

MarketLine Case Study

Diet Coke in the US

Repositioning a tired brand for a new generation

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OVERVIEW

Catalyst

2018 has marked a turnaround from preceding years for Diet Coke, thanks to several key interconnected changes that have reinvigorated consumer interest in the brand, and helped attract a whole new consumer base. The year began with Diet Coke releasing a new flavor line-up including; Ginger Lime, Feisty Cherry, Zesty Blood Orange and Twisted Mango. These flavors were complemented by new on-can, color-coded graphics and a taller, slim 12-oz can available in on-the-go singles as well as multi-packs (standard shape 12oz cans continue to be available too). Notably, aside from the flavor options, Diet Coke was not reformulated as part of the relaunch, thus maintaining continuity for existing fans of the product.

Summary

Diet Coke underwent a relaunch at the start of 2018 to address years of slow decline. With a new can design and look, new flavor options, and a millennial-focused marketing campaign, the brand reversed its decline in short order, achieving the strongest growth since 2010. Developing an accurate understanding of millennials, the audience identified as key in rebuilding the brand, has been key to the recent success Diet Coke. The brand's relevance to their outlook and lifestyle has used irreverent advertising highlighting consumption experience, over diet and health claims. Diet Coke has showed it is possible to shift demographic focus successfully (from 80s baby boomers to millennials) without a total reformulation. Presentation, flavor options, and effective communication can work efficiently.

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DIET COKE IS A KEY PART OF COCA-COLA BRAND IDENTITY BUT HAS BEEN DECLINING

Diet coke as a brand has been declining for a number of years and despite a strong market position Coca Cola has been aware that this key product needed significant work to revitalize the product. Consumer perceptions around sugar and sweeteners are part of the issue and some careful planning needed to be done to protect its already sizable number of consumers whilst bringing it into the modern consumer environment.

Diet Coke has been an essential brand of Coca-Cola since the 1980s

The Diet Coke concept was a product for the 1980s (although the basic idea had been talked about for two decades prior leading to the successful TaB brand), where its label fitted in with the cultural narrative and buzzwords of that time and a market where low and no-calorie options were proliferating. This was leaving the Coke brand looking behind the times when it was already facing a toughening business environment due to inflation and less favorable production costs. Although the company owned TaB, which was still the leading diet cola at that time, an internal vision was building around the idea of leveraging the core brand to disrupt the market and put Coke at the forefront of the nascent healthy indulgence market in soft drinks.

Launching in 1982, Coca-Cola subsequently viewed Diet Coke as “the right product for the right time”, entering a market where colas accounted for 60% of US soft drink sales overall, and diet colas were growing three times faster than the rest of the category. By the end of 1983, it had assumed the position of number one diet soft drink in the US, and by the end of 1984, was third-placed behind original Coke and Pepsi in the overall soft drink market. The iconic advertising tagline for Diet Coke “Just for the taste of it” emphasized a great tasting drink that just happened to have one calorie, rather than focusing on its low-calorie credentials as a diet drink.

Diet Coke was an economic win for Coca-Cola as the sugar-free nature of the product removed the second-largest cost after the aluminum cans incurred in production. This helped drive funds into its research and marketing to maximize a consumer base that was identified as both including men and women – although the brand became synonymous with the latter. In particular, it targeted Baby Boomers who were heading into middle age and more concerned about their weight and healthiness.

Diet Coke has been experiencing a slow decline, leading to “crunch time” for the brand

Despite its ubiquitous-ness, the fortunes of Diet Coke have been on a downward trend for an extended period, leading to an increasingly clouded future for the brand and much media speculation and discussion about its eventual demise. The problems of Diet Coke is, to some degree, been a reflection of the general trends prevailing in soft drinks, especially in soda/carbonates consumption. Such products have struggled in the face of health and wellness concerns and associated negative consumer perceptions. Carbonated soft drinks continue to face downward pressure from consumer movement towards juices, and bottled water, based on such motivators as freshness, natural ingredients, and basic healthful hydration, as opposed to the indulgent aspects that underpinned soft drink consumption in the past. However, Diet Coke has also faced some specific challenges.

The baby boomers that were the original target audience of Diet Coke in the 1980s no longer represent the center of gravity in the consumer economy that they once did. This was translating into falling sales as uptake in the brand was not being seen among the increasingly crucial younger adult demographics. Furthermore, it can be suggested that the Diet Coke proposition had become increasingly unclear for many modern consumers with the diversification of sugar-free and zero calorie products in general, along with the addition of products within the Coke range itself such as Coke Zero Sugar. Indeed, reports suggested in some markets, Coke Zero Sugar was cannibalizing sales from its senior sister brand.

