

Business Case Analysis

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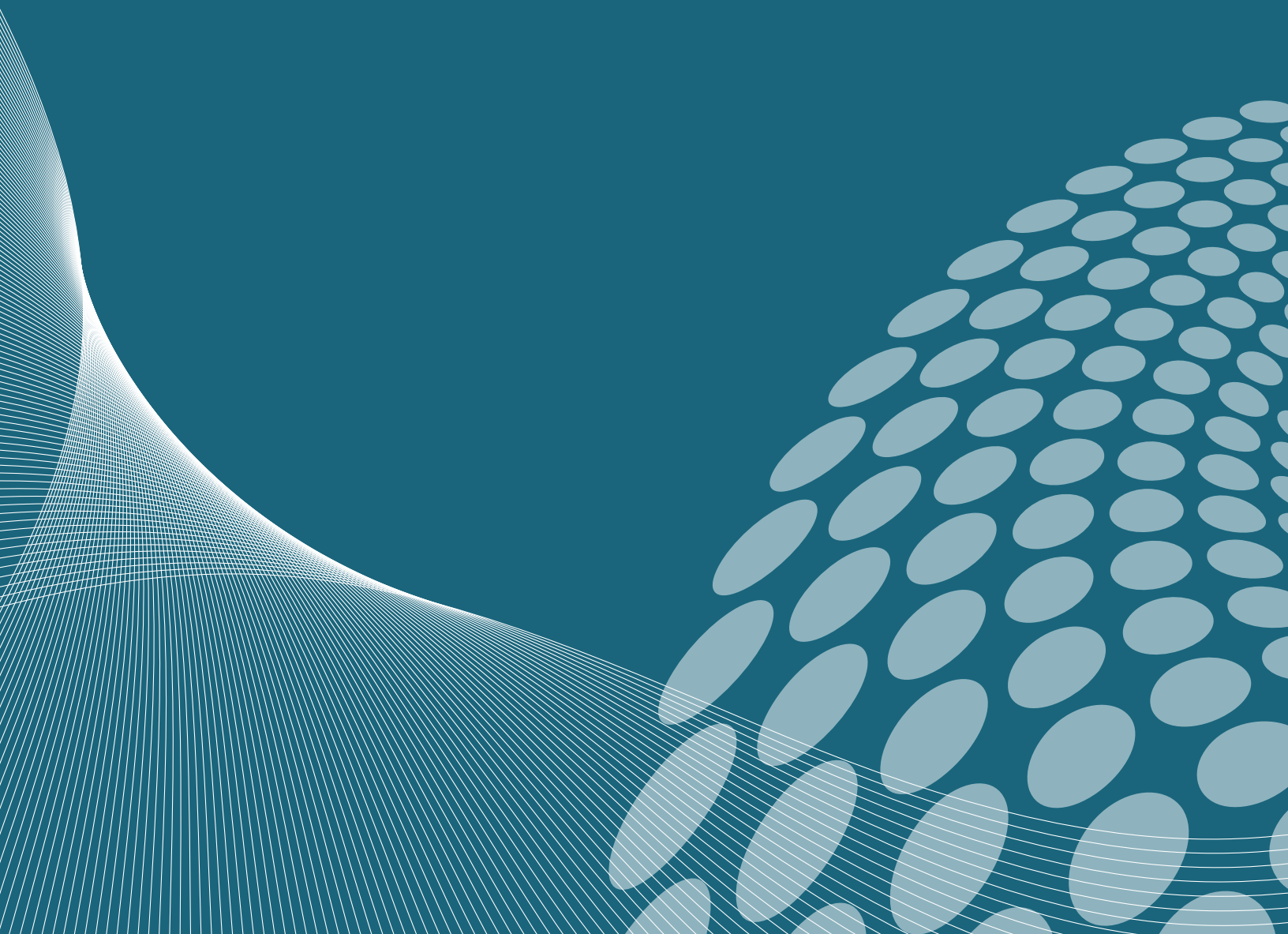


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LULULEMON ATHLETICA INC.¹

Kelly Huang (Arman) wrote this case under the supervision of Professor Dante M. Pirouz solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Near the end of November 2013, Lululemon Athletica Inc. (Lululemon) found itself at the centre of a viral firestorm after a series of negative events seriously ruptured the company's reputation. As the founder, former chief executive officer (CEO) and chairman of the board of directors of Lululemon, Dennis "Chip" Wilson, had led the company to become an international leading brand in innovative and technical athletic wear. However, in 2013, Lululemon was facing its worst quality control problem to date, with a recall of 17 per cent of its Luon pants as a result of issues with sheerness (see <http://nydjlive.com/33800/lululemon-yoga-pants-return-test-bend-over-ladies/>).

On June 10, 2013, Christine Day, the president and CEO of Lululemon since April 2008, announced her resignation after some major criticism over the company's quality problems. Before joining Lululemon, Day had been president of Asia Pacific operations and senior vice-president of Starbucks Corp.

That same day, the company announced plans to quit the Toronto Stock Exchange (TSX) due to a lack of trading on the Canadian exchange, stating that the expenses associated with having a dual listing were not justifiable.² This move made sense to analysts, especially since only one of Lululemon's largest 40 institutional investors — Scotiabank, at No. 34 — was Canadian. Of the others, one was Norwegian and the rest were American. In addition, the annual listing on the TSX cost the company \$95,000 per year. An average of 123,020 Lululemon shares were traded daily on the TSX, while more than 3.5 million were traded daily on NASDAQ.³ Lululemon's publicly traded stocks plunged 17.5 per cent to USD\$67.85 per share on the NASDAQ on June 11, 2013.⁴

On November 5, 2013, during an interview with Bloomberg TV, Chip Wilson made a statement that sparked controversy among consumers around the world. In response to the public criticism of the sheer yoga pants, Wilson explained, "Quite frankly, some women's bodies just actually don't work for it. Even

¹ This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Lululemon Athletica Inc. or any of its employees.

² www.theglobeandmail.com/report-on-business/top-business-stories/privacy-cop-to-dig-deeper-on-canada-us-surveillance/article12456101/, accessed March 17, 2014.

³ www.biv.com/article/20130618/BIV0119/306189934/-1/BIV/plans-to-delist-from-toronto-stock-exchange-and-departure-of-ceo-fuel, accessed March 17, 2014.

