

Chief Culture Officer

Building a Living, Breathing Corporation

Grant McCracken

The American corporation is bad at culture.

It's good at management, finance, technology, and HR. It's getting better at innovation, cocreation and social media. But culture? It still pretty much sucks at culture.

Does culture matter? Well, yes. Without this knowledge, life turns into a series of blind side hits. Without this knowledge, Quaker Oats paid \$1.7 billion for Snapple. It sold 3 years later for \$300 million. Best Buy paid \$700 million for Musicland, a retail music store, just as kids were embracing peer-to-peer file sharing. It had to *give the store away* two years later. Facebook decided to take ownership of the billions of photos its users had lodged there. Millions took umbrage, and the Facebook franchise was suddenly at risk. In a turbulent marketplace, culture feels a little like the stormy North Sea. We never know what it's going to throw at us.

Culture matters. Get it wrong, and we miss opportunities—like fuel efficient cars. Now there was an opportunity. You'd think GM would have seen the new consensus forming, but no, it kept banging out Hummers as if trying to prove it was an enemy of the planet. It kept doing so until Toyota and Prius had a market lead of several years. Nice one, fellas. In the tech world, Microsoft had organization and deep pockets, but somehow failed to see the new markets for creative machines, search engines and social media. It decided to leave these for Apple, Google and Facebook (you know, because Microsoft is all about sharing). It could have been otherwise. A deeper, more intimate, more nuanced knowledge of culture, and Microsoft could have owned the future... instead of giving it away.

The archives of the corporate world are filled with bone-headed moves. We could dig just about anywhere and come up with a lulu (that's anthropology's term of art for a really ill advised decision). Instead, let's focus on an issue at the heart of the world of marketing: the CSD, or Carbonated Soft Drink.

More specifically, let's look at Pepsi and Coke. Colas are really just sugar water with a little food color. They aren't much of anything unless they resonate with culture. This is precisely what Coca-Cola had done over the last hundred years, shaping the way we think about Santa, small town America, the American soldier at war, the heartland values of the US. It's what Pepsi did when it decided to take advantage of its marginal status and make itself the cola of youth and the counter culture. Both colas built their brand by putting it in touch with culture. Both brands were made to breathe: culture in and culture out.

When both colas lost this connection to culture... well, it was not very pretty. Once engaged in a war for our hearts and minds (and dollars), Coke and Pepsi now seem locked into a contest to see who can manage culture more ineptly. They have formidable marketing machines. They employ deeply intelligent professionals. But, when it comes to culture, they can be astoundingly ham-handed.

Culture matters. Get it wrong, and we miss opportunities ...

Doug Ivester | CEO of The Coca-Cola Company

Doug Ivester became the CEO at The Coca-Cola Company in 1997. He is a brilliant tactician with a deep understanding of the mechanics of the company, but he quickly managed to offend several parties at Coke—from king-makers on the board to the bottlers on Coke's perimeter. He was asked to resign in December of 1999, giving him a mere two years in office.

Two episodes quickly suggested that Ivester was the wrong man for the job. When a batch of Coke made school children sick in Belgium, he was slow to take the issue seriously. A public relations firestorm ensued that cost the brand dearly across Europe. The second episode was his proposed

reinvention of the vending machine. The machine's secret: the ability to raise prices in warm weather. Surely, Ivester speculated, a cold Coke should be worth more on a hot day.

The Belgium episode made people uneasy. After all, it doesn't matter what the CEO thinks. It matters what the consumer thinks. If consumers in Belgium think they have a problem, they have a problem. *Coke* has a problem. It's not the CEO's job to sneer at their anxiety. It's to find the problem and fix it. On Belgium, Ivester seemed a little high handed—a little out of touch. Clearly, someone needed to remind him of the first rule of marketing: it's not about you, it's about the customer.

But it was the vending machine idea that proved to be the career catastrophe. The machine never went into production. The business press got a hold of the story. There was a hue and cry. People began to say, "Is this guy for real? Does he get the Coke proposition at all?" Ivester had well and truly put his foot in it.

