

# KEEP IT SIMPLE: A RELENTLESS BUSINESS STRATEGY IN A WORLD OF COMPLEXITY THE XYZ CORPORATE STORY IN BRIEF

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**ABSTRACT:** *The objective of this study is to demonstrate how XYZ Corporation has perfected the art of achieving simplicity in its business strategy within a complex business world in order to achieve market dominance in their field of carbonated cola-based beverages. This study achieves that aim by reviewing a selection of company historical records available in the public domain and a critical study by Elmore (2015) which identifies, that contrary to popular belief, XYZ Corporation only makes one core product i.e. XYZ concentrate and even the components of that concentrate come from other sources. The corporation blends the components of the concentrate at a small number of regional concentrate sites and then distributes the concentrate globally; to bottlers who provide the water; the sweeteners, the gas (or fizz) ; the bottling/canning, warehousing; distribution and promotional components for the finished product. The company has a long history and research by outsiders is discouraged, so some citations and associated references are dated.*

**Keywords:** XYZ Corporation, Business Strategy

## Introduction

In business school we teach the components of business e.g. entrepreneurship; product development; operations management, strategy, marketing; advertising and promotion; supply-chain management and human resources management. Our teaching typically pursues one or more strategies or game plans employed by companies to achieve dominance in their field of business. A prominent researcher in the field of business strategy is Michael E Porter of Harvard University well known for his “5 forces strategy model” (Porter M.E. 2008) amongst other significant publications (Porter, 1979,1980,1985,1986,1987,1996).

This current study focuses on the business strategy employed by the world’s largest manufacturer of carbonated beverages and “drills down” into the very core of the five components of that business strategy; which is to keep the business simple in terms of core materials comprising the components of the concentrate used to formulate the beverage. All other components of the product components and services are outsourced to licensed bottlers. (Elmore, 2015).

“In 2012 XYZ was the world’s most valuable brand. In that same year XYZ was sold in more than 200 countries and sold more than 1.8 billion beverage servings per day (one serving for every four people on our planet). It was the twenty-second most profitable company in the US with revenues topping US\$48 billion and net income of US\$ 9 billion making it one of the greatest profits generating businesses in world history.” (Elmore, 2015, p7).

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**Important note:** To protect the university and author from legal pursuit, the name of the corporation has been changed.

## A Brief Corporate History

When XYZ began in Atlanta in 1886, the founder, John Stith Pemberton, formulated a refreshing beverage based on

a French wine concoction called *Vin Mariani* developed by Corsican pharmacist Angelo Mariani, to act as a brain tonic. Pemberton could not get French wine to include in his concoction, so he added fizzy water in place of sparkling French wine. Shortly thereafter, instead of just serving it in his pharmacy he bottled it, distributed it and promoted it. (Elmore, 2015, Anon. 1, 2019)

In 1886 the business changed hands with Asa G Candler taking ownership and with a view to minimizing upfront costs it was decided that XYZ would only formulate and distribute the concentrate, leaving the bottlers to source bottles and later cans, to add water and fizz as part of the bottling process, provide warehousing, distribution and advertising and promotion. The XYZ company went public under Ernest G Woodruff in 1919 registered in the state of Delaware. (Anon. 2, 2020)

### **Five Key Findings of this research and The Core Business Strategy of XYZ Corporation is: Keep It Simple (KIS)**

Contrary to what is taught in many Business School programs Elmore (2015) informs us that key strategies adopted by XYZ Corporation comprise:

1. Do not own your source of raw materials but do have multiple suppliers:

The strategy to Keep it Simple (KIS) [my words not the corporation's] has been relentless ever since. For example, one of the ingredients in the concentrate was cocaine, which was originally sourced by XYZ from plantations in Peru, South America. When the US law was changed forbidding use of natural cocaine in food and beverage products, XYZ approached Monsanto (since early this year now part of Bayer AG) to establish a manufacturing facility for synthetic cocaine. Monsanto licensed a process to do so from a German manufacturer and built a large plant at their

own cost. Even so XYZ did not enter a sole supplier arrangement with Monsanto but also purchased from other suppliers who later using a different more efficient process drove Monsanto out of business to their great loss.