⁴ www.theglobeandmail.com/report-on-business/lululemon-faces-third-us-class-action-suit-over-pants-recall/article13034889/, accessed March 17, 2014.

our small sizes would fit an extra-large. It's really about the rubbing through the thighs, how much pressure is there."⁵ This statement triggered massive social outrage that was felt throughout many media platforms.

THE COMPANY

Founded by Dennis "Chip" Wilson in 1998, Lululemon started off as a design and yoga studio. Wilson graduated with a BA in economics from the University of Calgary in 1980, and in 1979, he founded his first retail apparel company, Westbeach Snowboard Ltd., which sold apparel targeted at the surf, skate and snowboard markets. He went on to sell Westbeach in 1997. Running this company gave Wilson the experience and platform to facilitate the launch of Lululemon.

Wilson's vision for Lululemon came to life after he attended his first yoga class in Vancouver, stating that the post-yoga euphoria was comparable to the feeling he had when surfing and snowboarding. Driven by his passion for technical athletic wear, Wilson opened Lululemon's first store in Kitsilano, Vancouver, Canada, in November 2000. Lululemon's vision focused on community interactions, where people could learn and discuss the physical aspects of healthy living as well as the mental aspects of living an empowered life filled with possibilities. However, the success of the store became overwhelming for Wilson, and therefore, training was shifted to a Lululemon educator — in other words, to the retail staff members.⁶

The original vision of Lululemon was "to elevate the world from mediocrity to greatness" through promoting healthy, active lifestyles, as well as by creating components for people to live longer, healthier, fun lives.⁷ To that end, Lululemon addressed a void in the women's athletic market when it was first established, and the company soon grew to encompass over 200 stores and showrooms in 14 countries.

Day had served as Lululemon's CEO, president and director since January 2008. During her time with Lululemon, Day became the first woman to be named "CEO of the year" by Toronto's *Globe and Mail*,⁸ and the company's stock rose by over 400 per cent during her tenure. But after five years with the company, Day resigned, which some speculate was a result of the quality issues with the Luon pants prior to Wilson's comments.

THE LUON PANTS

Lululemon created technical athletic apparel for yoga, running, dancing, and most other athletics pursued primarily by active women. In March 2013, the company pulled thousands of pairs of its popular black Luon pants from its store shelves over complaints about sheerness. Lululemon's stock prices fell 8 per cent after the announcement.⁹

⁵ www.bloomberg.com/video/lululemon-pants-don-t-work-for-some-women-founder-ATKjgs7jQdulr_ou1z8XYg.html, accessed March 17, 2014.

⁶ www.lululemon.com/about/history, accessed March 17, 2014.

⁷ *Ibid.*

⁸ www.theglobeandmail.com/report-on-business/rob-magazine/ceo-of-the-year-christine-day-of-lululemon/article4252293/, accessed March 24, 2014.

⁹ www.huffingtonpost.com/2013/03/19/lululemon-yoga-pants-yanked-from-shelves-because-fabric-too-sheer_n_2904350.html, accessed March 26, 2014.

After the recall announcement, complaints from customers surfaced, claiming that when they had attempted to return their Luon pants, they had been asked by Lululemon staff to bend over to demonstrate the see-through problem. Many were outraged and upset at how the recall was being handled. One woman expressed her anger on the Lululemon Facebook page: “Please explain as to how this is gratifying customer service? If I think my black Luon pants are sheer and there is a mass recall happening, am I not entitled to go in without having to BEND OVER and obtain a refund?” In response to this rant, Day commented that the bending over was the only way to tell whether the pants were defective.¹⁰

In May 2013, a lawsuit was filed against Lululemon in Delaware Chancery Court, accusing the company directors of boosting executive bonuses just before the recall. In addition, shortly after Day’s resignation in June, Lululemon was hit with two class-action lawsuits, claiming that the company had hid the product defects, which artificially inflated the stock price and eventually led to the costly recall. Investors stated that Lululemon had knowingly concealed its discussions to replace Day.¹¹

In the midst of the controversy surrounding the statement made by Wilson on November 5, 2013, furious consumers inundated Lululemon’s Twitter, Facebook and Instagram accounts to express their discontent. Many customers stated that they would boycott the company, and others explained how disappointed they were with the actions of the management team.

CRITICISM IN THE MEDIA

In July 2013, a former employee of Lululemon revealed that the exiling of larger-sized clothing was a central piece of the company’s strategy to market its brand.¹² A representative of the digital engagement team replied to that comment in a Facebook post, which did not deny these claims but did offer a response to a customer named Kristen who had expressed her discontent with the sizing issue:

Hi Kristen, Thanks for checking in with us. Our product and design strategy is built around creating products for our target guest in our size range of 2-12. While we know that doesn’t work for everyone and recognize fitness and health come in all shapes and sizes, we’ve built our business, brand, and relationship with our guests on this formula. So it’s important for us to maintain our focus as we innovate our products and expand our business internationally in the years ahead.

This response caused even more ill will with some consumers, who insinuated that the situation was being improperly addressed by the company.

Yet another event added fuel to the fire in October 2013, when a Lululemon window display in a Dallas, Texas, store gained attention with a sign that read, “We do partners yoga, not partners card” (see Lululemon Mocks Domestic Abuse Charity, www.huffingtonpost.com/2013/10/31/lululemon-mocks-domestic-abuse-charity_n_4184281.html). The “card” referred to a local discount card that offered purchasers a variety of bargains at local businesses and supported a local anti-domestic violence charity called The Family Place. After being criticized by Facebook fans, Lululemon reached out to The Family Place by offering “the gift of yoga.” The Family Place’s executive director, Paige Flink, responded, “Yoga is so much of a part of their lives that they think everyone would love yoga, but yoga for a woman

¹⁰ www.businessinsider.com/customer-complains-about-lululemon-sheer-pants-2013-3#JBjEI, accessed April 3, 2014.

¹¹ www.huffingtonpost.com/2013/07/02/lululemon-sued-sheer-yoga-pants_n_3536835.html, accessed April 3, 2013.

¹² www.huffingtonpost.com/2013/07/31/lululemon-plus-size_n_3675605.html, accessed April 3, 2014.

who was beaten is not the first thing on anybody's mind at The Family Place.”¹³ Lululemon apologized on Facebook shortly afterwards.

