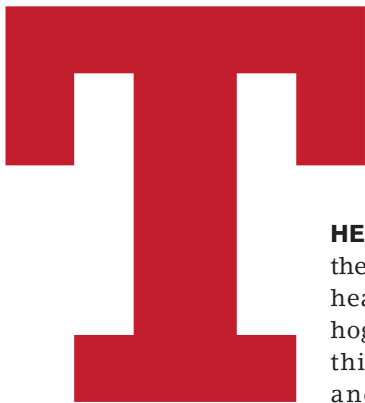


By opening up product development and smoothing supply chain processes, Coke's technology group is helping the company deal with a fickle consumer market

Collaboration

And The New Product Imperative



By Mary Hayes Weier

HE EXECUTIVE WING OF the Coca-Cola Co.'s Atlanta headquarters proves mahogany row still exists in this era of Aeron chairs and office Guitar Hero

contests. A step off the elevator sinks you into plush carpet, and Ming vases scattered across period furniture speak of Coke's appreciation of tradition, and pride in its 122-year-old ownership of one of the world's most valuable brands.

While the stately atmosphere works as decor, it belies the mad scramble going on in the beverage market, where fickle customers constantly switch drinks, fad tastes soar and die, and commodity price spikes clobber producers. Coke sees collaboration—among employees, with bottlers, with consumers—as vital to remaking its business to chase fragmented and fast-moving global markets, and new business technology initiatives play a make-or-break role.

For internal collaboration, Coke has implemented what it calls its Common Innovation Framework, a system that combines project management and business intelligence capabilities to give operating units in 50 countries the ability to search for and reapply concepts used in developing and marketing what is now an astonishing 2,800 beverages produced by Coke.

As for working with its extended family of bottlers, Coke this month began offering software services—representing hundreds of business processes, all based on SAP's ERP software, delivered via Coke's IBM-hosted data centers—to a select test group, with plans to extend those

services to as many bottlers as it can. Coke hopes that fostering a standardized business platform will streamline its supply chain, as well as smooth its sometimes strained relationships with those bottlers, some of them partly owned by Coke, most independent franchises.

And Coke's trying to cozy up to the kids through its www.mycokerewards.com Web site, which has 40 offshoot sites worldwide geared toward specific interests. The result is a social network built around Coke's loyalty program that pulls people in by tapping their tastes in sports, music, and entertainment. Oh, and beverages (see story, p. 30).

Still, Coke has problems. A new CEO, Muhtar Kent, took over earlier this month from Neville Isdell, who was brought out of retirement in 2004 as Coke struggled with declining profits and soda sales. Kent, former chief operating officer, worked closely with Isdell, who will remain as chairman. While Coke showed markedly improved financial results the past few years—in May, it issued a statement declaring "continued confidence" in its financial outlook for the year—profits have been particularly tough in the United States, and the company's been hit by rising prices on raw goods, including fruit juices and sugar. Based largely on international business, Coke's second-quarter financial report last week was mostly positive—revenue up 17%—but described North America as "a difficult operating environment."

Improved communication and collaboration, particularly between Coke and its bottlers, is vital to continuing the rebound, says Jack Russo, an Edward Jones analyst. "Bottlers are so important to what Coke does, and the two weren't on the



CIO Arès primes the innovation pipeline

same page," he says. The rising costs of raw materials only make that close collaboration more important.

TECH WHIZ KID

In 2002, Coke executives saw in Jean-Michel Arès, a 38-year-old French Canadian with degrees in electrical engineering and an MBA, a combination of IT wunderkind and management wonk. They recruited him away from GE Power Systems, where he'd been named CIO at age 36, four years after joining the company from a consulting gig at McKinsey & Co.

As the new Coke CIO, Arès spearheaded an effort to transform Coke's three disconnected IT groups—one in North America and two in Latin America—into IT organizations aligned with the company's six strategic business units around the world. New talent was hired, some staffers cut, and some support work outsourced to India. And he set about delivering tools aimed at letting creative people make new products faster.

About two years ago, Arès implemented a project

management application from CA called Clarity for New Product Development. Coke uses it to develop new beverages, design equipment such as vending machines and fountain dispensers that it leases or sells, and create packaging concepts for new and already established products. The software manages the workflow of what's commonly known as the stage-gate process in product development, chronicling the stages in each development project and the "gate" points at which decisions need to be made. Employees access the Web-based application, which runs on an Oracle database, from their desktops.