2. Protect your reputation at all costs:

XYZ protected their reputation and sought to stave off court cases by having their suppliers refer to the synthetic cocaine as "Merchandise #5." (Elmore 2015 p 116, Allen, 1994).

Later, when the US Food and Drug Administration (USFDA) banned the use of synthetic cocaine in food and drink products, XYZ replaced cocaine with caffeine in their concentrate. Again, XYZ had others supply this ingredient rather than produce it themselves. This time they were able to secure caffeine from producers of tea. Merck of Darmstadt, Germany were able to produce caffeine from tea leaf sweepings. Later when coffee became the preferred beverage of choice, caffeine was sourced from Sankar (a US decaff coffee manufacturer) where caffeine was removed from the coffee and initially discarded as waste.

Another component, initially a major part of the concentrate, was sugar; but availability was uncertain due to many other food and beverages using this product and due to fluctuating supply caused by unseasonal weather conditions. Originally XYZ purchased sugar from Hershey Chocolate Corporation, who had their own sugar plantations in Cuba. Again, XYZ purchased from multiple suppliers in several South American countries.

3. Lobby the Government and Armed Forces:

During World War II sugar was rationed however, XYZ successfully lobbied the US government to have XYZ classified as essential beverage. In winning that approach, XYZ was able to have its products carried freight-free by ships and

aircraft to all theatres of war. XYZ was the only soft drink company to win this concession, which brought substantial sales to the corporation during the war. Pepsi Cola, their rival, was unsuccessful in seeking this concession. (Elmore, 2015).

4. Keep your core product as mean and lean as possible

Later XYZ ceased adding sugar to the concentrate and instead, had local bottlers purchase sugar locally and add it to the water and fizz, as part of the bottling process. This saved the cost to XYZ Corporation of formulating the concentrate and shifted the burden of sourcing supply and negotiating the price of sugar to the bottler.

5. Protect the key components of your core product by investing in R&D and maintain a close working relationship with legislators

In more recent years the USFDA and food and drug administrations, in some other locations, have banned the use of sugar in some food and beverage products. XYZ has had bottlers negotiate with manufacturers of artificial sweeteners such as aspartame to replace the sugar in their drinks and more recently promoted XYZ as a sugar free option.

The subtle point here, is that once XYZ no longer included sugar in their concentrate, they could no longer be accused of adding to the sugar epidemic and the current high incidence of diabetes type 2 in the population. (Apovian, 2004). Throughout these changes to the formulation of the concentrate and to the bottled beverage, XYZ has maintained strict control of the taste of their beverage. A small team of taste testers roam the world, taste testing the beverage, for example a bottle of XYZ beverage purchased in Mumbai, Johannesburg, Bangkok, or Sydney must have the same taste as XYZ in Atlanta or Shanghai. In this pursuit XYZ Corporation long ago required bottlers to add filtration systems to their

filling processes (at their own cost) to remove the taste of chlorine and other contaminants from the public water supply. This clearly demonstrates that XYZ Corporation has successively reduced the ownership of the ingredients used in the cola drink to a tiny fraction of even the concentrate used to manufacture the beverage. Instead licensed bottlers provide all product and delivery except for the raw concentrate leaving XYZ Corporation the task of expanding and promoting the product through sporting and other recreational activities globally.

### **Three Contemporary Issues Likely to Impact XYZ Corporation**

#### **1. Plastic Waste Pollution**

At the time of this writing (May 2019) there is much public debate and awareness of plastic materials fouling the rivers and oceans of the world, causing death to marine creatures and which through the human food chain is now finding its way into the human body. Documentary movies such as *Trash* (1996) starring Jeremy Irons, vividly display the horrendous extent of this pollution globally. Just last week (second week of May 2019) sub-sea scientists found plastic waste in the Marianas trench (the world's deepest ocean point).

XYZ changed from use of returnable glass bottles to single trip plastic bottles in the 1980's and the discarded single-trip plastic bottles are now a significant contributor to plastic pollution. (Malicdem 2019, Anon. 2 (2019); Anon. 3 (2019).

