**COCA-COLA COMPANY’S PUBLIC RELATIONS NIGHTMARE**

**TEACHING NOTE**

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**Critical Incident Overview**

The 2014 Winter Olympic Games in Sochi, Russia were set to begin in 100 days. Pressure was mounting on the Coca-Cola Company to take a stand against the Russian government’s anti-gay laws. Many activists, politicians, artists and journalists wanted Coca-Cola to withdraw its support and sponsorship of Olympic Games. What, if anything, should Coca-Cola have done?

**Research Methods**

The critical incident was written based on articles, press conferences and press releases.

**Learning Objectives**

The learning objectives of this critical incident are for students to:

1. Understand how to handle difficult social issues and to weigh the pros and cons of different alternatives.
2. Recognize the public relations implications of negative publicity and how to counteract it.
3. Address the complexity of dealing with cultures, partners and governments across the world.
4. Learn how social issues can affect a well-respected company and brand.

**Questions**

1. **Application**
2. Companies encounter a social issue when a gap exists between what the firm wants to do or is doing and what stakeholders expect (Lawrence & Weber, 2014). Describe the social issue facing Coca-Cola. (L01)
3. Which marketing tools can you use to address this issue? Consider tools in the public relations, advertising and social media areas. Why did you choose these tools? (L02)
4. **Analysis**
5. What short-term options should the Coca-Cola Company have considered? Analyze the potential impact of different options. (L01, L02, L04)
6. What long-term options should the Coca-Cola Company have considered? Analyze the potential impact of different options. (L01, L02, L03, L04)
7. Will this issue have any lasting effect on the Coca-Cola brand? Why or why not? (L02, L04)
8. Who are the other stakeholders? Choose one that Coca-Cola should work with. Explain why they should work together and what should they do together? (L01, L03)
9. How could Coca-Cola have turned this into a positive event? (L01, L02)
10. **Synthesis**
11. Name at least 3 other issues that surrounded the Sochi Olympics. Is the Gay issue or one of the other issues the most important? How would you argue this? (L03)
12. Should Coke continue to be an Olympic sponsor? What are the benefits and risks to Coke? What would you recommend and why? (L01, L04)

