

Sweet Sorrow

Coke won the cola wars because great taste takes more than a single sip.

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If Pepsi wins taste-tests, why does Coke still dominate the market?

This is part of a special series about great rivalries: between tech titans, sports franchises, and even dinosaur hunters. Read about the series here.

The inspired Pepsi Challenge marketing campaign of the 1980s was my childhood introduction to one of the fundamentals of scientific inquiry: the double-blind experiment. In a world beset with soft drink advertising, how could you *really* know which soda you liked best? Clearly what made sense was to put prejudice and branding aside, don a blindfold, and focus on pure flavor.

It was one of the greatest marketing coups of all time. In the late 1970s and early 1980s, Pepsi steadily gained on Coke in terms of market share. Characters in the ads always picked Pepsi, of course, but so did most people who tried it in real life—the sweeter taste was more appealing. By 1983, Pepsi was outselling Coke in supermarkets, leaving Coke dependent on its larger infrastructure of soda machines and fast food tie-ins to preserve its lead. That was a success in its own right. But even better, Pepsi forced Coke into an infamous business blunder. Faced with eroding market share, Coke began a series of its own internal taste tests aimed at developing a superior product. Thus was born the dread New Coke, a sweeter cola reformulated to best both Pepsi and the classic formulation of Coke in blind taste tests.

The backlash was fast and furious, with over 400,000 letters of complaint pouring in to the company. Despite declining market share, Coke was still by far the market leader over Pepsi—and the company's

millions of loyal customers weren't looking for a new flavor. Pepsi recorded the fastest year-on-year sales growth in the company's history during New Coke's first month, while a consortium of Coca-Cola bottlers decided to sue the company for changing the product.

But then Coca-Cola's senior leadership did something tough: They admitted that they were wrong. And they executed a strategic pivot that's kept them on top of the rivalry ever since. They reintroduced the original formula under the name "Coca-Cola Classic" and sold it in parallel with New Coke for a while. Over time, the "new" Coke was phased out, and Coca-Cola Classic became just, well, Coke once again—a product so culturally iconic that across a significant swath of the United States it serves as a generic term for what decent people call "soda" and Midwesterners call "pop."

For the past 25 years, Coke advertising has focused on the brand first and foremost. The soda is a shared experience that's supposed to remind you of friendship, family, adorable bears, and other fuzzy associations. And it's worked great. According to industry statistics compiled by *Beverage Digest*, Coke owns 17 percent of the American market for carbonated soft drinks. The next most popular choice is Diet Coke with 9.4 percent. Pepsi languishes in third place at 8.9 percent. Though it's the flagship brand of a diverse beverage and snack company with over \$65 billion in revenue, Pepsi is a definite loser in the popularity sweepstakes.

Pepsi is a quintessential example of a "challenger brand" that's seeking an edge against a dominant, iconic firm. Marketing has often emphasized the idea of Pepsi as newer or more youthful—"the choice of a new generation"—as a way of turning its second-place status into an advantage. But Pepsi works as such a great example of a challenge because despite *decades* of efforts, none of its different slogans or logos or celebrity endorsements has ever put it in first place.

It's a frustrating place for the company to be, because the Pepsi Challenge wasn't just an ad gimmick. It really is true that blind taste tests suggest that people like it better than Coke. Yet people keep buying more Coke. One theory of this "Pepsi Paradox," described by

Lone Frank in *Scientific American*, is that we should take the Pepsi Challenge at face value. Coke's victory is a triumph of branding over flavor, and a clear sign that consumer companies should invest lots of money in advertising. Researchers intrigued by the paradox have suggested that Coke's ads actually rewire the human brain.

When Read Montague of Baylor College Medicine performed a version of the Pepsi Challenge with subjects hooked up to an fMRI machine, he found something interesting. In blind taste tests, most people preferred Pepsi, and Pepsi was associated with a higher level of activity in an area of the brain known as the ventral putamen, which helps us evaluate different flavors. By contrast, in a nonblind test, Coke was more popular and was also associated with increased activity in the medial prefrontal cortex. Montague's interpretation: This prefrontal activity represented the higher-thinking functions of the brain associating the soda with ad campaigns and, in effect, overriding the taste buds.

But perhaps this is wrong. Felix Salmon notes that in blind taste tests of wine, people almost invariably prefer sweeter varieties. This hardly means sweeter wines are always better—and Pepsi is sweeter than Coke. On this view it's actually *Pepsi* that scored the marketing triumph, by convincing people that a blind taste test represents the true mark of soda flavor. Likewise, the idea that Coke triumphs because of ads rather than flavor has trouble explaining the failure of New Coke. New Coke had the same ads behind it as old Coke, but was specifically engineered to beat Pepsi in taste tests.

But taste tests consist of relatively modest sips, and Americans don't drink tiny sips of soda. We drink whole cans of soda. We drink 20-ounce bottles. We drink Big Gulps at 7-Eleven. We drink sodas so large that Michael Bloomberg wants to make them illegal. Serious soda drinkers consume multiple servings per day, every day of the week. And while we want something sweet, we don't necessarily want that kind of long-term relationship with something *too* sweet.

That's why New Coke could succeed in a lab but fail in the marketplace. The Pepsi Challenge is a great marketing gimmick but not a viable path to displacing the leading brand. Some rivalries come down to the

fundamentals. Coke just has a flavor that most people like better, and decades of brand-on-brand combat can't change that.

<https://slate.com/business/2013/08/pepsi-paradox-why-people-prefer-coke-even-though-pepsi-wins-in-taste-tests.html>