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The new vending machine made Coke look like a bully. We can imagine a consumer on a sweltering August afternoon in Alabama. He is thrilled to find a Coke machine by the side of the road. Relief! But as he reaches for his wallet, the consumer notices that the price is 10 cents more than he paid yesterday in Birmingham. He's *heard* about this machine, but he can't believe it. "Coke is going to charge more *because it's hot out?* It's going to charge more *because I'm miserable?*" And in that instant, a hundred years of Coke marketing and millions of dollars of advertising vanish without a

trace. In its attempt to capture 10 cents of value, Ivester's machine would destroy great chunks of brand value... at least for this consumer.

Ivester had talked about selling Coke to legions of hot, happy fans as they poured from a sporting event. Apparently, he couldn't see the social or cultural implications of such a thing. What if the team had won? Wouldn't higher prices make Coke look like it didn't care about the victory? And what if the team lost? Wouldn't Coke look like it was piling on? The vending machine might be a technological wonder. It might be sound economics. It might be a great profit opportunity. But it was a bad idea because it was inevitably going to make Coke look clueless or cruel.

It wasn't that there wasn't an opportunity here. But the point of the new vending machine shouldn't have been to charge more, but to charge less. Charge less when it's really hot outside... as an act of sympathy. Charge less when the team does badly... to share defeat. Charge less when the team does well... to celebrate the win. The opportunity here was to treat variable pricing as a marketing expenditure, not a revenue opportunity. The opportunity was to use the vending machine to build brand value by making the brand more animated and companionable. This would lower the price but increase volume. Ivester's machine had a real opportunity, but Ivester couldn't see it.

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Indra Nooyi | CEO of The Pepsi-Cola Company

Indra Nooyi was made the CEO of the PepsiCo in August of 2006. Sales were soft. A dramatic gesture was called for. She put Massimo F. d'Amore in charge of rebuilding the big brands: Pepsi, Gatorade, Tropicana and Mountain Dew. He, in turn, hired design guru Peter Arnell. The initial results were not good. Sales of Tropicana fell 20% in the first month. Consumers were indignant. PepsiCo rolled back the redesign almost immediately. In the words of *New York Times* advertising columnist Stuart Elliott, “It took 24 years, but PepsiCo now has its own version of New Coke.” It was a first stain on Nooyi’s exemplary career.

“It took 24 years, but PepsiCo now has its own version of New Coke.” — Stuart Elliott

So what went wrong? It turned largely on the Arnell hiring. The man who would serve Nooyi as her de facto expert in culture turned out to be virtually tone deaf.

When asked about his PepsiCo assignment, Arnell made the right noises. As he told the business press: “The objective was very, very clearly laid out. We needed to rejuvenate, reengineer, rethink, reparticipate in popular culture.”

Then, signs of trouble. Arnell told *AdAge*, “When I did the Pepsi logo, I told Pepsi that I wanted to go to Asia, to China and Japan for a month and tuck myself away and just design it and study it and create it.” This was Arnell’s way to “reparticipate in popular culture?” To tuck himself away in China? One wonders if Nooyi heard a warning bell.

As it turned out, Arnell didn't go to China. His first act of office was, in the words of *BusinessWeek*, a "five-week world tour of trendy design houses." So, faced with the task of getting in touch with American culture and the American consumer, Arnell's first impulse was to go to East Asia. His second was to talk to other designers.

There is no question that design houses know about American culture. After all, they've invented a good deal of it. But it's not clear why Arnell would want to get his knowledge second hand. The only way he could make the Tropicana rebrand work was if he made it speak to the American family. And this meant talking to people who belonged to American households, not trendy design houses. Here's what Arnell could have found out, had he asked.

First: American families are often raising several kids, running a home and struggling to achieve sufficiency. By itself, this would be a tough assignment. But Americans make it tougher by almost continuously reimagining what the definition of a good "parent," "child," and "family" is. No sooner than have we worked out a pretty good facsimile of how to live than a host of daytime talk show hosts and magazine editors begin to beam us new instructions.

Second: American householders are wondering if the present downturn will cost them one or more of the incomes on which the family relies. The anxiety is palpable. It's audible. It's there all the time.