Following the statement from Wilson in November, several articles were published to further criticize the company's corporate culture, values and beliefs. Then, in December 2013, another display on the window of a Maryland store stated, “Cups of Chai/Apple Pies Rubbing Thighs?” (see www.huffingtonpost.ca/2013/12/03/lululemon-rubbing-thighs-window_n_4379280.html).¹⁴ Shoppers used Twitter to voice their opinions regarding the window display, as it had been only one month since Wilson's controversial interview.

LULULEMON'S NEXT STEPS

With the year coming to a close, the company seemed to be hit from all sides in a public-relations firestorm that had a negative impact on sales. Lululemon would need to come up with a strategy for moving forward and repairing the company's self-inflicted credibility damage.

¹³ www.huffingtonpost.com/2013/10/31/lululemon-mocks-domestic-abuse-charity_n_4184281.html, accessed April 3, 2014.

¹⁴ www.huffingtonpost.ca/2013/12/03/lululemon-rubbing-thighs-window_n_4379280.html, accessed April 3, 2014.

PEPSI CANADA: THE PEPSI REFRESH PROJECT¹

Ken Mark wrote this case under the supervision of Professor Matthew Thomson solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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INTRODUCTION

In August 2011, a little over a year after the start of Pepsi Canada's Refresh Project, an innovative marketing promotion that awarded grants to individuals and organizations looking to improve their communities, 58 projects had been funded for between \$5,000 and \$100,000 each. The objective of the promotion was to signal to Canadians that Pepsi was taking a different approach to engaging with its consumers. In the summer of 2011, as part of a study of the North American carbonated soft drinks industry, a stock analyst tried to quantify Pepsi Refresh's impact on the company's brand, reputation and sales. In preparation for his review, the stock analyst looked first at publicly available information on Pepsi's history, its key competitor Coke, and the logic behind the launch of Pepsi's Refresh project.

Pepsi Canada's decision to launch the project followed Pepsi U.S.'s announcement, on January 13, 2010, that it would replace its traditional Super Bowl advertisement with the Pepsi Refresh Project. Frank Cooper, a senior vice president at Pepsico Americas Beverages stated:

The Super Bowl broadcast can be an amazing stage for advertisers if it aligns with their brand strategy. However, brands should not blindly anchor themselves to history. . . . In 2010, each of our beverage brands has a strategy and marketing platform that will be less about a singular event, less about a moment, more about a movement.²

The Canadian launch of the Refresh Project was announced on April 16, 2010. Stacy Reichert, President of PepsiCo Beverages Canada, spoke about how the social marketing program would result in positive change for Pepsi and for Canadians:

The Pepsi Refresh Project will feature significant social engagement around people and the power of ideas, and it was developed with the belief that great ideas can come from anyone, anywhere, anytime. This isn't a campaign; it's a new way of doing business. It transcends corporate

¹ This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of PepsiCo Beverages Canada or any of its employees.

² http://money.cnn.com/2009/12/17/news/companies/pepsi_super_bowl/, accessed June 1, 2011.

philanthropy or cause marketing, because it's focused on deep consumer engagement — and the power of individuals' ideas to make a positive difference with Pepsi's support.³

A year later, Pepsi's microsite for the Refresh Project in Canada proclaimed: "Let's look back for a moment. Hundreds of ideas. \$1.2 million in grants. 500 communities engaged. 5 million votes."⁴

The Canadian Carbonated Soft Drinks Industry

In 2010, Canadians consumed about 936 million cases of carbonated soft drinks (CSDs) a year. A unit case was defined as 192 U.S. fluid ounces of finished beverages or about 24 eight-ounce servings. CSDs were available widely: they could be found at restaurants, purchased from retail stores and drink dispensers, and served at events. While the market for CSDs was mature and declining, the category still accounted for 15 per cent of the entire beverage market by volume. There was more consumption of CSDs than of coffee, milk, tea, beer or bottled water.⁵ The retail dollar value of the Canadian CSD market was estimated at \$7.4 billion.⁶

In Canada in 2010, Pepsi sold approximately 139 million cases of Pepsi-Cola and Diet Pepsi while its chief competitor, Coca-Cola, sold about 252 million cases of Coke and Diet Coke.⁷ Both companies relied heavily on traditional advertising, especially television, sponsorships and print, to promote their products. At the retail and wholesale level, both firms and their respective bottlers provided volume and other incentives to ensure their products were visible to shoppers.

PepsiCo

Pepsi-Cola was created in 1893 as "Brad's Drink" by Caleb Davis Bradham, a public school teacher in North Carolina who had just opened a drugstore. The formula included carbonated water, sugar, pepsin, kola nut extract, vanilla and "rare oils." It was renamed Pepsi-Cola in 1898, and the Pepsi-Cola Company was incorporated in 1902. Bradham expanded distribution of his drink by selling franchises in various states, but an unfortunate bet that sugar prices would rise during World War II ended up bankrupting the firm, and its assets were sold for \$30,000.⁸ After a handful of ownership changes, Pepsi-Cola became popular in the 1940s as a result of national radio advertising. Promoting itself as the lower cost alternative, the advertising campaign featured the themes "Twice as Much for a Nickel" and "Nickel Nickel" (1939). Other advertising slogans in the late 1940s included "Why Take Less When Pepsi's Best," "More Bounce to the Ounce," "Light Refreshment" and, when Americans first began to be conscious about their weight, "Refreshing Without Filling."⁹

A significant change for Pepsi-Cola's positioning came in 1958 when it chose to improve its perception as a "kitchen cola," or bargain brand, in an attempt to appeal to young fashionable consumers. A new "swirl" bottle was developed, and its advertising was revamped. It now featured slogans such as "Be Sociable, Have a Pepsi" (1958), "Now It's Pepsi, For Those Who Think Young" (1961) and "Come Alive! You're in the Pepsi Generation" (1963).¹⁰

Pepsi-Cola, now owned by PepsiCo, started its now famous head-to-head taste tests with Coca-Cola in 1975. Called "The Pepsi Challenge," it was a marketing strategy that was considered ground-breaking. To emphasize the results, which according to Pepsi revealed that consumers preferred Pepsi-Cola in blind taste tests, the company's advertising was tweaked. New slogans included "Pepsi's Got Your Taste For Life" (1982), "It's Cheaper than Coke"

³<http://smr.newswire.ca/en/pepsico-beverages-canada/pepsi-to-give-away-over-1-million-dollars-to-fund>, accessed June 1, 2011.

