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'Coke is it' for CEO, and sales bubble up

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The Atlanta Journal-Constitution

Published on: 03/11/07

Coke CEO Neville Isdell saw the disbelief in executives' eyes when he told them he was staking the company's future on carbonated soft drinks.

Coca-Cola's stock was stuck. The company was struggling to innovate. After years of blistering growth, sales of the company's flagship soft drinks like Coca-Cola Classic were declining in the world's most established markets.

It was 2004, and Isdell had just been tapped to turn the company around. Many of his executives argued the way forward was to concentrate on fast-growing drinks like bottled water, juice and tea — or anything else that wasn't carbonated.

Soft drink sales had lagged for years, they said. And the company needed to counter mounting criticism that its products were unhealthy by offering alternatives to soda.

But here was this 60-year-old Coke veteran, pulled out of retirement on a beach in Barbados, unwilling to believe that soft drinks were a fading desire.

"I just totally rejected in my own mind that that was the case," he recalled during an interview last week.

Now, after two years with Isdell at the helm, the Atlanta-based company is back to doing what it does best — promoting soft drinks.

Coke's identity crisis is over.

Hundreds of millions of dollars in new marketing and the development of new colas since Isdell arrived are beginning to pay off for Coke. The company's global soft drink sales grew faster last year than they have since 1998, despite falling sales in the United States.

That Isdell had to argue for soft drinks says a lot about how the beverage industry changed in recent years, as analysts and some industry leaders came to see non-carbonated drinks as the industry's silver bullet.

Consumers have more choice than ever when they go to the drink cooler. Gone are the days when refrigerators were solely stocked with Coke or Pepsi. Bottled water, sports drinks, teas and other non-carbonated drinks sometimes even push fizzy drinks out of consumers' iceboxes altogether.

Coke began losing its way in the late 1990s, when the wave of competition came in, and sales of traditional

carbonated soft drinks started to go soft.

Some criticized Coke for moving too slowly to take advantage of the non-carbonated beverage trend. Its chief rival, Pepsi, was buying blockbuster beverage brands like Gatorade and SoBe. Pepsi's cola drinks were selling slower, too, but they made up less than a third of the company's global business.

John Sicher, publisher of industry newsletter Beverage Digest, said Coke made matters worse by significantly increasing prices for its core soft drinks, such as Coke Classic.

"That gave consumers a reason to consider other things, and at that time water was growing in popularity," Sicher said.

By the early 2000s, Coke was worried. The mantra was to develop better non-carbonated drinks or wither on the vine. Coke's bottlers got on board, too, demanding more non-carbonated brands to compete with the Snapples of the world.

'Lack of belief' in fizz

By the time Isdell took over, he says it was clear there was a "lack of belief" in carbonated soft drinks within the company. As a result, Coke's spending to promote its core soft drinks was down, Isdell said. The company also wasn't modernizing its soft drink selection, he said, to create products people wanted to drink. So, sales suffered even more.

"It was a self-fulfilling prophecy," he said.

The chief executive saw another problem, as well. Although the non-carbonated beverage market was growing fast, the portfolio of drinks still represented a fraction of Coke's overall business. Isdell said he was all for the aggressive development of profitable non-carbonated drink brands, but it was clear to him that those sales would have to grow at impossible rates to make up for a continued decline in sales of carbonated soft drinks.

Isdell's solution was to pump an additional \$400 million into marketing, with much of that money aimed at carbonated soft drinks. He and his top executives ordered up a new global advertising campaign called the "Coke Side of Life."

Just this year, Coke advertised during the Super Bowl for the first time in nearly a decade and promoted Diet Coke heavily during last month's Oscars.

Perhaps the most current example of the soft drink giant's new mind set is Coke Zero. Isdell, who had a hand in creating the drink, has touted it as one of the most important new products right now at Coke. It is the company's first diet cola to approximate the taste of traditional Coca-Cola, and its recent success is all the buzz inside Coke.

Aimed primarily at "young men without a soft drink to call their own," according to Coke, the no-calorie drink is being marketed prominently beside stalwarts Coca-Cola and Diet Coke. The company's chief bottler, Coca-Cola Enterprises, is even using what it calls a "three-cola strategy" to heavily promote and distribute the trio of brands.

After a slow start and some mistakes marketing the drink early on, the company has redesigned the can and created a clearer advertising pitch. Since Coke Zero's launch in June 2005, the company has sold more than 120 million cases in 14 countries. While that's nowhere near the roughly billion and a half cases of Diet Coke sold in the United States alone during the same period, industry analysts say Coke Zero is worth watching. The drink

will debut in nine more countries this year.

To sell even more sodas, Isdell is pushing back against the stigma surrounding carbonated soft drinks, escalated in part by a debate over childhood obesity. He told stock analysts at a recent convention in Scottsdale, Ariz., that he wants to reframe what defines the category. His argument: The decision to drink a diet soda also can be a health-conscious choice.

Coke has unveiled plans for a new vitamin-enhanced diet soda called Diet Coke Plus, to launch later this year. The company also has plans for a Vanilla Coke Zero that will be rolled out with the reintroduction later this year of Vanilla Coke, which was put on "hiatus" in 2005 after sales plummeted.

Coke also began dropping the term "carbonated soft drink" from its communications last month in favor of the term "sparkling beverages," which includes anything with carbonation, including energy drinks. Isdell said that, too, was an attempt to step away from the stigma. On Friday, Coke announced that the centerpiece of its newly reorganized North America division will be a unit devoted to developing and marketing "sparkling beverages."

'Healthy' claim disputed

Coke's effort to refresh the image of carbonated soft drinks as healthy has been panned by some, who say it's just window dressing.

"I think it's really laughable to try to pass off diet drinks as healthy," said Connie Bennett, author of the book "Sugar Shock," which details health risks of sugary foods and beverages. "They sell water. Why don't they just market that more."

Some consumers also worry about artificial sweeteners in diet drinks, in part because of studies suggesting links between the sweeteners and cancer and other illnesses. The federal government, which regulates artificial sweeteners, has said there is no clear evidence of such links.

Diet drinks alone might not be the answer to lagging soft drink sales, notes Matthew Reilly, a Chicago-based stock analyst with the independent research firm Morningstar.

Reilly said soft drink companies had expected diet drinks to pick up much more of the slack created by declining sales of full-calorie sodas, but that hasn't been the case.

"The trends you've seen have been along the lines of colas not doing so well and flavors doing OK," Reilly said, referring to the solid growth of soft drinks such as Mountain Dew while Coke Classic and Pepsi cola lose market share. Full-calorie Cherry Coke, for example, far outsells its diet counterpart.

Still, Wall Street analyst John Faucher of JP Morgan Chase said Coke's recent soft drink growth has been "an upside surprise" for experts who were once skeptical.

"They would have told you there is no way Coke can grow [carbonated soft drinks], period, the end," Faucher said.

Isdell said he knew better: "People love carbonated beverages."

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