Arguably, the idea of a 'diet'-branded drink based on artificial sweetener usage also seems out of place in the contemporary marketplace against more explicit Zero Sugar-style branding. In the fiscal year 2016, Diet Coke suffered a 5% decline in North American sales, the most of any Coca-Cola brand. In the US specifically, they fell 1.9%, versus a 3.5% growth for Coke Zero Sugar. This trend continued in 2017, putting growing pressure on the company to somehow revitalize the brand.

A 2018 REFRESH HAS BREATHED NEW LIFE INTO DIET COKE

The Diet Coke refresh was carefully planned and well matched to its target demographic and appears to have struck a chord with consumers. Key to the process was introducing a new range of flavors, updating the can and re marketing the product to be more honest around its contents.

In early 2018, Diet Coke successfully relaunched with new flavors, a new look, and a new target demographic

2018 has marked a turnaround from preceding years for Diet Coke, thanks to several key, interconnected changes that have reinvigorated consumers' interest in the brand – or rather attracted a whole new consumer base. The year began with Diet Coke releasing a new flavor line-up - Ginger Lime, Feisty Cherry, Zesty Blood Orange and Twisted Mango. These flavors were complemented by new on-can, color-coded graphics and a taller, slim 12-oz can available in on-the-go singles as well as multi-packs (standard shape 12oz cans continue to be available too).

Notably, aside from the flavor options, Diet Coke was not reformulated as part of the relaunch, thus maintaining continuity for existing fans of the product. Crucially, the relaunch was supported by a new ad campaign that explicitly targeted millennial consumers. Coca-Cola stated that they were hoping to attract consumers who did not regularly drink Diet Coke, in particular by attracting millennials with an alternative to the sparkling water, juices, cold tea, and wellness—focused drinks that they have become associated with. Coca-Cola reported that first quarter earnings in 2018 were up largely due to Diet Coke, which registered the strongest growth seen in the brand since 2010. A third of that growth was delivered by the new flavored variants.

Coca-Cola successfully employed research to understand its target demographic

Understanding consumers is critical to innovation decision-making and success. In the case of Diet Coke, in the lead-up to the relaunch at the beginning of 2018, Coca-Cola had engaged in a two-year long innovation exercise, which prepared the ground through gaining a more understanding of the younger consumers that it viewed as the potential base to reinvigorate the brand, in America and abroad. That research had consequences for physical and visual design, flavor, and advertising. The physical design and on-can branding now look more contemporary, for example. The slim can design is the same as that used for Dasani Sparkling water, a key product in a category already seen as attractive to younger consumers.

Flavor innovation stemmed from demographic research

Flavor was a key weapon for increasing the relevance to Diet Coke among younger consumers. The company surveyed over 10,000 US consumers to gain input on flavor extensions, as well as packaging and other aspects. 30 flavor combinations were developed and tested based on this, leading to the final four released in 2018. Coke described the research as having identified young consumers' love of adventurous, bold flavors, something they aimed to reflect in names such as Feisty Cherry and Twisted Mango. GlobalData research in the US backs up the findings from Coca-Cola and the focus of the final flavor line-up on fruit-based options; millennials (as well as the 'silent generation') have an above-average interest in fruity soft drink flavors, something less resonant for the 'gen x' and 'boomer' cohorts.

DIET COKE NEW AD CAMPAIGNS TARGET MILLENNIALS

Millennials are the new target audience and key to capturing their interest involved appealing to the ideal of 'experiences' by providing flavors that might appeal to this generation's tastes. Furthermore, Coca Cola has recognized that trying to market the product purely as a healthy product wasn't going to be enough given the new target audience. Coca Cola has been more direct about the product, reducing claims that it is healthy and instead selling the product on its bold new flavors and lifestyle and experience offering.

