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BOOKSHELF

Coke's Formula for Success

Coke was an 'outsourcing' pioneer —it shipped only syrup, not finished soda.

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By **MARC LEVINSON**

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The need for another book about the Coca-Cola Co. is not immediately obvious. Few businesses have been the subject of as much ink, leaving any prospective author with the challenge of finding something fresh to say about the world's largest purveyor of happy vibes and fizzy water. In "Citizen Coke," Bartow J. Elmore meets the challenge. He examines an old story in a very new way, offering unaccustomed perspectives on a company whose leading product is a household name around the globe.

CITIZEN COKE

By Bartow J. Elmore
Norton, 416 pages, $27.95

Mr. Elmore's lens is environmental history, a relatively recent branch of the historical enterprise that looks at how human activities shape the natural environment and are shaped by it. Most often, environmental history veers into geography, leading to such masterworks as William Cronon 's "Nature's Metropolis," Donald Worster 's "Dust Bowl" and Marc Reisner 's "Cadillac Desert." Mr. Elmore's idea was to combine environmental history with business history. What he finds is that Coca-Cola's long-run success owes much to governments that—sometimes with great cajoling—granted privileged access to natural resources.

From its earliest days, the company was a pioneer in what we now call "outsourcing." Asa Candler, the Atlanta pharmacist who bought the famous Coke formula in 1891, quickly built the business by taking advantage of Atlanta's location as a transport hub to ship syrup across the South. "Coca-Cola was able to expand rapidly into distant markets at low cost because it did not have to pay for shipping finished beverages; it just sold syrup," Mr. Elmore notes.

From 1899, the company also sold bottling franchises, relieving itself of the need to sink its own capital into the plants that bottled its beverages. The franchised bottlers, not the Coca-Cola Co., had to figure out how to come up with the product's main ingredient—clean water. They lobbied for the creation of municipal water systems, from which the companies were able to draw water at almost no cost. Mr. Elmore cites the income statement of a major bottler in 1951; it shows that heat, light, power and water together cost less than 3% of operating expenses.

Water is not the only raw material used in Coca-Cola. Syrup manufacturing requires vast quantities of caffeine, sugar and coca-leaf extract. While those ingredients are critical, the company has avoided owning the physical assets needed to produce them. Others tie up their money in factories and plantations; Coca-Cola maintains its margins by purchasing ingredients, not making them.

The original Coca-Cola formula called for caffeine extracted from African kola nuts. But by around 1900, the kola-nut harvest could not keep up with the demand for caffeine. Chemists at Germany's Merck developed an alternative source by learning to extract caffeine from tea sweepings, broken or damaged leaves that were not marketable as tea. The Coca-Cola Co., uncomfortable with Merck's dominance of the caffeine market, responded by supporting domestic caffeine manufacturers, including a startup called Monsanto, which spent a fortune to extract "natural" caffeine from cocoa waste and "synthetic" caffeine from coal-derived urea. But when the decaffeinated coffee boom of the 1950s provided ample supplies of cheap caffeine, the Coca-Cola Co. simply walked away from its longstanding relationship with Monsanto. The strategy of contracting out its supply chain stood the company in good stead as the supply of an essential resource changed.

A similar story played out in the sugar market. As early as the 1910s, Coca-Cola was the single largest industrial consumer of sugar in the world. "Without cheap sugar, Coke had no business," Mr. Elmore writes. "The company made its millions selling an inexpensive, nonessential beverage in volume, and it could only turn a profit on bulk sales if it kept raw material costs down, especially for sugar, its most expensive ingredient by far." Resisting the temptation to buy Cuban plantations, the company instead used its purchasing power to weaken the sugar trust by deliberately parceling out business to smaller competitors. This asset-light strategy paid dividends after World War I, when integrated sugar processors struggled amid a sugar glut and Coca-Cola snapped up cheap supplies around the world.

A more recent shift in resources at the company started in the 1960s, when Coca-Cola and other soft-drink companies switched from returnable glass bottles—which the bottlers would then clean, re-fill and re-sell—to one-way containers that would be discarded or, later, recycled. Non-returnables saved money for the company and its bottlers; Mr. Elmore cites a 1978 study by one major Coke bottler finding that distributing and reclaiming bottles burned up 94 gallons of truck fuel per thousand cases, but delivering the same quantity of one-way containers used only 42 gallons. An incidental benefit was that changing to throwaways hurt small bottlers that could not afford new packaging machinery, forcing the consolidation of Coca-Cola's far-flung bottler network.

As Mr. Elmore shows, one-way bottles effectively shifted the cost of dealing with empty containers from bottlers to the public at large. Soft-drink bottlers and brewers responded by creating an anti-litter organization, Keep America Beautiful, which promoted the idea that individuals, rather than bottlers, were responsible for cleaning up bottles and cans that littered the landscape. When state legislatures began mandating deposits on one-way containers—effectively passing the burden on to soft-drink consumers rather than the public—Coca-Cola and its brethren responded by urging the creation of recycling programs, funded by taxpayers. "Expensive recycling programs survived as the preferred and exclusive solution for solid-waste disposal in this country only because private corporations used their lobbying might to shift responsibility for the collection and recycling of corporate waste onto the public sector," Mr. Elmore writes.

Unlike all too many authors today, Mr. Elmore has been well served by his editors, who helped him reshape a heavily sourced doctoral dissertation into a very readable, thought-provoking book. "Citizen Coke" offers a new way of looking at a major corporation. I doubt the Coca-Cola Co. will much like it.

—Mr. Levinson is the author
of "The Great A&P and the Struggle for Small Business in America."