest flowering of creativity in the company's history. And should her plan succeed, she could end up CEO, if not at Coke then almost certainly elsewhere (Target Corp. has already put her on its board). Either way, Coke will end up a dramatically different company.

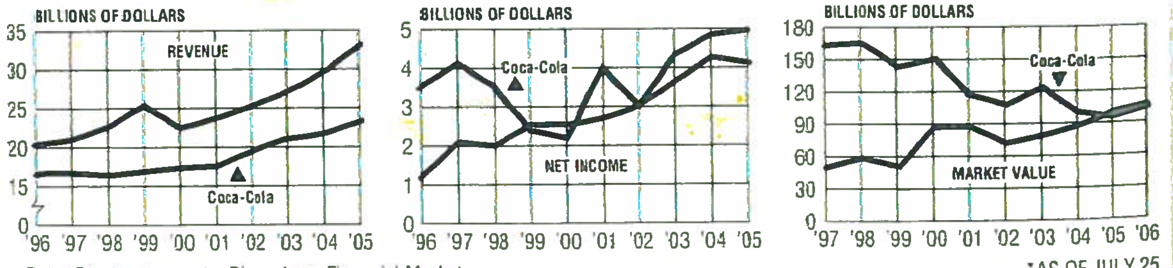
Coca-Cola is an American icon, yet it is in danger of slipping into irrelevance. Consumers are flocking to a new breed of coffees, juices, and teas—all categories where Coke has historically been weak. For the longest time, Coke seemed in denial, more fixated on reversing the stagnation in soda than investing in the alternative beverages that consumers were clamoring for. Archrival PepsiCo Inc. has eclipsed it in many important ways, including stock performance, earnings growth, talent development, and buzz. Even though Coca-Cola still racks up more annual profit than Pepsi, Pepsi now has a market value, $103 billion, virtually equal to Coke's. Just 10 years ago, Coke was three times bigger (Exhibit 1).

Now, Coke is at a turning point. On the one hand, it is still the most valuable brand in history, according to consultancy Interbrand, which measures how much a company's brand drives its sales and profits. On the other hand, the value of the Coke brand has declined 20% since 1999, to $67 billion, according to Interbrand. That's one of the largest percentage drops of any multinational during that period. The challenge of reversing this trend, of making Coke more exciting, innovative, and relevant, falls largely on Minnick's shoulders. The marketing dynamo has helped bring a new sense of urgency to everything, from how the company advertises (one of her first moves was replacing Coke's lead agency, Berlin Cameron & Partners) to how it develops new drinks. "She did not look to me like the other leaders at Coca-Cola. She looked like someone I would have met at GE," says Jeff DeGraff,

EXHIBIT 1

Investors: Switching to Pepsi?

Pepsi has higher revenue and steadier profit growth than Coke, and its market value now virtually matches its archrival



Data: Company reports, Bloomberg Financial Markets

*AS OF JULY 25

a University of Michigan business professor who has consulted for Coke.

Minnick's top priority has been jump-starting Coke's product development. Under her leadership, Coke has been unusually prolific, launching more than 1,000 new drinks or new variations of existing brands worldwide in the past 12 months, including a new male-oriented diet drink called Coca-Cola Zero as well as a brisk-selling coffee-flavored cola called Coca-Cola Blak. But Minnick knows that, in the long run, new flavors and brand extensions won't be enough to make Coke a growth company again. So with the solid backing of CEO E. Neville Isdell, to whom she reports, Minnick is pushing to transform Coke from a soda-centric organization that was long content to offer "me-too" products in emerging categories to one on the cutting edge of consumer trends.

At a private, mid-May meeting of Coke's top 200 global marketers in Istanbul, Minnick implored her troops to stop thinking in terms of existing drink categories and to start thinking broadly about why people consume beverages in the first place. The goal: to come to market with products that satisfy those needs before the competition. To that end, Minnick loves to talk about what she considers the 10 primal "need states" that consumers have, including "hunger and digestion," "mental renewal," and "health and beauty." Creating drinks that meet each of those need states may mean inventing entire new categories. Imagine drinks, for example, that are fortified with vitamins or nutrients and provide women the same benefits as a facial scrub or cold cream.

In the future, Minnick says, the winners will be the beverage companies that develop breakthrough products that, more often than not, cross over traditional beverage categories—just as Red Bull did when it single-handedly created the energy drink segment. "Like Henry Ford said, 'If I'd asked the consumer what they wanted, they'd have said a faster horse,' " she told her staff in Istanbul.

