

## Coke trade-mark always the real thing

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On Tuesday, October 21, all offices of Coca-Cola Company closed down for the day to mourn the death of Roberto Goizueta, Coke's chairman and CEO, from lung cancer three days earlier.

Goizueta was a legendary figure. If you invested \$1,000 in Coke when Goizueta took over, it would be worth \$62,000 today. During his tenure as CEO, the market value of Coke's stock grew from \$4 billion in 1981 to \$145 billion, making Goizueta's own shares worth over a billion dollars when he died. Not bad for a Cuban immigrant who came to the US with only \$40 and 100 Coke shares in 1961.

Goizueta's career demonstrated the staggering value of a successful trade-mark. After all, Coca-Cola Company markets fizzy water with brown syrup added. It's not that people are particularly crazy about the taste. Market research has shown that consumers prefer sweeter colas (remember the "Pepsi challenge"?). Coca-Cola became so concerned that its own data showing that consumers didn't much like the taste that it introduced reformulated "New Coke" in 1985. As we all know, New Coke bombed, and was eventually withdrawn.

The New Coke disaster demonstrated to Goizueta the value of the Coke brand - the trade-mark itself. Warren Buffett, who became a major investor in Coca-Cola three years later in 1988, wrote that the New Coke episode showed Coke "had something other than taste - the accumulated memory of all those ballgames and experiences as children which Coke was a part of." Buffett viewed the trade-mark in economic terms as a "toll-bridge"; any competitor wanting to compete with Coke for market primacy would have to pay a "toll", namely the cost of creating an equally or better known brand.

How much would that cost? Roger Lowenstein in Buffett: The Making of an American Capitalist quotes Warren Buffett: "If you gave me \$100 billion and said take away the soft drink leadership of Coca-Cola in the world, I'd give it back to you and say it can't be done."

Coke is probably the best known brand in the world. There is a story that in the nineteen fifties, a market researcher set out to find a human being who had never heard of Coke. He travelled deep into the Peruvian backcountry, encountered an Indian woman in the jungle and, through an interpreter, explained that he'd like to introduce her to an American beverage, Coca-Cola. The woman reached into a sack and pulled out a bottle of Coke.

Guizueta translated this world-wide brand recognition into dollars. When he became CEO in 1981, Coke was languishing. It had diversified into some not particularly profitable businesses. Its margins were down. Although the company consistently earned a profit (\$500 million in 1981), the appreciation in its stock value was only about 5.6% a year between 1974 and 1980. The average annual return on Coke's stock during the 70s was a measly 1%.

Guizueta got rid of non-core businesses and concentrated on improving sales of Coke itself and the other nonalcoholic beverages in the empire, which include Sprite, Fanta, Tab, Fresca, Hi-C, Nestea and Minute Maid Orange juice. He stressed increasing sales outside the US, where per capita consumption of Coke was and still is much lower than in the US itself, and therefore left more room for growth. In 1984 Coca-Cola earned about half its profits outside the US. By 1992, non-US sales contributed 81% of profits.

Guizueta made sure that all those Peruvian Indian woman, plus all the other thirsty non-American consumers on the planet, had ready access to Coke, so they would buy more. As a result, revenues almost quadrupled in the time he ran the company, reaching \$18.5 billion in 1996. As I said before, Coke earned \$500 million in net profits in 1981. By 1996 this figure had increased to \$3.5 billion, a 600% increase.

The potential in developing countries for a well-known brand name like Coke is vast. Coke's then president Donald Keough once said, "When I think of Indonesia - a country on the equator with 180 million people, a median age of eighteen, and a moslem ban on alcohol - I feel I know what heaven looks like".

Coke's stock in recent years has of course benefitted from the long bull market. It now trades at about \$60.00, somewhat down from a high of about \$72 in June. Not being a stock market sage, I have no insights into what the future holds.

In part, I offer this story because I am often surprised how little attention is paid to trade-marks in business transactions. It is often assumed trade-marks are some minor detail, not worth the attention of serious corporate lawyers and financial types.

Roberto Goizueta showed that a trade-mark can sometimes be an almost unimaginably valuable business asset.