**Answers to Questions**

1. **Application**
2. **Companies encounter a social issue when a gap exists between what the firm wants to do or is doing and what stakeholders expect (Lawrence & Weber, 2014).** **Describe the social issue facing Coca Cola.** A social issue (sometimes called a “public issue”) is “any issue that is of mutual concern to an organization and one or more of its stakeholders” (Lawrence & Weber, 2104, p. 25). The issue here concerns Coca-Cola, which wants to continue to sponsor Olympic games because it is a profitable way to advertise its brand and maintain loyal consumers. The LGBT community is a stakeholder that is pressuring the company to speak out against Russia’s antigay laws. It is supported by other stakeholders, including customers, human rights advocates, artists, lawyers, journalists and political leaders. The controversy could have a negative effect on the Coca-Cola reputation for inclusion and diversity.
3. **What marketing tools can Coca-Cola use?** **Consider tools in the public relations, advertising and social media areas. Why did you choose these tools?** It is clear that one tool that should be used here is public relations. However, there may be some other creative options like setting aside some sponsor event tickets for people in the Russian gay community, setting up a tent to give out Coca-Cola samples that has a banner stating Coke’s stand on diversity, etc. Ask students to think through the other marketing tools and come up with creative ideas.
4. **Analysis**
5. **What short-term options should the Coca-Cola Company have considered? Analyze the potential impact of different options.** Executives had several options:
   1. Boycott the Olympics. What’s wrong is wrong and Coca-Cola should stand up for the gay community. Boycotting, however, seldom works and would be very costly for Coke. Students can be reminded that the US boycotted the 1980 Moscow Summer Olympics because of the Soviet invasion of Afghanistan. In retaliation, the Eastern Bloc boycotted the 1984 Summer Olympics in Los Angeles. A boycott also may not have the intended effect if some other company takes Coke’s place as an Olympic sponsor.
   2. Speak out against the Russian laws. This may seem like a viable option. However, the Russian government and cultural institutions believe the laws are intended to protect the most susceptible individuals (i.e., children) in society. The question of whether or not the laws violate human rights can be more appropriately answered by the United Nations, than by a multinational like Coca-Cola. Sports should stay separate from politics.
   3. Include a pro-gay program as part of the Olympic sponsorship and advertising. This could have included a rainbow decorated can or plaques featuring gay Olympic athletes. Kraft once came out with a photo of an Oreo cookie with rainbow colored cream to show support for Gay Pride Month. Since this would have changed Coke’s Olympic marketing campaign, it may have been both costly and unlikely to happen so close to the Olympic start date.
   4. Reach out to the gay community and highlight programs Coca-Cola does today for diversity.
   5. Do nothing. The Olympics are over in a few months – so the issue is temporary. Coca-Cola should be careful not to over react to an issue outside of its control.
6. **What long-term options should the Coca-Cola Company have considered? Analyze the potential impact of different options**. In the long run, Coke should improve its understanding of how social issues evolve over time and use stakeholder management to anticipate social issues in the future. The world is changing and shrinking with the advent of faster communications, transportation and financial flows. International trade is increasing important to global companies like Coca-Cola. However, each country has its own folkways, culture, laws, norms and taboos. When designing a global marketing strategy and advertising programs, one needs to take these differences into account.
7. **Will this issue have any lasting effect on the Coca-Cola brand?** **Why or why not?** Brand building is a long-term effort. However, issues (some outside a company’s control/responsibility) can damage the brand. According to Interbrand, the Coca-Cola brand is the 3rd most valuable brand (“Best global,” 2014). The value of the Coca-Cola brand rose, by 2 percent to $79.2 billion (Elliot, 2013). “We’ve seen the value of technology brands rise as they create new ways for people to stay connected virtually,” Mr. Tripodi executive vice president and chief marketing and commercial leadership officer for Coca-Cola, said by e-mail (Elliot, 2013). “We understand this, as the lasting power of our brand is built on the social moment of sharing a Coca-Cola with friends and family” (Elliot, 2013). Have students think through what could happen to the Coca-Cola brand if this issue dragged on after the Olympics.
8. **Who are the other stakeholders? Choose one that Coca-Cola should work with. Explain why they should work together and what should they do together?** A stakeholder refers to “persons and groups that affect, or are affected by, an organization’s decisions, policies, and operations” (Lawrence & Weber, 2014). There are two types of stakeholders: (a) market stakeholders: persons and groups that engage in economic transactions with the company as it carries out its mission (e.g., customers, suppliers, creditors, retailers, shareholders) and (b) nonmarket stakeholders: persons and groups who do not engage in direct economic exchange with the firm but who are nonetheless affected by and can affect its actions (e.g., communities, governments, competitors, media, nongovernmental organizations, the general public). Significant market stakeholders in this critical incident would be: consumers who might stop purchasing Coca-Cola products and shareholders who might become concerned that the protests might have a negative affect on Coca-Cola’s public image and cause its stock price to decline, and The IOC which is the group that decided on Sochi Russia as the site for the Winter Olympics. Often Olympic sites are chosen partly as a way to get countries like Russia and China to open up more to the outside community. Coca-Cola could work on a solution with the IOC. Nonmarket stakeholders include: the major sponsors of the Olympics (P&G, Samsung, Visa, AT&T, etc.). Coca-Cola could have collaborated with the other sponsors and developed a joint position on the issue.
9. **How could Coca-Cola have turned this into a positive event?** Coke could look at this differently and seek ways to improve and demonstrate how they are inclusive. They could set up a contest to give an award to the Olympic athlete who demonstrates openness towards other nationalities, races and sexual orientation. They could give out free bottles of soda to people who do small things to make a difference at the Olympics.
10. **Synthesis**
11. **Name at least 3 other issues that surrounded the Sochi Olympics. Is the Gay issue or one of the other issues the most important? How would you argue this?** Ask students to research and prioritize the issues that the Russian government had at the time of the Olympics.
    1. Violent attacks: Just as the 100-day countdown to the Winter Olympics in Sochi, Russia began, security concerns surfaced. There was a deadly assault on a passenger bus in Volgograd that served as a fresh reminder of the terrorist threat that persists near the Winter Olympics' host city. It diverted attention away from other pressing questions of readiness for all the facilities, stadiums, and venues for ice hockey, skiing and snowboarding.
    2. Corruption: Opposition leaders reported that Russian businessmen and government officials close to Putin have taken $30 billion from funds intended for the Winter Olympics (Shockman, Dyomkin & de Carbonnel, 2013).
    3. Exploitation: Construction companies are being accused of hiring illegal workers, not paying workers, and failing to maintain safe working conditions (Oliphant, 2013). In 2012, 25 people died in accidents and many more were injured.
    4. Unfair compensation: Human Rights Watch claims that some homeowners were evicted without proper compensation and lost a portion of their incomes to make room for construction projects for the games (http://www.hrw.org/russias-olympian-abuses).
    5. Human rights: Discrimination against members of the LGBT community.
    6. Cost: The cost of building the venues and holding the Olympics is high. There is also the issue of what happens to Sochi after the Olympics?
12. **Should Coke continue to be an Olympic sponsor? What are the benefits and risks to Coke? What would you recommend and why?** Coke has been an Olympic sponsor for many years. Students need to understand how to measure the value of sponsorships and apply this to the present situation. There are many benefits of sponsorships that include improved brand image, association with the passion of fans and increased sales, especially in new opening markets like Russia. However, there are risks. The recommendation should evaluate and balance the value versus the risks. Students should defend their position.