To be sure, some of what's currently emerging from Coke are catch-up products that finally give it an entrée into some hot categories. The Atlanta behemoth just launched a new bottled tea called Gold Peak, and in coming months it'll unveil a premium coffee drink licensed from chocolatier Godiva to compete with bottled Frappuccinos sold by Pepsi in a venture with Starbucks. And Coke is using new packaging to help reinvent some of its older brands, including the flagship Coca-Cola Classic. Earlier this year, the company began rolling out sleek, aluminum designer Coke bottles with etched, glow-in-the-dark graphics, for sale initially in a few dozen nightclubs around the world. The hope is that the designs will improve the 120-year-old brand's image with trendsetters.

Big Ambitions

But these are small victories, and Minnick knows that. At the Istanbul conference, the morning after a feel-good opening speech, she gave her staffers a cold-water wake-up call in the form of a rugged marketing critique. She was rapid-fire, speaking quickly but clearly from a dais to her 200 troops: "I don't think we've nailed the diet and light categories. I think our consumer insights are too superficial," she said. "We need to refine the Fanta vision. It's got to be more than 'Fanta fun.' It didn't grow as fast as it could last year."

Such frank appraisals are vintage Minnick. She may be brusque, but her staffers say that as a veteran of Coke, Minnick has the clout and political savvy to make sure things happen. Coke's chief creative director, Esther Lee, notes that while some previous chief marketing officers struggled to get Coke's country managers to adopt a new global ad campaign, with Minnick's backing she had no trouble getting buy-in for the new "Coke Side of Life" campaign. "I could not have done a global campaign before Mary," says Lee.

Minnick's bigger ambitions, if they take hold, would utterly redefine Coca-Cola's image as a purveyor of sugar-laden junk that you shouldn't give your kids. Based on prototypes that *BusinessWeek* saw in Istanbul, look for "nutraceutical" versions of Diet Coke, or new juices designed to help women with skin care, weight management, and detoxification. In the past year, Coke has launched 18 clinical trials to test the health benefits of different new ingredients that it hopes to use in future drinks. In Japan, Minnick's former stomping grounds, Coke is already selling some of these very products. As one of Minnick's top lieutenants, Penny McIntyre, told marketing staffers at the Istanbul summit: "It's not far away that not only can you feel better but you can look better through healthy beverages. We are going to transform our beverages and, along the way, transform the company."

That's a stirring vision, but one fraught with challenges. For one, drinks that make health claims could require government approval. An ever bigger challenge may be winning support from the company's vast network of independent bottlers. Rather than dumping finished product on the bottlers, as her predecessors did, she's engaging them as products are being conceived to ensure their input and cooperation. "There are a lot of bottlers who realize now that it's innovate or die," says Ron Wilson, president of a large Coke bottler in Philadelphia.

Minnick's role as corporate agitator may appear surprising, given that she's a Coke lifer. But she was pushing "non-carb" beverages—Coke parlance for anything that isn't a carbonated soft drink—back when doing so was career suicide. Not coincidentally, perhaps, she made her name far from Atlanta headquarters. As head of operations in Japan and, in time, all of Asia, she sold canned coffees, teas, and vitamin drinks in cultures where soda is an acquired taste.

While Minnick gets plenty of attention these days, she doesn't necessarily crave the spotlight. Minnick grew up in rural Nova, Ohio, a town so small it had no stoplight and just one stop sign. From the age of 15, she spent summers working on her father's golf course mowing fairways, raking sand traps, and flipping burgers in the clubhouse. Minnick helped pay her way through Bowling Green State University in the late '70s by slinging hash in the student cafeteria. ("There I am trying to look cool for this cute guy when I'm wearing a hairnet and an orange polyester uniform," she laughs.)

She earned an MBA from Duke University in 1983, and started her career on the bottom rung of the Coke ladder, as a sales rep in its fountain division. "My job was figuring out how to sell more beverages to a hot dog chain in Minneapolis in January, driving a car with 150,000 miles on it, living in a one-bedroom apartment in a horrible part of Atlanta, and questioning the meaning of life," she recalls.