XYZ in the 1980's commissioned a market researcher and scientist, Arsen Darnay, who at the time was employed by The US Environmental Protection Agency (EPA) to compare the cost effectiveness of returnable glass containers versus one-way cans (originally steel now aluminium) and one-way plastic containers. (Malicderm, 2019, Anon 3, 2019).

Contrary to Darnay's recommendation XYZ decided to require bottlers to go with one-trip plastic bottles over returnable glass containers with a refund on return. To this day XYZ Corporation stress that the pollution problem is caused by consumers carelessly disposing of their containers, rather than by the XYZ Corporation's use of the materials for its bottles. XYZ corporation show that the labels on all their containers requires users to dispose of their containers thoughtfully. The corporation also says that they recycle 25% of their plastic containers, however a recent documentary titled *A Plastic Surgery: Coca Cola's Hidden Secret* identifies that the actual quantity of recycled material is closer to 7%. (Anon, 2. 2019)

Recently, Thai authorities asking citizens to stop using single use plastic bottles and shopping bags and drinking straws. Television advertisements for XYZ in Thailand show their beverage in returnable glass bottles, whereas only single-trip plastic bottles are readily available. (this author's own experience). This is clearly a breach of ethics in advertising as it misrepresents the truth in packaging.

## 2. Access to Public Water Supplies

XYZ bottlers access huge amounts of public water, for both carbonated beverages and bottled drinking water. Public water supplies are sized and equipped based largely on consumer needs. When a bottler locates into a community they basically "piggyback" onto that infrastructure which often over burdens the system and often requires enlarging the facility at tax-payer expense. Elmore (2015; p 116), identifies the case in Kerala India, where an XYZ bottler depleted an aquifer supplying a local agricultural community and was forced to close operations and leave. Two documentary movies concerning significant use of public water either from the tap, rivers, streams springs

or aquifers highlights that XYZ and other international beverage producers, access sometimes huge quantities of water at little or no cost. The documentary movies *Tapped*, (Sontag and Gibson, 2010) and *Blue Gold* (Barlow and Clarke, 2002) are two documentary movies concerning significant use of public water either from the tap, rivers, streams springs or aquifers which highlights that XYZ and other international beverage producers, access sometimes huge quantities of water at little or no cost.

When XYZ bottlers tap into public springs, streams, rivers and aquifers they do so at little or no cost. In India they depleted a community public water supply and was closed by the municipality. (Barlow and Clarke, 2002, Blanding, 2010)

## 3. Brown Colorant a Possible Carcinogen

In 2013 the US Food and Drug Administration (USFDA) advised XYZ corporation (and their closest competitor) that the brown colorant 4-methylimidazole — 4-MEI — used in their cola beverage is a carcinogen. (Tyler, Smith, Wolfson, Nachman, 2015, Aubrey, 2013).

To their credit, XYZ Corporation immediately began to replace the colorant with a non-carcinogenic compound whereas their closest competitor did not. XYZ Corporation also mandated the change in all locations world-wide within 2014. (Aubrey, 2013)

## Conclusion

In the case of XYZ the typical complex business model has been reduced to Keeping the business strategy a simple as possible by the corporation formulating just one component – the XYZ concentrate and even that has been simplified over the life span of the product.

Success of the strategy has been assured by XYZ Corporation forming very close relationships with government agencies and the US armed forces which

have been of substantial benefit to XYZ Corporation during earlier times of scarcity for key ingredients such as sugar during World War II (1939-1945).

At other times, changes in the laws concerning food and beverage ingredients have forced the company to find synthetic alternatives to natural ingredients such as cocaine and sugar and more recently the brown colorant of cola beverages. On several occasions, the company skillfully identified sources of caffeine from the waste streams of other food processors, such as tea and coffee manufacturers.

Maintaining strict quality and taste standards and heavily promoting recreational activities and events globally have been crucial to the enduring commercial success of XYZ Corporation worldwide.

The greatest commercial remaining challenge for XYZ Corporation is convincing consumers to thoughtfully dispose of single trip plastic bottles and for XYZ Corporation to recycle a substantial portion of recycled plastic in their bottles or develop an alternative reusable bottle made of glass or similar material.

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