WINNING MOVES™
SPECIAL REPORT

Are You Killing Your Golden Goose?

Unique risk versus reward lessons based on New Coke show you how to win while everyone else is blinking

BY PHYLLIS EZOP

Ezop and **Associates**

Are You Killing Your Golden Goose?

Unique risk versus reward lessons from New Coke show you how to win while everyone else is blinking.

By Phyllis Ezop

When should you tamper with a strong, successful product? The answer should be based upon a broad strategic perspective regarding risk versus reward. But, fear of being left behind can create the urge to take drastic, unwise and unwarranted risks, especially when competitors are thriving. And, the common mindset of innovate or die makes it easy to misinterpret research that might minimize risks. As a result, companies gamble wildly on what's new, risky, and hopefully better. Yet, frequently, better never happens. And, they end up killing the golden goose, often for just one or two eggs.

To guard against this scenario, here are three questions to ask. These questions steer strategic decisions, and should guide the interpretation of market research.

1. Is the risk worth the reward?
2. What assumptions are being made about past successes?
3. What interpersonal dynamics are at play?

The New Coke example, brought back by best-selling business book *Blink*, serves as a cautionary tale. *Blink* tells us to quickly zero in on what's important. But, *Blink's* discussion of New Coke actually illustrates the danger in rapidly deciding what is important. Why? Because what you perceive as important may not be, and the real patterns involved might easily be missed.

Too Much Risk, Too Little Reward

Like most people, *Blink* attributes New Coke's problems to blind taste tests that ignore emotional reactions. But, this misses the real patterns that do yield a strong case against introducing New Coke. Not based on taste tests, but because of risk versus reward.

Launching New Coke meant discontinuing a well-established product with a huge revenue and customer base, and essentially replacing it with a new product. New products fail at an extremely high rate. Some estimates put the failure rate for new consumer packaged goods products in the 80%, or even 90%, range. So, the odds were stacked against New Coke, making the decision to launch it risky.

According to the book *The Real Coke, the Real Story* by Thomas Oliver (the source *Blink* used), Coke's research found that 10-12% of Coke drinkers would be alienated by New Coke. And, in blind taste tests, Pepsi drinkers preferred Pepsi to Old Coke 70 to

 www.ezopandassociates.com | 708.579.1711 | ©Ezop and Associates | All rights reserved.

30, but preferred Pepsi to New Coke 50-50. Although not pointed out in the book, these numbers imply potential for attracting 20% of Pepsi drinkers while alienating 12% of Coke drinkers. This is an eight percentage point upside potential for New Coke (assuming about equal market size for Coke and Pepsi), before allowing for margin of error in the taste tests. Thus, upside gain expected from New Coke was relatively low.

Some might argue that the dollar value of each percentage point is huge, so just a few points is an excellent upside. And, that major brands often aggressively pursue tiny market share gains worth many millions of dollars. But, while this is true, New Coke entailed tremendous downside risk to attain those small gains. It risked alienating loyal Coke drinkers. There was also risk of unanticipated problems that easily occur in a new product launch. And, as a new product, New Coke had a high risk of failure.

Furthermore, taste tests merely describe preferences. Actually attracting the possible 20% of Pepsi drinkers who prefer New Coke could be far less profitable than retaining the estimated 12% of Coke drinkers that New Coke would alienate.

With so ominous a downside, why would anyone want to replace a strong product with a new and unknown that offers little upside potential? Taste tests, whether blind or unblind, are not the deciding factor here. The key issue is whether the upside potential of going forward outweighs the downside risks of throwing away a golden goose. And, unlike a Ted Turner putting his successful cable business at risk to launch CNN, Coca Cola went after a relatively small upside for New Coke.

Thus, the case against New Coke was compelling, despite a taste victory over Pepsi. And, while Coca Cola later discovered that it underestimated how much New Coke alienated consumers, the above information supporting a no go was available before that discovery.

Misjudging Momentum from Past Successes

Following a major success, companies sometimes become overconfident and misjudge their momentum. Often, they may not understand what factors actually brought about their spectacular outcomes. So, they incorrectly assume that success is easily repeatable.

Since New Coke launched just after Diet Coke's stellar performance, the company may have been blind to marked differences between the circumstances of the two launches. Tab, the company's pre-Diet Coke diet drink, did not have market strength like Old Coke. So, Diet Coke had less downside risk. And, the diet market had already seen major changes due to artificial sweetener issues. Thus, as a market, it was more fluid, making it more amenable to new entrants. These conditions were not so for New Coke.

"Following a major success, companies sometimes become over-confident and misjudge their momentum"

Had Old Coke not been a strong brand, the risk of jettisoning it might have been justifiable. For example, Spiegel threw away its old catalogue, replacing it with a new upscale version. But, the old Spiegel, doing poorly, was on the verge of being liquidated. Under those circumstances, the risk of throwing away the old and replacing it with something entirely new made sense. Old Coke, however, was not in such dire straits when New Coke was launched.

Finally, according to Thomas Oliver's book *The Real Coke, the Real Story*, Coca Cola did ask consumers in ad testing focus groups how they would react if Coke were taken away. The groups reacted just like the marketplace later did—they were very upset. But, the focus group participants did not drink Coke exclusively; they drank other soft drinks as well. The book said Coke took this to mean that what consumers said did not reflect what they bought, and that consumers who drank other soft drinks couldn't possibly get so upset if Old Coke were taken away. Why Coke's findings were interpreted this way is unclear. Were they trying to justify a risky decision?