**General Discussion**

This critical incident is decision-focused. The student is expected to select an appropriate strategy to best handle a social issue facing Coca-Cola. It can be used in several courses.

Principles of Management: In a Principles of Management course, this case could be used so students can understand how management roles differ and who does what to handle important issues. Students can role-play to help them understand the roles and responsibilities in an organization. They can also use the Strategic Response Domains described below. How would you look at each of these with respect to this issue?

Principles of Marketing: This is a good case to look at outside influences on branding and public relations. It can be used for the class to develop a press release in response to this issue. It can also be looked at to understand the value of a brand and how issues like this can negatively affect a brand.

Public Relations: Helps students understand how to handle difficult issues with a specific public. Look at the options here and if Coke should respond.

Sports Marketing: The Olympics is a large event in the sports area. This case could be used as a case study in how sponsorships are affected by issues from a secondary stakeholder like the gay rights activists. Look at the plusses and minuses of sponsoring the Olympics. Look at the Sports Sponsorships metrics in the Additional Pedagogical Materials section and see how each of these would be affected.

Human Resources: Look at the human rights issues and how a company should deal with secondary stakeholders. Look at the Coke diversity policy. Does it need to change? Also, you can look at how this issue may affect Coke’s gay employees (both in the US and in Russia) and how you would respond to questions from them.

The incident can be used in several ways:

1. **PUBLIC RELATIONS**: This is an exercise in writing difficult PR releases and holding a press conference to address the issue. This kind of issue, if not handled correctly, can tarnish the reputation of a company. Coca-Cola can lose millions in sales and cheapen its brand if this is not handled well. What should the VP of PR do?
   1. Put a PR plan in place
      1. What is the situation?
      2. Who is the audience?
      3. Make sure he/she chooses a spokesperson for this issue.
      4. What strategy and tactics should be used to address the issue?
   2. Set up central information repository for the media on what Coca-Cola does for diversity today.
   3. Write a press release and hold a press conference.
   4. Provide ongoing information to the press and media.
2. **BRANDING:** This can be used as a discussion around branding and the effect of negative publicity on a brand. Look at some examples of other brands that have been involved in issues like this and see what happened to their brands afterwards.