⁴<http://www.refresheverything.ca/>, accessed July 29, 2011.

⁵<http://www4.agr.gc.ca/AAFC-AAC/display-afficher.do?id=1172167862291&lang=eng#s4>, accessed July 28, 2011.

⁶ "Canadian Sales Are Estimated at 10% of U.S. Sales," *Beverage Digest* 59, 5, March 17, 2011, www.beverage-digest.com/pdf/top-10_2011.pdf, accessed June 1, 2011.

⁷ "Canadian Sales Are Estimated at 10% of U.S. Sales."

⁸<http://www.pepsistore.com/history.asp>, accessed June 1, 2011.

⁹<http://www.pepsiusa.com/faqs.php?section=highlights>, accessed June 1, 2011.

¹⁰ *Ibid.*

(1983), “The Choice of a New Generation” (1984), “You Got the Right One, Baby” (1990) and “Be Young, Have Fun, Drink Pepsi” (1993).¹¹

The firm continued to update its advertising themes in the 1990s to broaden Pepsi-Cola’s appeal. Sample campaign slogans included “Joy of Cola” (1999), “Joy of Pepsi” (2001) and “Pepsi, It’s the Cola” (2003). In the first decade of the 2000s, Pepsi-Cola’s advertising reverted back to the familiar themes of refreshment and youth: “Taste the One That’s Forever Young” (2006), “Pepsi Stuff” (2008) and, most recently, “Refresh Everything” (2008 onwards).¹²

In 2010, Pepsi-Cola and its variants accounted for approximately \$21 billion in sales, up \$1 billion from the year before.¹³ CSDs accounted for 24 per cent of PepsiCo’s \$57 billion in revenues (see Exhibit 2 for PepsiCo’s income statement). PepsiCo also sold sports drinks, juices, energy drinks, bottled water, savoury snacks and breakfast foods; it also owned restaurant chains.

PepsiCo competed principally with Coca-Cola (Coke), the world’s most popular CSD. In fact, both Coke and Pepsi had been rivals for more than a century, with Coke focusing on broader lifestyle themes in its advertising.

Coca-Cola

John Pemberton, a pharmacist in Atlanta, created Coke in 1886 and began selling it for five cents a glass. The rights to the business were sold to Asa G. Candler for \$2,300 in 1888. Candler expanded the business rapidly, building syrup plants across the United States. By 1920, there were 1,000 bottlers of Coke worldwide. Coke’s image was enhanced during World War II when Ernest Woodruff, whose father purchased the company from Candler, announced that the firm would support the U.S. war effort by making sure “every man in uniform gets a bottle of Coke for five cents, wherever he is, and whatever it costs the Company.”¹⁴ Millions of American soldiers tasted Coke for the first time, laying the foundation for the firm’s expansion in the postwar years to over 120 countries.

Coke’s advertising in its early years emphasized refreshment, with slogans such as “The Most Refreshing Drink in the World” (1900) and “The Pause That Refreshes” (1939). From the 1950s onwards, the campaigns played on the fact that Coke was the most popular CSD in the world, with slogans such as “Coca-Cola...Makes Good Things Taste Better” (1956), “It’s the Real Thing” (1969), “Red, White & You” (1986) and “Can’t Beat The Real Thing” (1990). More recent campaigns refocused on the drink’s refreshment benefit: “Life Tastes Good” (2001), “Open Happiness” (2009) and, most recently, “Life Begins Here” (2011).¹⁵

Pepsi’s New “Refresh Everything” Campaign

In November 2008, in the midst of the global financial crisis, Pepsi U.S. hired a new agency for the first time in 50 years. Pepsi’s CSD sales were declining at 3 per cent a year, which was 50 per cent faster than Coke’s CSD sales decline.¹⁶ With a U.S. consumer advertising budget for the Pepsi brand alone estimated at \$162 million, TBWA/Chiat/Day, Pepsi’s new agency, overhauled the brand’s advertising strategy to refocus it on the youth market. To gather consumer insights in preparation for the new campaign, a consumer survey focusing on Millennials — people who were born between 1980 and 1990 — was carried out. The objective was to gain a better understanding of how they saw themselves within society.¹⁷ The survey found that Millennials believed it was important to have a positive outlook on life and that they were open to change. Consumer research by the advertising industry suggested that Millennials were “influenced by customer reviews,” “can be both loyal — and

¹¹ <http://www.pepsiusa.com/faqs.php?section=highlights>, accessed June 1, 2011.

¹² <http://www.refresheverything.com/>, accessed June 1, 2011.

¹³ *PepsiCo Annual Reports 2009*, p. 13, and 2010, p. 16, accessed June 1, 2011.

¹⁴ <http://heritage.coca-cola.com/>, accessed June 1, 2011.

¹⁵ http://www.thecoca-colacompany.com/heritage/pdf/cokelore/Heritage_CokeLore_slogans.pdf; http://www.thecoca-colacompany.com/dynamic/press_center/2009/01/open-happiness.html; <http://digitalorgy.posterous.com/coca-colas-growth-through-product-differentia>; accessed June 1, 2011

¹⁶ <http://adage.com/article/news/pepsi-embraces-optimistic-millennials-tbwa-work/133211/>, accessed June 1, 2011.

¹⁷ <http://popcultureactivist.blogspot.com/2008/12/pepsi-capitalizes-on-obama-millennials.html>, accessed June 1, 2011.

extremely vocal — brand ambassadors” and that they “gravitate towards brands with a real personality.”¹⁸ A survey by Edelman PR and Pew Research of 3,100 Millennials in eight countries, including 1,000 U.S. interviewees, found that they had high expectations of brands and were very comfortable with technology:

Brand loyal in a way that brands and services crave, yet with a what-have-you-done-for-me-lately attitude they fear, Millennials are forcing marketers to reconsider everything. What used to be a one-way conversation (which isn't much of a conversation at all) is now a multifaceted, 24-hours-a-day, seven-days-a-week dialogue between brands and their customers, between their customers and those customers' entire circles of friends and families.

