



E. Neville Isdell

Zero Is Coke's New Hero

By BETSY MCKAY
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[Coca-Cola](#) Co. is finally giving long-suffering investors some hope that its soda sales have regained their kick.

After a series of flops -- and a move by consumers toward bottled water, juice drinks and other new beverages -- the company is scoring a surprise hit with Coca-Cola Zero, a no-calorie soda made from the top-secret Coke formula and a blend of artificial sweeteners that helps it taste less astringent than Diet Coke.

Since its June 2005 debut, Coke Zero has sold more than 100 million unit cases -- an industry standard of measurement comprising 24 eight-ounce bottles. While that is a fraction of the sales of Diet Coke or Coca-Cola Classic, the new drink is the Atlanta-based beverage giant's "most successful launch...of any brand in 20 years," according to E. Neville Isdell, [Coca-Cola](#)'s chairman and chief executive officer, who currently considers Coke Zero his preferred soft drink.

Some outsiders see signs of a bigger turnaround that reflects improving product development by Coke scientists, snazzier marketing and patched-up relations with bottlers -- all areas where Coke was hurt by massive layoffs a few years ago. If the current trend holds, the 63-year-old Mr. Isdell could win over skeptics who complain that Coke's glory days are a thing of the past.

"We think the company has gotten momentum," says David Kolpak, managing director at Victory Capital Management Inc., a Cleveland unit of regional bank KeyCorp. Victory Capital has about \$61 billion in assets and owns roughly 2.5 million Coke shares. Coke Zero's performance "proves it is possible to find some growth in the carbonated soft-drink space, which has just been overwhelmingly bearishly portrayed as an area where there is nothing going on," adds Mr. Kolpak, who says he drinks Coke Zero often.

Unfortunately for Coke, the success of Coke Zero hasn't produced a jolt for its stock price yet. Coke shares are up 22% in the past year, putting the company back in front of rival [PepsiCo](#) Inc. in stock-market value.

Analysts say much of the rise is a result of strong growth in emerging markets where consumers aren't bored by sodas, along with progress in recovering from a marketing debacle last year in Japan, which generates about 20% of Coke's profit. But they remain concerned about whether the company can reverse declines in soda sales in its flagship market, North America.

Shares of Coke, which has a market value of \$115 billion, remain nowhere near their peak of \$88 a share in 1998, trading up 39 cents to \$50.27 apiece in 4 p.m. composite

trading yesterday on the New York Stock Exchange. Coke's shares currently trade at 19.6 times projected per-share earnings for 2007, slightly richer than Pepsi's price/earnings ratio of 19.4.

Some investors caution against extrapolating too much from the rollout of one soda brand.

"Coke Zero. What's that?" asks Fredric Russell, CEO of Fredric E. Russell Management Co. in Tulsa, Okla., which has about \$46 million in assets. The company sold its 75,000 Coke shares in mid-March for "a modest profit" after concluding that Coke still isn't doing enough to stay ahead of a slew of competing new brands and to fix other problems.

Many outsiders are eager to hear more about what Coke Zero signals for the company's future when Coke reports first-quarter results today. Analysts expect the company to meet an analysts' consensus for earnings of 53 cents a share, according to Thomson Financial, and perhaps even beat that number, given better-than-expected volume growth in Japan and robust soft-drink sales in emerging markets.

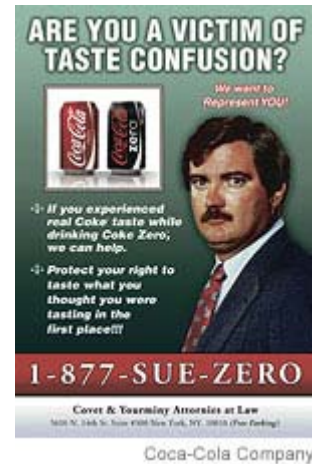
"It's a big part of the strategy of growing carbonated soft drinks around the world," says Bill Pecoriello, a Morgan Stanley analyst who upgraded Coke shares to the equivalent of a "buy" from "hold" in February and contends they are undervalued by about 15%.

Coke Zero's success follows a dud called C2, which had about half the carbohydrates and calories of Coca-Cola Classic and was aimed at weight-conscious consumers who don't like the taste of Diet Coke. By the time C2 disappeared from store shelves in late 2004, Coke's scientists had concocted a new blend of sweeteners that makes ice-cold Coke Zero virtually indistinguishable from "the Real Thing," according to the company.

After some initial marketing missteps in its U.S. launch, Coke Zero has generated buzz with a series of ads that show an actual but unwitting Coke lawyer caught on hidden camera as two actors posing as Coca-Cola Classic marketers seek legal advice on how to sue Coke Zero "back to the stone age" for "taste infringement." "You'll be humiliated and you'll get fired," blurts Elizabeth Finn Johnson, one of the in-house lawyers.



A TV advertisement pranks an actual in-house Coke lawyer.



Coke Goes for Laughs: This print ad is a fake class-action lawyer come-on. Dialing the number gets you an audio message continuing the gag.

Katie Bayne, chief marketing officer for Coke's North American business, says company officials are meeting monthly with bottlers to analyze consumer feedback and swap ideas

on how to sell more Coke Zero. In previous product launches, "we'd just put it out there," she concedes. John Downs, a spokesman for [Coca-Cola Enterprises Inc.](#), Coke's largest bottler, says collaboration has improved significantly and "really makes the system powerful."

Coke Zero has about a 1% market share in the southeastern U.S. territory of [Coca-Cola Bottling Co. Consolidated](#), Coke's second-biggest U.S. bottler.

Cannibalization of older Coke brands also is lower than Coke officials expected. "It's expanding consumption," says Marc Mathieu, senior vice president of global brand marketing. Coke Zero will be sold in 40 countries by the end of 2007, the company says.



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