Now Coke is moving the application, dubbed the Common Innovation Framework, beyond its stage-gate roots. Miriam McLemore, global IT director and Coke's team lead on the Innovation Framework, describes it as a global view into the product pipeline, which lets, for example, one business unit mine for product ideas by searching beverage or brand concepts that worked well in other countries. The Inno-

A Change Agenda At Coke's Largest Bottler

COCA-COLA ENTERPRISES, Coke's largest bottling company, has faced seesawing fortunes in recent years, from a \$1.1 billion loss in 2006 to a \$711 million gain last year to lowered profit forecasts for this year, forcing changes across the business. In IT, one of the most visible is the company becoming Microsoft's largest software-as-a-service customer to date, contracting for 35,000 employees to get their e-mail and other collaboration capabilities via a subscription service.

By later this year, most of the 35,000 knowledge workers at Coca-Cola Enterprises, known as CCE, will have moved from IBM Lotus Notes to Microsoft Outlook with Exchange Online, the SaaS version of Microsoft's e-mail server. It's the first piece of a larger move to Microsoft collaboration tools that CCE hopes will bring the company the ease of management and the consistent user experience of an integrated suite. The switch to a hosted model, which will take place over the next year, also will include SharePoint Online for ad hoc team collaboration and content

management, Live Meeting for Web conferencing, and Office Communications Server Online for unified communications.

Up till now, CCE's collaboration strategy has used nonintegrated tools. There was an IBM-based extranet managed partially by a service provider, Lotus Notes for e-mail, a legacy intranet, and a separate Web conferencing tool. "We were missing the mark," says John Key, CCE's senior manager for collaboration.

When the new system's in place, executives will be able to broadcast live video to all of the company's knowledge workers. Employees will be able to schedule Live Meeting Web conferences through Outlook, or take a chat session in the Office Communicator instant messaging tool and turn it into a phone call. A new intranet based on SharePoint will include industry news, video and audio content, executive blogs, and employee polls.

CIO Esat Sezer eventually wants to include CCE's mobile workers—30,000 employees stock 25,000 trucks and replenish 600,000 vending machines a day, reaching a million distinct locations—in the company's collaboration plans as well. "How

do you mobilize those 30,000 people in the same direction you're taking everything else?" he asks. "That takes a lot of communication and collaboration." Mobile workers will get video training, home intranet access, and corporate collaboration capabilities through mobile devices.

Still, collaboration is only one reason for CCE choosing Microsoft. The other piece is the services dimension, which CCE saw as a way to accelerate deployment, cut energy costs, and free up IT staff for more strategic projects. "This is not a headcount reduction," Sezer says. "We love having these resources to do further simplification, further virtualization, and to work on strategic IT initiatives." Anthony Nuzzo, CCE's VP of global development and deployment, sees a recruiting advantage, being able to target talent who wouldn't come if part of their days was spent on maintenance work. "Those people are going to be able to be innovative," he says.

IT SELF INTEREST

CCE is 35% owned by the Coca-Cola Co., and Sezer and his counterpart at Coke, Jean-Michel Arès, talk regularly

vation Framework also helps Coke recognize duplicate product ideas, Arès says, so the company can combine efforts. "Once you've aggregated that pipeline of innovation, the object is to assess and prioritize the best allocation of our resources in the organization," he says.

That pipeline view is a must for Coke, which has 450 brands, including Minute Maid, Dasani water, Odwalla juices, and brands honed for international markets that most in the United States haven't heard of, such as the Georgia teas and coffees popular in Japan. Many brands come through acquisition, including two notable ones last year: the \$4.1 billion acquisition of Glacéau, the maker of Vitaminwater and Fruitwater, and the acquisition (sum not disclosed) of tea and juice maker Fuze. Others come through brand extensions, like one of the latest additions to the Coke line, Coke Zero.

Coke Zero's expansion is an example of the Innovation Framework in action. Introduced in the United

States in 2005, it's a low-calorie beverage without the bitter aftertaste typical of diet colas, and Coke's most successful product launch in years. Coke wants it sold in 100 countries (it's up to 93), and it's been using the Innovation Framework to let managers and personnel in finance, legal, marketing, or R&D in various regions view workflows and practices that worked in the United States and elsewhere to launch and market it. "It's not so much about redesigning product, it's deploying it to the market," Arès says.

Japan, for example, is an "innovation machine," Arès says, because its hyper-fickle consumers bore so quickly that there's relentless pressure on Coke to churn out new tastes. The Innovation Framework helps capture the product development insights Japanese teams come up with, and share them with regions struggling to be as nimble and quick.

Coke sees Japan as the future: Mainstays like Coke, Sprite, and Fanta won't go away, but ultrafast product intros, and willingness to quickly kill products that

about business goals. CCE provides Coke with some consolidated demand data, and the companies have federated some of their systems. But Sezer's IT agenda is driven by his company's needs, not the Coca-Cola Co.'s.

Like Coke, CCE has been under pressure as people seek out healthier drinks over soda, and commodity costs squeeze profits. CCE lost \$4.8 billion in the second quarter, due mostly to a one-time asset write-down based on an expected decline in North American operating income, and North American sales fell 1.5% as steep gas prices hurt convenience store business in 20-ounce bottles of soda and Dasani water.