"Wolf Sweat"

Minnick did well enough to earn a promotion into Coke's vaunted marketing department. In time she convinced management to let her lead a new team being formed to develop new drinks to counter emerging non-carb rivals such as Snapple and Gatorade, which were starting to steal customers from Coke's soft drink business. Given Coke's soda-centric culture, it was a lonely vigil. When Minnick and her team developed a clear beverage called Nordic Mist to take on a new rival drink called Clearly Canadian, some senior Coke execs derisively referred to it as "Wolf Sweat." Says Minnick: "I walked into a senior manager's office in [Coke's] North America [division]—and I won't tell you who, but he was very senior—and he said, 'Mary, every case of Powerade and Nordic Mist I put on the truck, I have to take a case of Coke off. That doesn't pay off.' "

Similarly, when Minnick's team created Fruitopia to take on Snapple, bottlers balked at the expensive glass bottles and its more expensive brewing process. Against Minnick's wishes, management buckled, ordering a switch to plastic bottles and the same "cold fill" process used to make soda. Those two changes served to cheapen the product in the eyes of consumers and, with sales faltering, Coke eventually pulled Fruitopia from the U.S. market.

Over time, fighting battles against recalcitrant senior executives who didn't see a future outside of soda came at a cost to Minnick. "One of the senior managers of the company said to me, 'You've pushed too hard, you've alienated everyone in North America, your passion for non-carbs has gotten in the way of what's right for Coke, and nobody wants to work with you anymore,' " she remembers. Dejected, Minnick took the LSAT and applied to law school.

But her spunk and resourcefulness hadn't gone unnoticed by Sergio Zyman, who had returned to Coke in 1993 as head of marketing. He persuaded her to stay and provide marketing support to Coke's Asian operations. By 1997, Minnick found herself being shipped overseas to run the company's South Pacific group, covering Indonesia, Australia, New Zealand, and all of the Pacific Islands.

Almost immediately, the Asian economic crisis crippled the region and Coke's business there. With currencies plunging and violence rising, Coke's Indonesian bottler pleaded with Minnick to simply shut down operations in that country until after the crisis passed. But Minnick refused, opting to ride out the storm even though that meant evacuating Coke employees on two different occasions during ensuing riots. The company emerged from the crisis even stronger. "It was a great success story. We got credit from the [public] for staying," she says.

Proving Ground

As her reward, in early 2000 Minnick was named to head up all operations in Japan, which had historically generated 20% of Coke's profit until a slump in the late '90s. Minnick's full-frontal management didn't set well with the Japanese male staffers at Coke's local headquarters in Tokyo, some of whom complained privately in letters to then-CEO Douglas N. Daft in hopes of having Minnick reassigned. Daft's response to the instigators: "This woman will be there longer than you. She has my full support." Still, Minnick now admits that she had to dial back because bottlers already had begun swapping "Mary Minnick stories." "I think I started to temper my management style in Japan," she acknowledges. "Because of the culture, you have to learn patience and a certain sense of decorum. They don't appreciate anger and displays of emotion." She slashed operating costs, invested in state-of-the-art vending machines popular with Japanese teens, and after two years of flat-to-declining revenues, sales began to grow between 2% and 4% a year. That earned Minnick another promotion in 2002, to head up all of Coke's Asian operations.

Japan was a crucial period for Minnick. It was the first real test of her leadership ability. And it was the place where she realized the full potential of non-carb drinks, which are now a fundamental part of her turnaround plan for all of Coke. In most of the company's markets, Coke Classic is the cash cow. But in Japan, the company generates the bulk of its profits, surprisingly, from canned coffees and 200 or so eclectic products like Real Gold, a hangover cure sold in a small bottle, and Love Body, a tea marketed to calorie-counting women (and which contains an ingredient that some Japanese believe increases bust size). Coke's marketing team in Japan knew how to ride the trends, introducing as many as 100 new products a year, some with a life expectancy of just a few months. Thanks to constant data reports from 7-Eleven stores, "we knew within the first four weeks if we were going to be in trouble or not," she recalls.

While Minnick was helping get Asia back on track, all was not well with the rest of Coke (Exhibit 2). It had overinvested in some emerging markets, and soft drink sales had flattened. Daft (who is on the board of The McGraw-Hill Companies, *BusinessWeek*'s parent) resigned in 2004 under pressure from the board, which brought in Isdell. From the moment he arrived, Isdell preached the need for Coke to become more aggressive in selling alternative beverages. He spent an additional $400 million a year to boost marketing and fund new product development. And as he held a series of management retreats to lay out his vision, he became so impressed with Minnick's intellect that he approached her on a Friday morning in May, 2005, to become head of marketing.