Research shows that Millennials are open to new experiences and new brands. They are excited by interacting with brands and interested in building relationships with them. They have the confidence to stand up for what they believe but also the confidence, technology and network to voice their opinions when they feel they've been mistreated. With Millennials, brands know where they stand (sometimes minute-to-minute).¹⁹

Pepsi unveiled a new product logo, its eleventh since the product was created, which featured a white band in the middle of Pepsi's red and blue circle. The logo could be seen, according to Pepsi, to be a series of smiles. Dave Burwick, Pepsi's Chief Marketing Officer, stated:

Pepsi has always stood for youthful exuberance and optimism, and we're pleased to learn through this survey that the positive spirit in youth culture is not only intact but growing. Our new brand identity campaign reflects that optimism like never before — on shelf and in advertising.²⁰

The new campaign was called “Refresh Everything” and was launched in late December 2008 with outdoor advertising in New York City showing the new Pepsi logo alongside people laughing.²¹ An advertising industry observer noted:

(The advertising is) aimed squarely at the Optimistic Millennials identified by the Pepsi Optimism Project. They're the generation that, whenever we do research with them, expresses an enormous longing for the optimism of the sixties. They envy the generation's protest, music, dress, sexual mores and so much more. They believe they missed a critical period in relatively recent history.²²

In stark contrast to the general mood of the U.S. population during the economic downturn, Pepsi's advertising sought to emphasize youthfulness and optimism for the future. The next stage of the Refresh Everything campaign saw the launch of the Pepsi Refresh Project (PRP) in November 2009, which promised to give away US\$20 million to fund ideas that improved communities.

Pepsi's Refresh Project

TWBA/Chiat/Day worked with Edelman and Weber Shandwick, two other advertising agencies, to develop the strategy and oversee the execution of the PRP. The agencies summarized the project as follows:

Positioning itself as the optimistic catalyst for idea creation, the Pepsi Refresh Project invites the public to Do Good. An exercise in digital media democracy; using social and earned media to engage and empower consumers, Pepsi has made the process engaging and asked those with ideas to harness the power of their networks The Project drives conversation and builds credibility

¹⁸ <http://www.adweek.com/news/advertising-branding/iri-summit-what-millennials-want-107197>, accessed June 15, 2011.

¹⁹ <http://www.edelman.com/insights/special/8095/8095whitepaper.pdf>, accessed July 5, 2011.

²⁰ <http://adage.com/article/news/pepsi-embraces-optimistic-millennials-tbwa-work/133211/>, accessed June 1, 2011.

²¹ <http://thenewadvertising.blogspot.com/2008/12/new-pepsi-campaign-from-tbwa-chiat-day.html>, accessed August 3, 2011.

²² <http://thenewadvertising.blogspot.com/2008/12/pepsi-refresh-everything-website-and.html>, accessed August 3, 2011.

in the social enterprise and innovation arenas through a dynamic, real time “campaign” which democratizes the process of turning ideas into reality.²³

There were three objectives to the mass media communications plan that launched PRP:

- Raise awareness and interest in the Pepsi Refresh Project; Position Pepsi as the optimistic catalyst for idea creation with consistency and alignment of program messages across all media channels.
- Generate a steady stream of national, local and online media buzz to support business and brand goals.
- Drive Americans to RefreshEverything.com.²⁴

One of the key pieces of the launch was an op-ed article by Jill Beraud, Pepsi’s Chief Marketing Officer, placed in the trendy *Huffington Post*, an online blog popular with Millennials. In the article, Beraud stated:

According to our survey participants, the best sources for the great ideas we’ll need to keep moving forward are the people they know: 19% cited their friends; 15% pointed to their children; 13% apiece are looking to their mothers and grandparents for inspiration. There’s far less reliance, according to the survey, on traditional authority figures — bosses and politicians were each named as capable of coming up with great ideas by only 2% of respondents.

Elected officials, media pundits and captains of industry might all have their place as thought leaders in a nation like ours, yet the survey says those we trust to generate the truly promising ideas are the people we know best, the people we encounter most often and the people with whom we willingly surround ourselves.

The well-connected don’t have much problem getting their ideas heard, but what about the “regular people”? Our survey says that 74% believe there are more opportunities than ever before to share new ideas, which we chalk up to the explosion of social media. But talk (or tweet) is cheap. How will their ideas gain traction?

Well, we’re determined to make it happen. In 2010, the Pepsi Refresh Project (www.refresheverything.com) will award over \$20 million in grants to those presenting the best ideas to improve the communities we call home and, perhaps, transform the society we call America.

Our role as a corporate citizen is to provide the fuel additive to allow those angels to take flight. We want to see the optimism in which our citizens so believe be put into tangible action. We believe in that optimism, too, along with the possibilities it will yield and the communities they will enhance. We’re expecting an outpouring of outstanding ideas from incredible people. We, in turn, look forward to being inspired by them.²⁵

In a press release associated with the launch of the PRP, Beraud added: “We feel like it’s something so different that it’s going to connect with our consumers on so many different levels and really inspire people in very different ways.”²⁶

The Super Bowl was usually an attractive event for advertisers eager to reach an estimated 100 million viewers.²⁷ In 2009, Pepsi spent \$33 million on its Super Bowl advertisements, each of which had cost approximately \$3 million for a 30-second spot.²⁸ On December 17 that year, the company announced it would stop advertising during the

²³ http://www.prsa.org/SearchResults/Download/6BW-1101A05/0/Pepsi_Refresh_Project, accessed June 15, 2011.

²⁴ http://www.prsa.org/SearchResults/Download/6BW-1101A05/0/Pepsi_Refresh_Project, accessed June 15, 2011.

²⁵ http://www.huffingtonpost.com/jill-beraud/the-pepsi-optimism-projec_b_421042.html, accessed June 15, 2011.

²⁶ http://www.msnbc.msn.com/id/33797502/ns/us_news-giving/, accessed June 1, 2011.

²⁷ <http://www.time.com/time/business/article/0,8599,1958400,00.html>, accessed June 1, 2011.

²⁸ <http://sports.espn.go.com/nfl/news/story?id=4751415&campaign=rss&source=ESPNHeadlines>, accessed June 15, 2011.