A change agenda across the \$21 billion-a-year company has goals of keeping it No. 1 or 2 in every market it's in, overhauling its distribution, and acquiring talent to drive growth. The communication tools are a starting point. "It became clear that we had to communicate these changes quickly," says Key. "The quick shift is the competitive differentiation, because the market is changing."

In the last 18 months, CCE has in-



creased the number of products it handles by 30%, thanks to a partnership with V8 and Coke buying Glacéau, maker of Vitaminwater. That increases pressure on everyone, from salespeople to warehouse workers.

Business intelligence tools from SAP should help CCE's salespeople in the field target pitches effectively, instead of just taking orders. Customers want different drinks from a tony grocery store and a roadside gas station, and Web-published BI reports can help salespeople focus on the most profitable mix.

In the warehouses, CCE worked with Cisco, Microsoft, SAP, and startup Datria Systems on a voice-guided system called Voice Pick that tells employees where in the building to pick up stock for delivery. Shipping accuracy increased from "well below 90%" to 99.78%,

Sezer says, and the company was able to get rid of "checkers," employees whose sole purpose was to make sure trucks were loaded with the right drinks.

Coca-Cola Enterprises is pushing a green effort, with projects to conserve water, use less plastic in bottles, and roll out a fleet of hydrogen-electric trucks. That's sparking a slate of green IT projects: consolidating data centers, virtualizing storage and servers (and eventually desktops and apps), eliminating unnecessary printers, measuring IT's electricity usage, and setting targets for the future.

To count Sezer's change efforts, from consolidating data centers to buying hosted collaboration software by subscription, as a success, that green will have to show up in CCE's quarterly results, not just energy efficiency.

—J. NICHOLAS HOOVER

lose their buzz, are a vital strategy for Europe, and increasingly even for the United States. As products die in Japan, other regions are grabbing them, tantalizing their markets with a new taste and benefiting from a formula, brand, and packaging already developed for Japan.

BEYOND BABY STEPS

All great ideas—and none of them matters a bit if the drinks don't get into a bottle, onto a truck, then onto a shelf. And therein lies an even more ambitious and difficult collaboration plan by Coke, aimed at bringing the company closer than ever to its bottlers. It started several years ago with baby steps, such as standardizing desktop configurations. Now Coke's launching a sweeping hosted computing effort, years in the making, designed with the hope of getting Coke-owned bottlers and eventually its franchised bottlers

DIG DEEPER

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using common, predefined business processes.

Coke owns controlling interests in only a small percentage of the more than 300 bottlers that distribute its products. The

remaining are franchisees; they purchase beverage concentrate from Coke, bottle or can it, and sell it to retailers. There's a "healthy tension" between Coke and its bottlers, explains Tom Miller, general manager of Program Scale, Coke's bottler-collaboration effort. While they both want to sell lots of product, there are differing objectives: Coke's job is to grab greater beverage market share by dreaming up and marketing products to consumers, while bottlers must make efficient use of huge capital investments in bottling factories, warehouses, and trucks, and also maintain friendly relationships with retailers. The bottlers range from mom-and-pops to mammoths, and use a range of supply chain software that includes homegrown

Coke's Web Site Effort Draws A Crowd

C OKE NEEDED A HIT with its customer-loyalty Web site, at www.mycokerewards.com, and it got one. "We wanted to reclaim consumer leadership, to really connect with our consumers again," explains Jun Ying, head of Web development at Coke.

Just two years after its launch, the site is one of the most popular consumer packaged-goods sites on the Web. In the third quarter of last year, unique visits to My Coke Rewards jumped to 8.6 million from 66,000 in the same quarter a year earlier, a 13,000% increase, according to a ComScore study. The jump put it in second place behind www.kraftfoods.com, beating out www.millsberry.com, General Mills' virtual world and game site for kids, and recipe-oriented www.bettycrocker.com. Visits to My Coke Rewards have roughly tripled since the ComScore study, with the site attracting some 285,000 visitors a day, says Coke.

The site uses prizes as the proverbial dangling carrot. Consumers redeem codes on beverage bottles for booty,

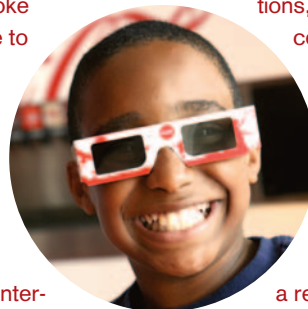
from magazine subscriptions to beauty products to electronics. Coke partners with many brands—including *American Idol* and the NCAA—to bring consumers to the site, and also with hundreds of companies on prizes. Coke uses a Fair Isaac service to track what prize areas registered users visit. That intelligence is built back into the site so that when users sign on, the site triggers promotions of redeemable products targeting their interests. Coke has distributed more than 5 million prizes through the site.