"Plan, Plan, Plan"

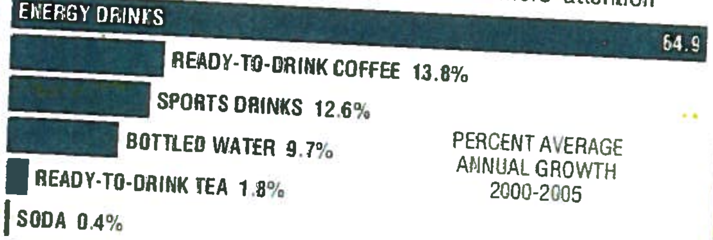
She turned him down on the spot. "I had spent 10 years living in Asia, and I loved it—the people, the culture, the way of living." But Isdell persisted in a second meeting that same day. After she spent a weekend soul-searching, Minnick's boyfriend, Simon Cooper, who owns a fly-fishing tour service in Britain, encouraged her to take the job and "give it a year." Minnick relented, but only after Isdell assured her of his full backing to overhaul Coke's marketing. Minnick knew all too well that Coke had talked the talk about innovation but little had really happened.

Once back in the U.S., Minnick didn't bother ingratiating herself with her staff. First, she laboriously analyzed Coke's performance over each of the past 10 years and produced a "look in the mirror" report that assessed the company's marketing moves, both good

EXHIBIT 2

Coming Up Flat

Sales of soda—Coke's signature product—have been stagnant as new beverage categories have captured consumers' attention



Data: Beverage Marketing Corp. of New York, BusinessWeek and bad, during that period. She brought in management gurus like Ram Charan and Michigan's DeGraff. Recalls DeGraff: "When I got to Coke, they liked to draw up PowerPoint slides, and they liked to plan, plan, plan. They were very slow."

In what must have been a humbling act for a company that had been considered one of the preeminent growth machines during Goizueta's glorious reign, Minnick dispatched top aides to companies like British Petroleum, Apple Computer, and Kraft to study how those companies approached innovation. "We asked ourselves, 'How can we do it in an Apple way? It's the way they did it in a 'Think Different' way." By contrast, too much of what passed for innovation at Coke over the years had been incremental line extensions that too often didn't really move the needle. "You ended up having a single flavor change—a key lime Fanta—and not transformational innovation," she says.

Culture of Candor

Coke's genteel Southern ways meant managers talked around problems, but Minnick tried to instill a culture of accountability in the marketing department and with the company's ad agencies. Minnick doesn't apologize. "Historically, we had a culture where putting the hard issue on the table made some people uncomfortable," she says. Some former Coke marketing executives praise Minnick for raising the bar. "It's a company full of belongers with not enough performers," says Zyman, who served two stints as chief marketing officer during the 1980s and '90s. "She has been right to try to shake things up" (Exhibit 3).

One of the first things that Minnick shook up was advertising. Over the decades, Coke was known for creating some of the greatest ads ever. A 1971 commercial jingle, *I'd Like to Teach the World to Sing*, became a peace anthem during the Vietnam War. But since the late '90s, Coke ads have been mostly forgettable. Within days of taking the job, Minnick began killing ads left and right, including one somber, European ad that showed angry teens clanging Coke bottles against light posts as they stormed the streets and gathered at a cliff. Before it was over, Minnick fired Coke's lead agency, Berlin Cameron & Partners, and initiated an agency "shootout" that led to the selection of Portland (Ore.)-based Wieden + Kennedy, the masterminds behind Nike Inc.'s "Just Do It" campaign. Agency President Dan Wieden, who had handled small assignments for Coke for nearly a decade, admits that he took the new assignment with some trepidation. "The layers of bureaucracy at Coke prevented you from doing good work. They had a huge reliance on [focus group] testing. And people would make decisions based not on what was in front of them, but would try to second-guess what people above them might think."

But Minnick's new team, led by creative director Lee, gave Wieden carte blanche. The result, the "Coke Side of Life" campaign unveiled earlier this year, was hailed by ad critics like *Chicago Sun-Times* columnist Lewis Lazare, who credited the spots with putting Coke advertising "gloriously back on track." Katie Bayne, a senior vice-president who oversees Coca-Cola trademark products, notes that four of the new commercials, including one where a young male

EXHIBIT 3

Mary's Makeover

How she's overhauling Coke's marketing machine

Anticipate the Customer

Coke has always thought in terms of traditional drink categories like cola or juice. In the past, innovation meant incremental line extensions such as new flavors. **But Minnick wants Coke's marketers to think more creatively about consumers' needs.** That has led Coke to consider creating drinks that cater to, for example, the desire to feel healthy.