**Epilogue**

The Coca-Cola Company did not withdraw its sponsorship of the 2014 Winter Olympics in Sochi. It did not release a strong statement condemning Russian’s anti-gay laws. Instead, it showed its commitment to diversity and inclusion by taking out a one minute Super Bowl ad in which children and adults from different cultures sang “America the Beautiful” in their own languages. The ad included a gay couple.

**Additional Pedagogical Materials**

**Strategic Response Domains**: Social conflict and controversy create an environment in which an organization must defend its turf and justify its modus operandi. S.P. Sethi (2003) has classified the strategic response patterns that organizations use into 4 broad categories:

1. Domain defense: a company attempts to maintain the sanctity of its activities domain i.e. its raison d’etre and goal legitimacy and to preserve its autonomy in choosing the means to accomplish organizational goals. It uses traditional strategies that have worked in the past.
2. Domain offense: encroachment: an organization seeks to stake out a new activity domain or extend its offerings to a group of people not currently being served. Alternatively, it may attempt to displace another group and take over its activity domain. To succeed, the organization must enhance its influence in the environment.
3. Domain expansion: an organization agrees to cooperate with opposing parties in entirely new areas of activity. These activities however consist of marginal and peripheral activities that do not change the organizations primary activity. They have symbolic not substantive value, helping different parties to “save face”.
4. Domain integration: opposing parties seek a proactive approach to conflict resolution. An attempt is made to reconcile conflicting objectives.

Different issues are handled in different ways, depending on their magnitude. In 1999, the Belgium unit of Coca-Cola, under instructions from the Belgium Health Authority, recalled 2.5 million bottles of Coke after about 100 children became ill after drinking Coke. Consumers complained of an off-taste. The company said a subsequent analysis by an independent lab turned up no harmful substances. The company did identify and fix some problems that could have contributed to the tainted bottles. The Ministry then lifted the ban. Coke did an aggressive marketing campaign to regain consumer trust. Nevertheless, the incident resulted in substantial financial costs to Coca-Cola and damaged its reputation. This is an example of domain integration.

For Coca-Cola, the gay rights issue differs from the tainted product issue. Coke has an excellent reputation for treating its customers and employees fairly and having high diversity standards. The gay rights issue is a legal/cultural issue outside the control of Coke while the tainted products problem was under the control of Coke. Coke may want to use domain expansion around the gay rights issue. As noted by MacDonald (2013) in his *Business Ethics Blog*, “. . . maybe the IOC and other organizations are truly in a no-win situation. Or, at least, a situation in which all of the options on the table are fraught with ethical peril. In such situations, the meaningful ethical discussions must happen around the edges.”

**Sponsorship Measurements**: Coke has been an Olympics Sponsor for many years. Should an issue like this affect its sponsorship? There are many measures of the success of sponsorships. Some that relate here are (Hughes, 2003):

* ***Brand Metrics (Awareness, Preference, Selection)*** – Numerous studies over the years have shown than sponsorships can move the needle for brand metrics when consumers are aware of the sponsorship.
* ***Digital Media (Online, Social, Mobile)*** – Brands have increasingly stressed the need to engage consumer beyond the venue.
* ***Sales Metrics (Both New & Retained)*** – How did your sponsorship impact the broader market? How does the sponsorship affect sales?
* ***Hospitality*** – How valuable is the sponsorship to the people you’re inviting and how much additional business are you able to generate from them?
* ***Customer Engagement*** –Are your customers positive towards the sponsorship?
* ***Employee Engagement*** – Do you use you sponsorship to motivate employees?  How much more productivity to you get from employees with higher morale?  Does it have an impact on employee retention?

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