Ying and his team put together a software development kit that ad agencies around the world can use to create Coke customer loyalty sites focused on various demographics. There are 40 Coke Web sites in all, ranging from broad-audience sites similar to the original, such as the United Kingdom's Coke Zone, to those targeted at specific users like one for World Cup Soccer fans in Europe. The

idea is to bring consumers into the Coke loyalty program from many avenues, including promotions at soccer games and auto races. The development kit ensures consistent standards for common functions, such as the registration process, but Coke looks to the agencies that develop the sites to create the graphics, features, and language support. Coke hosts all the sites from its data centers.

In Europe, Coca-Cola has a record label that signs bands, primarily rock and electronica. Coke also created a Coca-Cola-branded Flash-based music player. Through a relationship with Apple, Coke-labeled records are available at iTunes. The goal is to build a positive impression of Coca-Cola by connecting the brand with a consumer's favorite music, Ying says.

Coke has made a positive impression with its My Coke Rewards site, which will serve it well with Web-savvy consumers going forward. —MARY HAYES WEIER



code, ancient mainframe systems, and old versions of SAP products.

In 2002, Coke created an IT council with its top six bottlers to discuss how the company could work more closely with the bottling community. Bottlers helped with upgrading Basis, Coke's legacy app for sales and distribution. After three years of working on smaller collaborative efforts, the IT council got around to talking about the elephant in the room: how to move to common processes and data standards. From that, Program Scale was born.

In the summer of 2006, Miller and his team spent 56 days on a road trip, traveling from continent to continent, meeting with 11 bottlers. The team looked at more than 400 business processes that bottlers used and discovered that about 90% of them were common among the bottlers it visited. It also learned most bottlers were planning software upgrades within the next few years. "So we had two compelling things in front of us: a bunch of bottlers that wanted to greatly improve, and the fact that most of what they were trying to improve was common," Miller says.

The result of all this is the Coke One bottler model, a system based on version 6.0 of SAP's ERP platform. Coke One supports more than 650 business processes defined by Coke and its bottlers, things such as procuring raw materials, invoicing retailers, selecting and pricing products, managing retailer relationships, and paying suppliers. Coke defined the processes down to significant details, such as how to configure the software and what job roles are involved, piling up about 10,000 pages of documentation. The processes were developed using SAP's service-oriented architecture toolset, NetWeaver, which is why Coke describes the processes as "services" rather than applications; the SOA approach lets each process run independently as a service, which should provide more flexibility for developers, system administrators, and bottlers to make changes than if it were a monolithic, sewn-up software application.

Arès paints Coke One as a template that can be localized by region. There are also "extended templates" for CRM, supply chain relationship management, and call-center processes. It will be hosted in two U.S. data centers managed by IBM.

The first bottler going live with Coke One, this month, is CCCIL, a Coke-owned bottler in China. Next up are company-owned bottlers in the Philippines, India, and Germany. "Our strategy is to demonstrate, conclusively, that the concept works within our own operations first," Arès says. Then the company will offer the services to franchisees, who can use the whole template or just components. A franchise bottler in Australia, Coca-Cola Amatil, has signed on for the Coke One-hosted system starting sometime this year.

However, Coke's largest bottler, Coca-Cola Enter-

prises, which is 35% owned by Coke, opted out of Project Scale and Coke One. That lets CCE create strategic partnerships with companies like Microsoft and Cisco to fit its own needs, says a spokesman. "Some of the larger bottlers don't need to have the Coke company's IT benefits," he says (see story, p. 28).

Much of the Coke One system's success hinges on whether the services drive sales for bottlers. For example, Coke worked with bottlers to develop a "picture of success" at retail outlets, providing details on signs, banners, pricing materials, and other display elements. Bottler reps can view the prototype displays on handheld devices—that's the service delivered via Coke One—as they work with retailers to get displays right



in the stores. Arès hopes that, with continued input from bottlers, Coke can build new mobile apps that help even more with promotional efforts at the retail level, where sales are won and lost.

There's still a question how—and how much—franchise bottlers will pay for these services. But Coke isn't worried that the franchisees won't see value in them. Arès notes that both company-owned and franchise bottlers chipped in funds to develop the processes and infrastructure for Coke One. And once they see all the intellectual property encapsulated in the system, Arès says, they'll decide they get a better deal, faster implementation, and higher capability "than to start from scratch."

Coke knows tradition—traditional brands, tastes, relationships, technology—isn't enough to drive its business forward. Collaboration is critical in a dynamic global marketplace, and Coke is looking to leverage its business technology expertise to make that a key ingredient in its new formula for success. Coke's tech team has spawned some innovative efforts, but it will need strong buy-in from both internal managers and bottler partners to ensure that formula satisfies consumers.

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