

Regina Collins

Dr. Norbert Elliot

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Corporate Communication Case Study

PepsiCo's Communication Strategy During Product Tampering Scare

Case Objective

In June of 1993, numerous reports of product tampering were reported involving PepsiCo's popular Diet Pepsi drink. This case will examine PepsiCo's response to this crisis through the use of strategic crisis communication (Argenti 211-52).

Executive Summary

On June 10, 1993, a syringe was allegedly found in a can of Diet Pepsi. By the following week, more than 50 reports of Diet Pepsi tampering had been reported across 23 states (Mohr). Despite consumer fears, PepsiCo refused to recall their Diet Pepsi product from store shelves. Both PepsiCo and the Food and Drug Administration (FDA) were confident that these reports were hoaxes.

PepsiCo instead decided to "fight the media crisis with media" (Magiera, "What Went Right"). PepsiCo assembled their crisis team and chose Craig Weatherup, Pepsi-Cola North America President and CEO, to become their spokesman because of his familiarity with the bottling system. Mr. Weatherup was made available "for interviews and constantly furnishing news media with visuals and anything else that would show the bottling process was absolutely safe" (Magiera, "What Went Right"). Through effective communications (including the visible

support of the FDA), as well as a little bit of luck, PepsiCo was able to declare the incident over less than two weeks after it began.

Background

The Origin of Pepsi-cola

In 1891, a young man named Caleb Bradham dropped out of medical school and opened a drug store in his hometown of New Bern, North Carolina. According to the Museum of Beverage Containers and Advertising, Mr. Bradham developed a recipe for a new fountain drink and, in 1893, sold it as “Brad’s Drink”, claiming among other things that it was a “cure for dyspepsia.” In 1898, Mr. Bradham purchased the name “Pep Cola” from a company that had gone out of business, subsequently changing the name of his creation to Pepsi-cola and seeking a patent on the name in 1902. By 1907, there were 40 Pepsi-cola bottling plants and “100,000 gallons of syrup were sold that year.”

Pepsi and the Cola Wars

Because of some poor business decisions, Mr. Bradham became insolvent after World War I and the Pepsi-Cola company declared bankruptcy. The company was purchased by a Wall Street broker named Megargel who tried to make a success of it but was hit hard by the Great Depression. Once again, Pepsi-Cola found itself in bankruptcy. Finally, in 1931, a disgruntled candy executive purchased Pepsi-Cola after perceiving that he was snubbed by the Coca-Cola Company, thus beginning the cola wars. By 1936, Pepsi-Cola had a two million dollar operating profit, and by 1941 the Pepsi-Cola Company went public and was listed on the New York Stock Exchange. In 1993, Pepsi and Diet Pepsi held 19.6% of cola sales at major supermarkets. Within PepsiCo, Pepsi and Diet Pepsi accounted for 60% of their soft drink unit’s domestic operating earnings (Zinn, “Too Many Products”).

The Syringe Incident

On June 10, 1993, a complaint was filed by a consumer in Tacoma, Washington that he had found a hypodermic needle inside a Diet Pepsi can (Tolchin). A second complaint was filed in the same area the next day. Although PepsiCo executives were concerned that these reports could be false, they nevertheless investigated the complaint with their regional bottler, Alpac Corp. Meanwhile, the FDA announced that the syringes were not contaminated and issued a statement that consumers in the Pacific Northwest, Alaska and Hawaii should pour canned drinks into a glass prior to drinking, just to be safe. At the same time, however, the FDA also reminded individuals that making false complaints carried a “maximum penalty of a \$250,000 fine and five years in prison” (Magiera, “Tampering Hoaxes”).

When a third tampering report was filed on June 13, this one in New Orleans, PepsiCo realized that this was becoming a national media story. That was the bad news. The good news was that PepsiCo was positive that the reports were hoaxes. There was no way that so many cans of soda could have been contaminated in the same way at bottlers all over the country, over a period of months, only to be discovered at the same time. PepsiCo made the risky decision to not recall any of their products. Instead, they set out to prove to their constituencies that these allegations were false.

