

# SECRET FORMULA

How Brilliant Marketing and Relentless  
Salesmanship Made Coca-Cola the Best-Known  
Product in the World

FREDERICK ALLEN

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Coca-Cola -- the most successful soft drink in history -- was actually the brainchild of two quite different men:

1. Doc Pemberton, who developed the first batch of a dark, sugary syrup which would later evolve into Coca-Cola.
2. Frank Robinson, who named the drink Coca-Cola and developed one of the company's greatest assets -- its tradename.

In fact, while Doc Pemberton became acknowledged the legendary father of Coca-Cola, it was actually Frank Robinson, the father of the idea of Coca-Cola, who would nurture the company through its lean early years.

Doc Pemberton never actually studied as a doctor, but purchased a temporary physicians license for \$5 from the Southern Botanical Medical College in 1850 when he was 19 years old. He then went on to build a business selling potions and elixirs made from herbs, plants and vegetables. By 1879, he had set up a company manufacturing proprietary medicines in Atlanta, including medicines and wines based on a new wonder drug that had just gained prominence in the United States -- cocaine.

To manufacture and distribute a French wine Pemberton had developed, he set up a new company in January 1886, called Pemberton Chemical. Frank Robinson and David Doe bought an equity stake in the company. Both men came from a strong marketing and entrepreneurial background, and a working arrangement soon ensued in which Pemberton mixed the elixirs, Robinson kept the books and assisted with marketing and Doe ran the overall marketing program.

With the arrival of the first soda fountains in 1886, the Pemberton Chemical principals realized there were greater profits in selling a soft drink at 5 cents a glass than there ever would be in selling elixirs at \$1 per bottle. There were already some fruit flavored soft drinks available, so they set out to develop something distinctive, using the kola nut (which had caffeine as its main active ingredient) as a cold substitute for the traditionally hot caffeine beverages.

By May 1886, Pemberton had developed a syrup made up of sugar, caffeine, caramel, lime juice, citric acid, phosphoric acid, vanilla extract, elixir of orange, fruit and herb oils, lemon, nutmeg, spicebush, coriander, neroli, oil of cassia and the extract from coca leaves. The principals of Pemberton Chemical each submitted a suggestion on what to call the drink, and Robinson's suggestion -- Coca-Cola -- carried the day.

Initial sales were less than spectacular. In the first summer, in fact, only 25 gallons of Coca-Cola were sold, generating \$50 in revenues which prompted David Doe to pull out of the company. Pemberton, meanwhile, sold the rights to Coca-Cola for \$1,200 without the consent of his partners in Pemberton Chemical. After a year long battle, Frank Robinson, in partnership with Asa Candler, was finally able to wrestle back a controlling interest in the company, which was then renamed Asa G. Candler & Company, with Frank Robinson as general superintendent

With the death of Doc Pemberton in August 1886, Robinson and Candler threw themselves into the work of further perfecting the formula for Coca-Cola. In the interests of security, they started referring to the ingredients in their revised formula as "Merchandise" -- that is, sugar was code named Merchandise No.1, caramel Merchandise No. 2 and so on. Candler and Robinson also launched an aggressive sampling program -

people were sent tickets good for a free glass of Coca-Cola at their local soda fountain. The campaign worked exceptionally well, and by the summer of 1890, more than 8,855 gallons of Coca-Cola syrup was sold. The following summer, sales exceeded 19,831 gallons.

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The growing company's only intellectual capital asset was its trademark name. There was no patent on the syrup itself, as that would require disclosing exactly what went into Coca-Cola. Protecting the company's trademark became of paramount importance.

Therefore, in the 1890s, Candler and Robinson worked at eliminating cocaine from Coca-Cola as better medical information came to light about the effects of that drug. Similarly, they also worked to eliminate the need for kola nuts in their formula.

By 1901, Coca-Cola's annual sales had grown to more than 500,000 gallons of syrup. The company's annual revenues were almost at the magic \$1 million milestone. The company now had factories in Dallas, Chicago, Baltimore and Los Angeles, and was selling syrup as fast as it could manufacture it. And despite all that success, Asa Candler decided to sue the U.S. Federal Government, for the return of \$29,502 which Coca-Cola had been forced to pay as a stamp tax on medicines.

Candler was successful in that case, but it did draw attention to Coca-Cola from the U.S. Department of Agriculture. As public opinion against cocaine gained momentum, Dr. Harvey Wiley, the chief chemist at the Department of Agriculture, decided it was his job to shut down Coca-Cola -- ostensibly because of the syrup's cocaine and caffeine content. (Wiley was also a crusader against a wide range of other food additives, including sodium benzoate and saccharin).

Coca-Cola was, by the mid-1890s, generating substantial profits of between \$2 and \$3 million per year for Asa Candler, making him the richest man in Atlanta. Candler was, however, tiring of running the company, and was working at getting his son Howard more fully involved in the management and considering the idea of taking Coca-Cola public when, in 1909, the U.S. government filed a suit in federal court charging the company with criminal fraud.

The essence of the government's case was that Coca-Cola was "misbranded" because it contained neither coca nor cola, and that it had too high a level of added caffeine, thereby creating a public health risk. The matter finally came to trial in March 1911, in Chattanooga, Tennessee. The government's case ultimately was dismissed, but the negative publicity generated by the trial seriously affected the prospects of taking the company public as had been originally planned.

Despite this, the company continued to grow at an impressive rate. In 1913, Coca-Cola's revenues exceeded \$8.8 million. The price dynamics of the business also meant that every level of the business was flourishing. Coca-Cola manufactured its syrup for less than \$1.00 per gallon, which was then sold at \$1.50 a gallon to jobbers -- grocery or drug store wholesalers. They, in turn, sold the syrup to retailers for \$2 a gallon, a 33% margin. Retailers then sold about 100 drinks at 5 cents each from a gallon of syrup, netting them \$5 for their \$2 syrup investment.

Dozens of imitators were also entering the market, attracted by Coca-Cola's success. A flood of sound-alikes tried to ride Coke's

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