> "It's easy to pick the wrong things as most important when you don't take time to stop and look for the real patterns"

The moral of the story: be especially careful when blinking. If you really know what's important, rapidly zeroing in on it can be highly beneficial. But, be wary of quickly and superficially deciding what's important when you don't know. It's easy to quickly decide that New Coke failed because emotional reactions are more important than winning blind taste tests. But, that quick decision misses the more crucial issue of risk versus reward, as well as the important role assumptions play. Bottom line: it's easy to pick the wrong things as most important when you don't take time to stop and look for the real patterns.

Conflicting Agendas Can Be Fatal

The above alone makes a compelling case against New Coke and is enough to justify a no go decision. But, New Coke's timing was an additional red flag. According to the book *For God, Country and Coca-Cola* by Mark Pendergrast, the New Coke decision occurred when Robert Woodruff, who got the top job at Coca-Cola in 1923 and led its growth for decades, was ailing and nearing death. Woodruff had already retired from his role as company chairman, but still headed the finance committee and controlled the purse strings.

Woodruff's style was one that resisted change, yet it helped the company grow without losing focus. Woodruff staunchly opposed altering Coke's formula, although he apparently relented on the issue immediately before he died. But, as Pendergast's book describes, new management at Coca Cola was "determined to shake up the staid, stuffy company." Although the new chairman had been on the job four years and already had glowing successes like the Diet Coke launch, he had previously sought Woodruff's advice and approval on major decisions. Now, without Woodruff, the new guy was free to charge forward, despite a strong risk versus reward case against New Coke.

 www.ezopandassociatees.com | 708.579.1711 | ©Ezop and Associates | All rights reserved.

Circumstances like these, with a difference in viewpoint between new and former management, raise the issue of whether unrelated agendas have come into play. Often, accomplished long term leaders may understand and guard ingredients that contribute to their firm's success. New management may not, and may sometimes be too quick to destroy a sacred cow, especially when trying to prove themselves by making their mark.

While my report has no inside information about Coca-Cola, what we do know from published material suggests possible conflicting agendas. As the first major decision the new chairman was free to make on his own, New Coke may have been motivated by political dynamics. Major changes like this, which in retrospect should not have been made, are not uncommon when new management takes the reigns. This is why newly appointed leaders, especially those charged with shaking up a slow to change organization, need to pay special attention to the assumptions they make and the risk versus reward profile of their proposed changes.

This is not to say that long term leaders who resist change are always right. Major change may be required, for example, when executives do lose touch with the market, or when entrenched management coasts upon past success. But, since it is so much easier to kill a golden goose than to create one, new management should be cautious about destroying what former leaders considered sacred. Destroying a sacred cow can kill the golden goose.

Conclusion

This report looks at New Coke because it illustrates our points so well. And, although introduced years ago, New Coke re-emerged in the now popular business book *Blink*. But, *Blink* misses the really important problem—that the New Coke decision should have been based upon risk versus reward, not on taste tests, whether blind or unblind.

The risk versus reward lessons from New Coke apply not only to new product launches, but also to other types of growth initiatives and innovation. And, they apply to a wide range of companies. Many prominent companies, especially those with flattening growth, have been making risk versus reward mistakes that can kill their golden goose. Some are still doing so. All should heed the lessons of New Coke.

In summary, risk versus reward should generally drive decisions about major changes in strong well established products. It may be tempting to quickly reshape a product based upon criteria like blind taste tests. And, it's easy to quickly decide that emotional branding is important, so major changes can be rapidly made based upon unblinded taste tests. But, quickly zeroing in on what seems important can miss the real patterns. When considering changes to strong successful products, the assumptions you make and the risk versus reward profile are far more important than who wins taste tests. Ignore risk versus reward, and you might very well end up killing your golden goose.

©2006 Ezop and Associates. All rights reserved. For permission to reprint, contact Ezop and Associates.

About Phyllis Ezop

Phyllis Ezop is a nationally recognized expert on the Winning Moves that drive successful business growth. As a strategic advisor, researcher and marketing information consultant, she blends real world experience in Fortune 500 firms and other major corporations (First Federal Savings of Chicago, Allied Van Lines, Quaker Oats, United States Gypsum, Western Electric unit of AT&T) with her 20+ year study of success and failure patterns in business growth initiatives. Frequently interviewed by the media, Ezop's views have been published in *Business Week*, and she has been quoted in *Investor's Business Daily*, in *Harvard Management Update*, and in various major metropolitan area newspapers. Her quotes and comments have been translated into foreign languages and published internationally.

Ezop's research finds that companies succeed by making a series of what she calls Winning Moves. These growth propelling Winning Moves are based upon powerful patterns that her research unlocked. Her material helps companies to pursue the right growth opportunities, as well as to identify which innovations and changes will propel them forward. Ezop's research indicates that the entire process of selecting target markets and identifying market needs warrants rethinking. And, her study of business growth unveils an entirely new framework for approaching, using, and interpreting marketing research.

A thought provoking speaker, Ezop has addressed discriminating audiences such as University of Chicago Graduate School of Business alumni, and students at Northwestern University's J.L. Kellogg Graduate School of Management. She taught university courses in new products, market research, and consumer behavior. She served several terms on the Board of Directors of the American Marketing Association's Chicago Chapter, and she has broadened her background into local government, serving on the Village of La Grange Park Zoning Board. With an undergraduate degree in mathematics from the University of Illinois, she holds an MBA from the University of Chicago.

FOR MORE INFORMATION OR TO ARRANGE FOR A CONSULTING OR SPEAKING ENGAGEMENT CONTACT:

Phyllis P. Ezop
Ezop and **Associates**
321 North Catherine
LaGrange Park, IL 60526

708-579-1711
ezopandassociates.com

©Ezop and Associates | All rights reserved.