Problem Statement

PepsiCo was entering their peak sales season, Memorial Day to Labor Day, when the tampering incidents were reported. The news media was creating panic among PepsiCo’s constituencies by frequently displaying a visual of a Diet Pepsi can with a hypodermic needle next to it, bringing to mind “AIDS or hepatitis... and that’s pretty scary,” according to Ann

Ward, Pepsi's Manager of Public Relations (Magiera, "What Went Right"). PepsiCo was confident that their product was safe. The goal of the crisis management team was to quickly implement a plan to communicate this information to their customers, distributors and investors in order to calm fears and save their corporate image and product line.

Key Issues

All companies are at risk of encountering a crisis. It is their response to the crisis that will determine their future. As Richard Bierck states, "A firm's failure to respond effectively in the face of public scrutiny can be more destructive than the emergency itself." The first step in effectively responding to a crisis is to have a crisis management plan already in place.

Having a Plan

Product tampering is particularly damaging for food and beverage manufacturers. Consumer confidence in the product and the brand name can be destroyed quickly and may take years to overcome. Because of this, PepsiCo had created a crisis plan with procedures for dealing with product tampering. PepsiCo's crisis team included employees from all the major divisions: scientific and regulatory affairs, manufacturing, public affairs, sales, marketing, and legal counsel. The goal of this team was to "ensure consumer safety and security while protecting [PepsiCo's] 95-year old trademark and maintaining a positive image amidst a blitz of often negative media attention," said Craig Weatherup (Mohr).

Getting Control of the Situation

According to Argenti, in a crisis situation, the first step a company must take is to define the real problem and then set communication objectives to handle it (232). When the first two complaints of syringes found in Diet Pepsi cans were reported in Washington state, PepsiCo considered it a regional issue. PepsiCo's local management worked with their regional bottler to

check the product line while the FDA tested the syringes for contamination. When a third syringe was reported, this one in New Orleans, PepsiCo realized that this was becoming a national issue and assembled their crisis team. PepsiCo determined that it was almost impossible that these tampering reports could be genuine. The real problem was how to stop the false reports and how to communicate to the public that there was no danger.

Gathering Information

A company's reaction to a crisis must be based on a thorough understanding of the problem (Argenti 232). Rebecca Madeira, Vice President of Public Affairs, became the crisis coordinator for the Diet Pepsi emergency. Her immediate concern was to determine whether or not the public was at risk. Once the FDA had tested the first two syringes and found that there was no risk of contamination, PepsiCo and the FDA together decided that there was no need for a product recall. In the meantime, PepsiCo researched employee records, shipping and customer inventories, and consumer complaints to see if there were any indications that their production lines could have been subverted in any way. Based on their research and on the statistical improbability of such tampering occurring in numerous bottling plants over the span of several months, management and employees at PepsiCo were confident that the syringes reportedly found in their soda cans were not the result of product tampering but of fraudulent complaints.

Setting Up Their Crisis Management Center

While the corporation is gathering information, they must also be creating a crisis center to "serve as a platform for all communications during the crisis" (Argenti 233). PepsiCo wasted little time in assembling their crisis management team and establishing a crisis center.

The first two syringes were reportedly found in Washington state on June 10 and 11. The third syringe incident was reported on Sunday, June 13, in Louisiana. By Monday, June 14,

PepsiCo's crisis management team was gathered in a conference room at the company's Somers, New York headquarters. This conference room became the crisis team's headquarters for the duration of the crisis and also served as Mr. Weatherup's office during that period. In addition to Mr. Weatherup and Ms. Madeira, other members of the crisis team included Public Relations Manager Ann Ward, Product Safety Expert Dr. Jim Stanley (who had originally worked for the FDA), and Manager of Public Affairs Andrew Giangola. Mr. Weatherup was chosen as the spokesperson during the crisis because of his knowledge of the "intricacies of the canning process" (Zinn and Regan, "Right Moves"). He also served as the liaison to PepsiCo Inc. Chairman D. Wayne Calloway, communicating with him several times each day throughout the crisis.

Understanding Media's Mission

Larry L. Smith, President of the Institute for Crisis Management (ICM) tells his clients "to think of media not as the audience but as the pipeline to reach the audience" (Bierck). The media was creating a panic among consumers with its sensationalized display of a Diet Pepsi can with a syringe. PepsiCo's crisis team understood that they had to use this same media to deliver their own message to consumers: that they had determined with "99.999 percent certainty" that the syringes could not have been inserted in a production line that fills thousands of cans per minute (Janofsky). PepsiCo's media messages were so effective that by Wednesday night, one day after Mr. Weatherup's first television appearances, crisis team members noticed that news reports were beginning to use words such as "copycat" and "hoax" when reporting new tampering cases (Magiera, "What Went Right").