2010 Super Bowl, ending a 23-year run. Lee Clow, chief creative officer and global director of media arts at Pepsi's advertising agency, TBWA Worldwide, stated:

The Super Bowl is just too extravagant for something like this. It seems like a contradiction to say you're going to set aside \$20 million in marketing dollars for a worthy cause, then turn around and spend \$12 million on two 60-second spots for the Super Bowl. Couldn't the money be put to better use?²⁹

Lauren Hobart, Chief Marketing Officer for Pepsi-Cola North America Beverages, explained her company's rationale behind the decision:

This is a fundamental change from anything we've done in the past. It's a big shift. We explored different launch plans, and the Super Bowl just wasn't the right venue, because we're really trying to spark a full-year movement from the ground up. The plan is to have much more two-way dialogue with our customers. This is our big effort for 2010 and beyond. We think it's a flagship for our company. But I would never say we wouldn't entertain Super Bowl advertising again.³⁰

The Pepsi Refresh Project in Canada

In Canada, Pepsi nudged its current advertising campaign to align itself with PRP. In June 2009, Pepsi had just launched a new digital marketing campaign entitled "Joy It Forward," a play on the expression "pay it forward." In an interview with the media, Cheryl Radisa, vice-president of consumer marketing, PepsiCo Beverages Canada, outlined how the new campaign aimed to differentiate Pepsi from its rivals, saying that Pepsi was targeting consumers of a similar "mindset" with its new advertisements on television, billboards and bus and train posters.³¹

In 2010, the "Joy It Forward" media campaign evolved into the Canadian version of the PRP. It began with a Pepsi poll of 1,006 Canadians in April 2010. Angus Reid Opinion was retained "to conduct a national survey to ask Canadians about their views on optimism, empowerment and what holds us back from achieving social good."³² Respondents were asked their opinions on:

- Optimism toward Canada
- Empowerment to make change
- Responsibility for making positive change
- Barriers to putting ideas into action
- Canadian desire to get involved in doing good
- Perceptions of Canada as a change leader
- Areas of society considered to be the most important.

The survey results can be found in Exhibit 3. Using the results from the poll, Pepsi Canada designed the Refresh Project along the lines of the similar project being run by their U.S. counterparts. Stacy Reichert added:

These research insights confirm without a doubt that everyday Canadians are passionate about doing good, and that they need support to move their ideas into action. Pepsi is extremely proud to be an enabler for innovation in social good through the Pepsi Refresh Project.³³

In a press release in April 2010, Pepsi Canada outlined the Refresh Project:

²⁹ <http://www.time.com/time/business/article/0,8599,1958400,00.html>, accessed June 1, 2011.

³⁰ *Ibid.*

³¹ <http://www.mediaincanada.com/articles/mic/20090616/pepsi.html>, accessed June 1, 2011.

³² <http://smr.newswire.ca/en/pepsico-beverages-canada/pepsi-to-give-away-over-1-million-dollars-to-fund>, accessed June 1, 2011.

³³ *Ibid.*

- It aimed to give away \$1 million to “help fund Canadians’ ideas for moving the world forward in a positive way.”
- Canadians could visit www.refresheverything.ca to learn about the program and download a Submission Toolkit.
- On June 1, 2010, interested parties could submit an idea for a grant in one of six categories: Health, Arts & Culture, Food & Shelter, The Planet, Neighbourhoods and Education. Ideas had to be “beneficial, achievable, constructive and “shovel-ready,” meaning that they could be started immediately.
- A month later, on July 1, Pepsi Canada would allow Canadians to vote for the best ideas.
- Every two months, 10 grants — with a combined value of \$200,000 — would be awarded. Using this schedule, the program would be completed on May 1, 2011.
- Supporting Pepsi Canada were two organizations: GOOD, a “leading platform for thought and action revolving around pushing the world forward”; and Global Giving, “an online marketplace that connects people who have community and world-changing ideas with people who can support them.”
- An external panel of “innovative thinkers in social good” was assembled to guide the Refresh Project:
 - Joey Adler, CEO, ONEXONE; CEO, Diesel Canada
 - Akela Peoples, Co-Founder, Youth in Motion
 - Tim Draimin, Executive Director, Social Innovation Generation
 - Paul Edney, Co-Author, *Change The World For 10 Bucks*; Executive Director, Inspire Enterprise
 - Raymond Ko, Top 20 Under 20 Recipient; Founder, Music Sensory Awakening Program
 - Amber MacArthur, Web Consultant, Strategist, Journalist.³⁴

The project was launched to widespread media coverage. The contest was open to all Canadians, and the projects did not have to have a CSD or Pepsi angle to be accepted. Here were four typical projects submitted for funding consideration:

1. \$100,000 — Scouts Canada, Mount Pearl, Newfoundland. “Sending children and youth across Canada to Scout Summer Camps. Goals were to build a national camping strategy for Scouts Canada; to lay the groundwork for Outdoor Activity Centres across the nation; to send more kids to Scout Camps in 2010-2011.”³⁵

2. \$25,000 — First United, Vancouver B.C. “Help save storage facility for belongings of people who are homeless. Goals were to provide homeless people a safe place to store their belongings; foster self-respect and dignity in homeless people; provide jobs for people from the community; and build relationships and trust in the community.”³⁶

3. \$10,000 — St. Anne French Immersion School, Windsor, Ontario. “Create a greener schoolyard that provides shade and inspires learning. Goals were to increase the amount of shade and reduce the temperature of the yard; to decreased students’ prolonged exposure to the sun during recess; to encourage active living while greening our corner of the planet; to improve our neighbourhood by planting more trees and native plants; and to provide students with a chance to learn in a healthier environment.”³⁷

4. \$5,000 — Craig Street Cats, Winnipeg, Manitoba. “Spay & neuter feral cats in Winnipeg. Goals were to provide feral cat colony management; kitten rescue; and community outreach and education.”³⁸

By August 2011, Pepsi Canada indicated on its website that it had received 5 million votes, engaged 500 communities and given out \$1.2 million in community grants.³⁹ For the PRP in the United States, over 76 million votes had been cast,⁴⁰ over \$20 million in grant money had been awarded, 24,000 volunteers were engaged, and 200

³⁴ <http://smr.newswire.ca/en/pepsico-beverages-canada/pepsi-to-give-away-over-1-million-dollars-to-fund>, accessed June 1, 2011.

³⁵ <http://www.refresheverything.ca/sendkidstoscoutcamp>, accessed June 1, 2011.

³⁶ <http://www.refresheverything.ca/firstunitedchurch>, accessed June 1, 2011.

³⁷ <http://www.refresheverything.ca/stanneschool>, accessed June 1, 2011.

³⁸ <http://www.refresheverything.ca/craigstreet>, accessed June 1, 2011.

³⁹ <http://www.refresheverything.ca/>, accessed June 1, 2011.