Third: American householders are ensconced in a new health regime, one that forces them to give up much of the sugar, salt, fat, and gusto that once made a meal satisfying. At the very moment, moms (mostly) want to make great meals that make great families, and the health profession puts them on a short leash.

As it turned out, this family *liked* the old Tropicana package. The old design with its straw in the orange was a welcome presence, familiar, cheerful, and good hearted. It was a little like a lighthouse on the kitchen table, sending a signal in the middle of the chaos of breakfast and life. And they didn't like Arnell's design at all.

One consumer emailed Tropicana to ask, “Do any of these package-design people actually shop for orange juice? Because I do, and the new cartons stink.” Chastened, Tropicana acknowledged it had “underestimated the deep emotional bond” consumers had with the old package, and put it back on the shelf.

The designer screwed up, but Nooyi was the one who was going to pay. In the words of Mark Ritson, Australian professor of marketing, “Blaming Arnell for this fiasco would be like spanking a dog for peeing on a new rug: he’s just doing what comes naturally. For me, the blame lies with the brand owner for losing sight of marketing’s central and enduring rule—it’s all about the consumer, stupid.”

Even now Arnell won’t accept responsibility. He says, “Can you imagine such mishegoss over a freaking box of juice? I can’t believe that for the rest of my life I’m going to be known as Peter ‘Tropicana’ Arnell. I have my own perspective on it. But it’s not my brand. It’s not my company. So what the hell? I got paid a lot of money, and I have 30 other projects. You move on.”

Arnell moved on. Leaving Nooyi to live with the disastrous decision.

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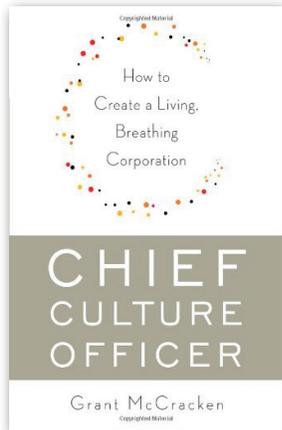
Enter the CCO

Ivester and Nooyi have something in common. They made mistakes they could have avoided. Despite their spectacular gifts as managers, they proved tone deaf when it came to issues of culture. Could someone have protected these CEOs from these bad decisions? More to the point, was there a way to protect the corporation?

In a more perfect world, Ivester would have discovered the cultural implications of his new vending machine idea. Nooyi would have hired a different designer—or none at all. And in a still more perfect world, both would have had someone on their staff to do this for them, someone in touch with culture to vet these options. What they needed was a Chief Culture Officer, someone who acted as a Geiger counter, someone who could detect these accidents waiting to happen, a senior manager who could peer into the roiling waters of contemporary culture and steer a clear course. And more than just having someone who could help them avoid mistakes, they would have had someone who could seek out the opportunities, the blue oceans that culture opens up.

Culture is the “last mile” for the corporation. It’s the final “core competence” required in its skill set. Until it masters culture the way it has mastered the other pieces of management—finance, strategic planning and human resources—it will suffer the blind side hit and miss yet another opportunity. And the thing about errors in culture is that they’re side effects are not small. They do not merely take a percentage point of volume or profit. They do not merely inflict a tiny ding on a CEOs reputation. No, mistakes in culture can cost millions, and they can lay a CEO low.

It’s time to bring in a Chief Culture Officer. 📌



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ABOUT THE AUTHOR

Trained as an anthropologist (Ph.D. University of Chicago), Grant has studied American culture and business for 25 years. He has been featured on the *Oprah Winfrey Show* and worked for many corporate clients including Coca-Cola Company, Diageo, IBM, IKEA, Chrysler, Kraft, and Kimberly Clark. He started the Institute of Contemporary Culture at the Royal Ontario Museum, and has taught anthropology at the University of Cambridge, ethnography at MIT, and marketing at the Harvard Business School. Many academics prefer to look askance at interactions of culture and commerce. Grant believes this is the secret of American culture. He has explored this theme in two previous books: *Culture and Consumption I*, and *Culture and Consumption II*.

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