Communicating Quickly and Frequently

Prompt communication in a crisis is critical to calming consumer panic. A corporation's spokesperson must communicate as soon as possible, and must issue "updates at regular intervals" to all of their constituencies (Argenti 233).

Once the decision had been made to use the television media to communicate to their constituencies about the crisis, PepsiCo immediately went on the offensive. On Tuesday, June 15, PepsiCo asked one of their vendors, Robert Chang Productions, to produce a video news release (VNR) showing the soda canning process. The video showed how each can was inverted, cleaned with pressurized water or air, and then flipped again and immediately filled with soda, all in less than one second. This first VNR was viewed that same day by 187 million viewers on 403 stations (Magiera, "What Went Right").

In all, PepsiCo produced four VNRs during the crisis, including the first one showing the soda canning process. But the most powerful VNR was created using surveillance footage from a Colorado retailer which showed a woman inserting a syringe into a can of Diet Pepsi as the store clerk looked away (Miller and Glick). All of these VNRs were very effective in convincing consumers that the tampering reports were hoaxes. FDA arrests of individuals accused of filing false reports reinforced PepsiCo's affirmations.

PepsiCo also made Mr. Weatherup available for interviews with the news media. On Tuesday, he appeared on several evening news broadcasts including the *MacNeil/Lehrer Newshour* and *Nightline* with Ted Koppel, "quietly explaining how a syringe couldn't possibly find its way into a can" (Zinn and Regan, "Right Moves"). Mr. Weatherup was joined on *Nightline* by FDA Commissioner David Kessler, presenting a powerful message to consumers as both men assured the public that the tampering reports were unsubstantiated and that PepsiCo's

products were safe. The following morning, Mr. Weatherup appeared on several early morning network shows as well as CNN's *Larry King Live* that evening.

In addition to their efforts in the mass media, PepsiCo also kept other lines of communication open during the crisis. PepsiCo sent faxes to all of its regional bottlers twice daily to keep them apprised of any developments, and PepsiCo employees continued to respond to calls made to the company's toll-free line from consumers, bottlers, and distributors (Zinn, "Right Moves").

Providing Closure

Within 11 days, the Diet Pepsi crisis was over. The FDA had made several arrests for filing false tampering reports and there had been no substantiated cases of contaminated soft drinks. PepsiCo wanted to thank their constituencies for supporting them throughout the crisis and to officially declare the crisis over. From June 19 to June 21, PepsiCo ran ads in national newspapers declaring "Pepsi is pleased to announce ... nothing" (Magiera, "What Went Right"). On the weekend of the Fourth of July, PepsiCo printed coupons in newspaper ads that said, "Thanks America." In all, sales of Pepsi and Diet Pepsi were reported to have dropped about 2% during the crisis but rebounded after the Fourth of July (Magiera, "What Went Right").

Potential Resolution

PepsiCo's response to the Diet Pepsi tampering hoaxes illustrates how crucial it is for a corporation to have a crisis management plan in place. PepsiCo responded quickly and effectively to sensationalized media reporting that could otherwise have proved catastrophic. The crisis management team determined that the most effective method for communicating with PepsiCo's constituencies was through the very media that was reporting the hoaxes. Once that

decision was made, teams were mobilized to provide VNRs and news updates, and a corporate spokesperson was selected to present a calm and reassuring face to PepsiCo's constituencies.

PepsiCo worked closely with the FDA to ensure that their products were safe. They reassured their bottlers and distributors by including them in their communication chain.

PepsiCo took a situation that could have proved devastating to their corporate image and product line and instead emerged from the crisis "stronger and more united than ever," said Craig Weatherup (Mohr).

Questions for Discussion

1. How would a recall of their products have affected consumers' perceptions about PepsiCo in the midst of the crisis? Would it have made PepsiCo seem more concerned about their customers, or would it have lent credence to the false reports?
2. Was PepsiCo correct in their treatment of the first two syringe reports as a regional issue? Should they have mobilized their crisis team at that point instead of waiting for the tampering claims to spread?

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