⁴⁰ http://www.prsa.org/SearchResults/Download/6BW-1101A05/0/Pepsi_Refresh_Project, accessed June 1, 2011.

communities had been refreshed.⁴¹ In contrast, Coke's approach towards its corporate social responsibility (CSR) efforts was more muted. Nikos Koumettis, president of Coca-Cola Ltd. Canada, stated:

Concerning CSR, we were silent. As a company culture, we were and still are, I think, a company that prefers to do a lot of stuff rather than talk about it. For 10 years now, we were doing a lot of things relating to the environment. But the awareness of all those things was close to zero. A lot of other companies — the way we feel at least — were doing much less than us, talking much more.⁴²

While Coke did have some CSR programs, it did not go out of its way to publicize them. For example, in the United States, Coke worked with "Keep America Beautiful," the nation's largest volunteer-based community action and education organization, to offer free recycling bins for local parks, schools or offices under the "Coca-Cola/KAB Recycling Bin Grant Program."⁴³ The bins had been designed by fuseproject, a design agency, and had won several awards in 2008 and 2009.⁴⁴ Sprite, one of Coke's other CSD brands, held a national sweepstakes in 2010 that offered communities a chance to win \$25,000 for a playground makeover.⁴⁵

Looking Ahead

The stock analyst took a look at Pepsi's North American PRP campaigns. He wondered what impact PRP would have on consumers' perception of Pepsi given that he had come across some research that suggested consumers were loyal to their CSD brands:

Soft drinks are in a class by themselves. By far, their most loyal customers are 18- to 29-year-olds. But marketers who spend their energy targeting the young are passing up another gold mine — the rest of the adult population. While the battle for younger consumers' soft drink loyalty gets results in this high-consuming segment, it's clear that Americans don't remain loyal for life once "captured" in their youth. Forty-five percent of 18- to 29-year-olds has one favorite carbonated soft drink brand. Loyalty steadily declines and reaches a low of 30 percent by age 60. But even if middle-aged Americans are not the primary consumers of soft drinks, they are the gatekeepers for their households — suggesting the need to broaden messages beyond youth.⁴⁶

Pepsi had certainly committed millions to launch PRP and generate awareness around the various mini-projects its grants had helped realize. On the other hand, the stock analyst noted that in 2010, Pepsi reversed its decision to pull out of the Super Bowl advertisements, returning in 2011 with consumer-created advertisements. Called "Crash the Super Bowl," the contest planned to give away a total of US\$5 million in prize money to consumers whose advertisements were selected.⁴⁷ Market share information for Pepsi, Coke and other CSDs can be found in Exhibit 4.

Looking to add a one-page summary of Pepsi's PRP campaign to his equity report on PepsiCo, the stock analyst arranged the various notes on PRP on his desk, switched on his computer and began to jot down his observations on Pepsi's social engagement program.

⁴¹ <http://www.refresheverything.com/grant-recipient>, accessed June 1, 2011.

⁴² <http://m.theglobeandmail.com/report-on-business/industry-news/marketing/adhocracy/beyond-the-bottle-coke-trumpets-its-green-initiatives/article1869437/?service=mobile>, accessed June 1, 2011.

⁴³ <http://www.bingrant.org/overview.aspx>, accessed June 1, 2011.

⁴⁴ <http://fuseproject.com/pdf/coke.pdf>, accessed June 1, 2011.

⁴⁵ <http://www.nbc33tv.com/news/sprite-refreshes-local-school-through-nationwide-sweepstakes>, accessed June 1, 2011.

⁴⁶ <http://www.allbusiness.com/retail-trade/4253878-1.html#ixzz1WS3ricle>, accessed June 1, 2011.

⁴⁷ <http://www.i4u.com/39889/pepsi-returns-super-bowl-2011-consumer-created-pepsi-max-ads>, accessed June 1, 2011.