Retool Tired Brands

The cost of launching a new brand can be prohibitively expensive. **So while Coke is creating some new brands, it is also repositioning existing ones in categories where it's behind.** In the U.S., Coke dusted off the Tab brand to create an energy drink for women, and it's using the Sprite name for a new energy beverage in France.

Engage Partners

Coke's independent bottlers have long resisted the company's efforts to launch niche brands, refusing to carry some new products that they deemed low volume. **So Minnick has been bringing its bottlers into the decision-making process to get their input—and, Coke hopes, get them on board—from the outset.**

Don't Fear Failure

Coke has a history of planning and then planning some more—with the result that many new products never made it out of the lab. But as head of a Coke in Japan, **Minnick perfected the art of putting new drinks out on the cheap and then using quick feedback from retailers to determine which new drinks were resonating with consumers.**

repeatedly steals sips from a soda fountain while the clerk isn't looking, ranked among the highest-scoring Coke commercials ever in independent consumer testing. That's good news, but people who work for Minnick know better than to bask in the momentary glory. "She's not one to celebrate," says Lee. "We don't spend a lot of time talking about why something is good."

Source: Dean Foust, "Queen of Pop," *BusinessWeek*, August 7, 2006, 44–53.

Case 6-7

Keurig Inc.

A Wednesday afternoon in February 2003 found Keurig Inc.'s president and CEO Nick Lazaris heading south on Interstate 89 back toward his Wakefield, Massachusetts, office and mulling over the day's events in preparation for a briefing with his senior management team (see Exhibit 1 on page 572). He realized that the next two weeks would be critical to the success of the company's newest product initiative in the single-cup coffee market. Lazaris had just wrapped up a presentation to the Green Mountain Coffee Roasters Inc. (GMCR) management team, one of the company's strategic partners and an investor in its business. While reviewing the company's progress toward the launch of its innovative coffee-brewing system into the at-home consumer market, GMCR had asked Keurig to reconsider its decision to use a different version of the coffee portion pack, known as a K-Cup, in the consumer market. In making its request, GMCR had offered a number of compelling reasons for using the existing commercial portion pack in both channels.

As he drove, Lazaris passed a new Starbucks and reflected on how gourmet coffeehouses had helped pave the way for Keurig's single-serve brewing system. The proliferation of soft drinks since the 1960s had caused coffee to lose its place as a central component of social gatherings, spurring a precipitous drop in coffee consumption to an all-time low of 6.1 pounds per capita in the mid-1990s from a peak of 16.5 pounds per capita in the mid-1940s.[1] The entrance of gourmet coffeehouses had reinvigorated the market, developing a distinct subculture of coffee drinkers and educating younger consumers about great traditional coffees as well as espresso and milk-based specialty beverages. As a result, by 2003 an estimated twenty million Americans were drinking gourmet coffee on a daily basis.

Keurig's launch of a single-cup brewing system in the office coffee service market in the late 1990s had benefited from coffee drinkers' increasing sophistication. Office employees could appreciate the greater variety, freshness, and convenience derived from the ability to brew a single cup of coffee on demand. Office managers recognized the advantages garnered from less coffee waste, increased employee productivity, and decreased hassle associated with tending the coffee machine.

February 2003 found Keurig poised to launch its new model B100 system in the at-home segment with hopes of repeating its success in a much larger but more competitive market. With rumors of other single-cup competitors ready to enter the market, Lazaris knew Keurig needed to move quickly in order to obtain its desired positioning in the emerging single-cup consumer market. Revisiting the decision to proceed with a two-K-Cup strategy had the potential to derail the company's launch efforts and demanded rapid attention by Lazaris and the senior management team. Reevaluation of the K-Cup decision would also force them to rethink other elements of their product plans, including pricing and marketing. With less than six months until the September launch, time was of the essence.

The Company and Its Products

Keurig Inc. had been founded to develop an innovative technique that would allow coffee lovers to brew one perfect cup of coffee at a time. Beginning with the company's inception in 1992, the word "Keurig," from the Dutch word for excellence, had been the guiding principle behind the development of its products and services. The company leveraged investments from venture capital funds to transform its concept for a single-cup brewing system into a commercially viable business with the development and patenting of a single-portion pack and a revolutionary new coffee brewer. The first brewer targeting the office coffee service market, the

[1] United States Department of Agriculture.

Source: Elizabeth L. Anderson, Keurig at Home: Managing a New Product Launch, Kellogg School of Management, January 27, 2006. One-time permission to reproduce granted by Kellogg School of Management.