Exhibit 1

COCA-COLA AND PEPSICO COMPARATIVE INFORMATION

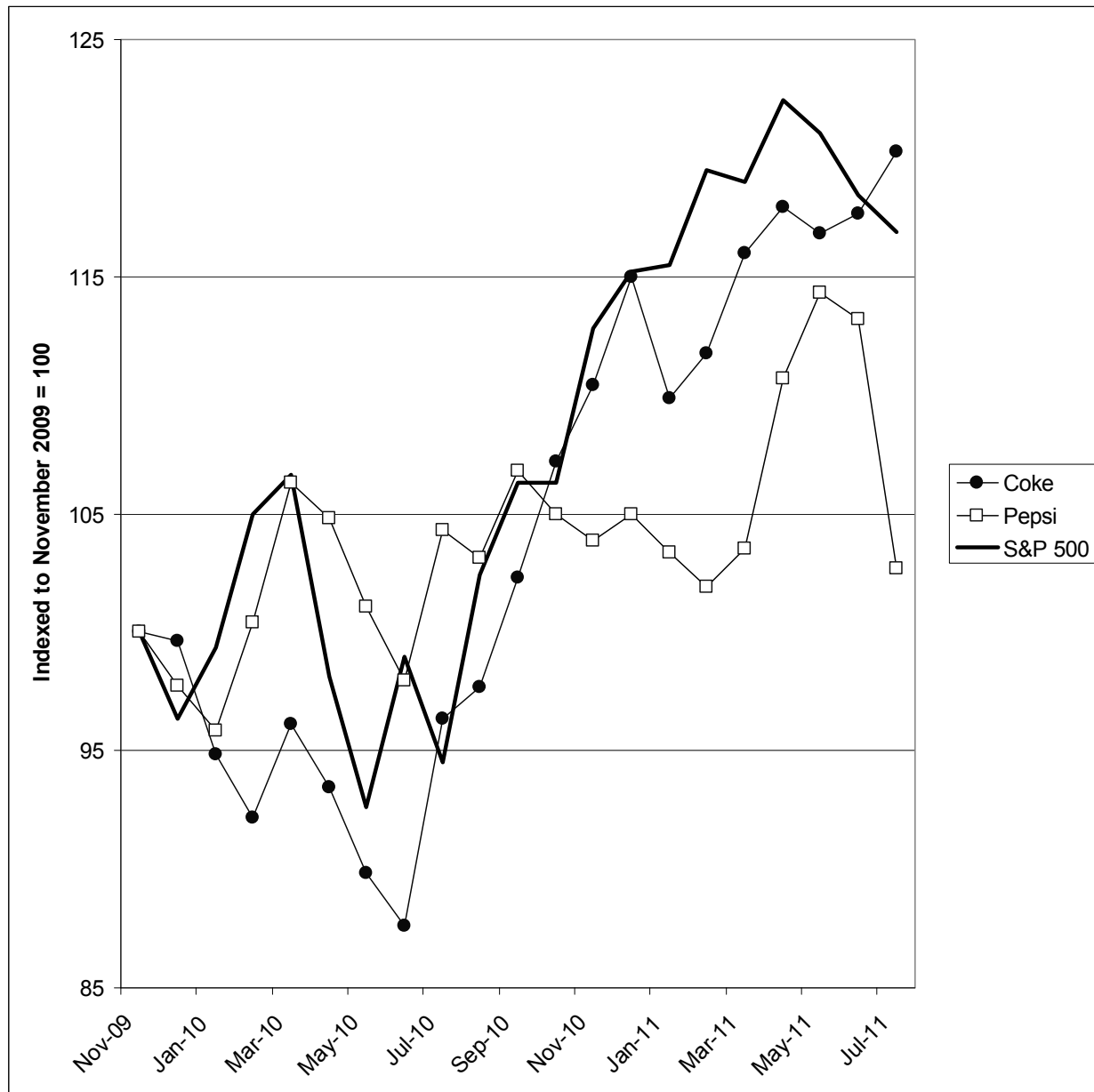
FY 2010	PepsiCo	Coca-Cola
Revenues (\$MM)	\$ 57,281	\$ 34,505
Sales & Advertising expenses (\$MM)		
Sales incentives & discounts*	\$ 12,900	\$ 589
Advertising & marketing expenses*	\$ 2,800	\$ 878
Net income (\$MM)	\$ 6,669	\$ 8,209
Shares outstanding (MM)	1,614	2,327
Stock price on Jan 10, 2011	\$ 63.17	\$ 65.30
Revenue mix		
PepsiCo Americas Beverages	38%	
By Retail \$		
Carbonated Soft Drinks	62%	71%
Sports Drinks	15%	4%
Juice	12%	8%
Energy Drinks	2%	1%
Bottled Water	1%	9%
Other Soft Drinks	8%	7%
	100%	100%
Frito Lay North America	23%	
Latin America Foods	10%	
AMEA Food and Beverages	10%	
Quaker Foods North America	3%	
Other	16%	
	100%	
Global Beverage Share	12%	25%
Carbonated Soft Drinks		
Global	21%	51%
North America	29%	39%

*Figures are for FY 2009 as FY 2010 figures are not available

Sources: Coca-Cola SEC Filings; PepsiCo SEC Filings; Dara Mohsenian, Kevin Grundy, Ruma Mukerji, Alison M. Lin, "Coca-Cola Co." and "PepsiCo Inc.," Morgan Stanley, January 4, 2011, pp. 11, 31, 33.

Exhibit 2

COCA-COLA AND PEPSICO CHANGES IN STOCK PRICE, VERSUS THE S&P 500
(November 2009 to July 2011)



Source: <http://ca.finance.yahoo.com/>; case writers, accessed July 28, 2011.

Exhibit 3

PEPSI CANADA OMNIBUS POLL

Question	Response
1. “Generally speaking, how optimistic are you that Canada is a country with a positive future compared to other countries in the world?”	36% — Very optimistic 49% — Moderately optimistic 12% — Not too optimistic 2% — Not optimistic at all 1% — Not sure
2. “How much power do you feel you have to make positive changes in the world around you?”	8% — A lot of power 32% — Some power 46% — Not very much power 13% — No power at all 1% — Not sure
3. “Which one of the following groups do you think plays the most important role in coming up with ideas to make positive changes in society?”	46% — Regular people 18% — Business leaders 16% — Politicians 13% — Law enforcement 10% — Community/Spiritual leaders 6% — Other
4. “What is the single most important thing that holds you back from taking the ideas that you have and putting them into action?”	31% — Not enough money 16% — Not enough time 15% — Not enough support 27% — Don’t know where to start 11% — Other
5. “Given the opportunity, do you think most Canadians would like to do something to help improve the world around them?”	92% — Yes 8% — No
6. “Do you think Canada is a leader when it comes to creating change or making a positive difference in the world?”	18% — Definitely a leader 44% — Probably a leader 22% — Probably not a leader 11% — Definitely not a leader 1% — Not sure
7. “When you think about helping to make the world a better place, which one of these areas is most important to you?”	27% — Health 22% — The Planet 21% — Education 19% — Food & Shelter 8% — Neighborhoods 3% — Arts & Culture

Source: <http://smr.newswire.ca/en/pepsico-beverages-canada/pepsi-to-give-away-over-1-million-dollars-to-fund>, accessed June 1, 2011.

Exhibit 4

U.S. CARBONATED SOFT DRINK VOLUME SHARE, BY BRAND, 2007-2010

Brand (Company)	2010	Y-o-Y Change (%)	2009	Y-o-Y Change (%)	2008	Y-o-Y Change (%)	2007
Coke (Coke)	17.0	0.0%	17.0	-1.7%	17.3	0.6%	17.2
Diet Coke (Coke)	9.9	0.0%	9.9	-1.0%	10.0	0.0%	10.0
Pepsi-Cola (Pepsi)	9.5	-4.0%	9.9	-3.9%	10.3	-3.7%	10.7
Mountain Dew (Pepsi)	6.8	1.5%	6.7	-1.5%	6.8	3.0%	6.6
Dr Pepper (DPS)	6.3	3.3%	6.1	0.0%	6.1	3.4%	5.9
Sprite (Coke)	5.6	1.8%	5.5	-1.8%	5.6	0.0%	5.6
Diet Pepsi (Pepsi)	5.3	-5.4%	5.6	-1.8%	5.7	-5.0%	6.0
Diet Mt Dew (Pepsi)	2.0	5.3%	1.9	5.6%	1.8	12.5%	1.6
Diet Dr Pepper (DPS)	1.9	5.6%	1.8	12.5%	1.6	0.0%	1.6
Fanta (Coke)	1.8	0.0%	1.8	0.0%	1.8	0.0%	1.8

Source: Beverage Digest 2008-2010 Data; http://www.beverage-digest.com/pdf/top-10_2011.pdf; accessed June 1, 2011.

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