Diet Coke advertising taps into millennials' self-perceptions and short-circuits conventional approaches to messaging

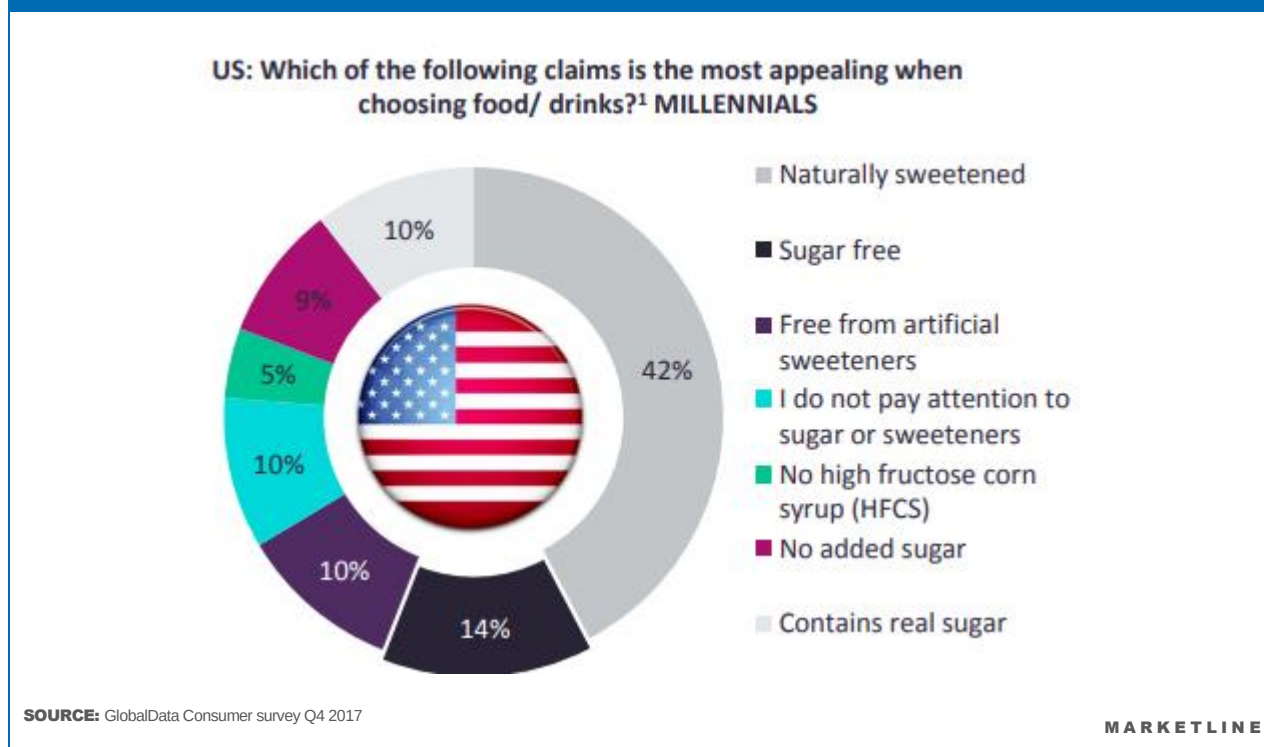
Core to Diet Coke has been the marketing campaign. The "because I can" slogan encourages consumers to live their lives unapologetically. This slogan was expanded on through very simple, direct advertising showing up-and-coming millennial actors focusing on tasting good rather than anything else. A 30-second Super Bowl LII ad featured actress Hayley Magnus standing in front of a lemon-colored wall, holding a Diet Coke Twisted Mango. When she takes a sip, she begins grooving to the music and talking about how it feels. Another ad, featuring actress Gillian Jacobs states "Look, here's the thing about Diet Coke. It's delicious. It makes me feel good. Life is short. If you want to live in a yurt, yurt it up. If you want to run in a marathon, I mean, that sounds super hard, but OK. I mean, just do you..."

This style and message has been crucial in having an impact upon the target consumer group. The "life is short" theme infers that doing something may not be good for you, but you do it nevertheless because it is enjoyable. This defiance and libertarian irreverence appeals widely among consumers, especially younger adults where their expectations of brands are often based on personalization and focused on experiences rather than functional details and traditional marketing tropes that they are cynical towards. The casual 'take it or leave it' vibe has a nonchalance that again eschews the often pushy 'marketer speak' that advertisers and brand managers often indulge in, making advertising claims seem inauthentic.

Positive views of sugar-free claims can still benefit Diet Coke

GlobalData survey findings in Q4 2017 reveal that 'sugar free' is the second-most appealing claim in food/drink choice behind 'naturally sweetened'. This stands to benefit Diet Coke, where the sugar-free, one calorie aspect is still an important component of the brand's value, even if the current advertising and 'lifestyle brand' focus does not emphasize it. Diet Coke has an established heritage as a 'better for you' option compared to traditional sodas.

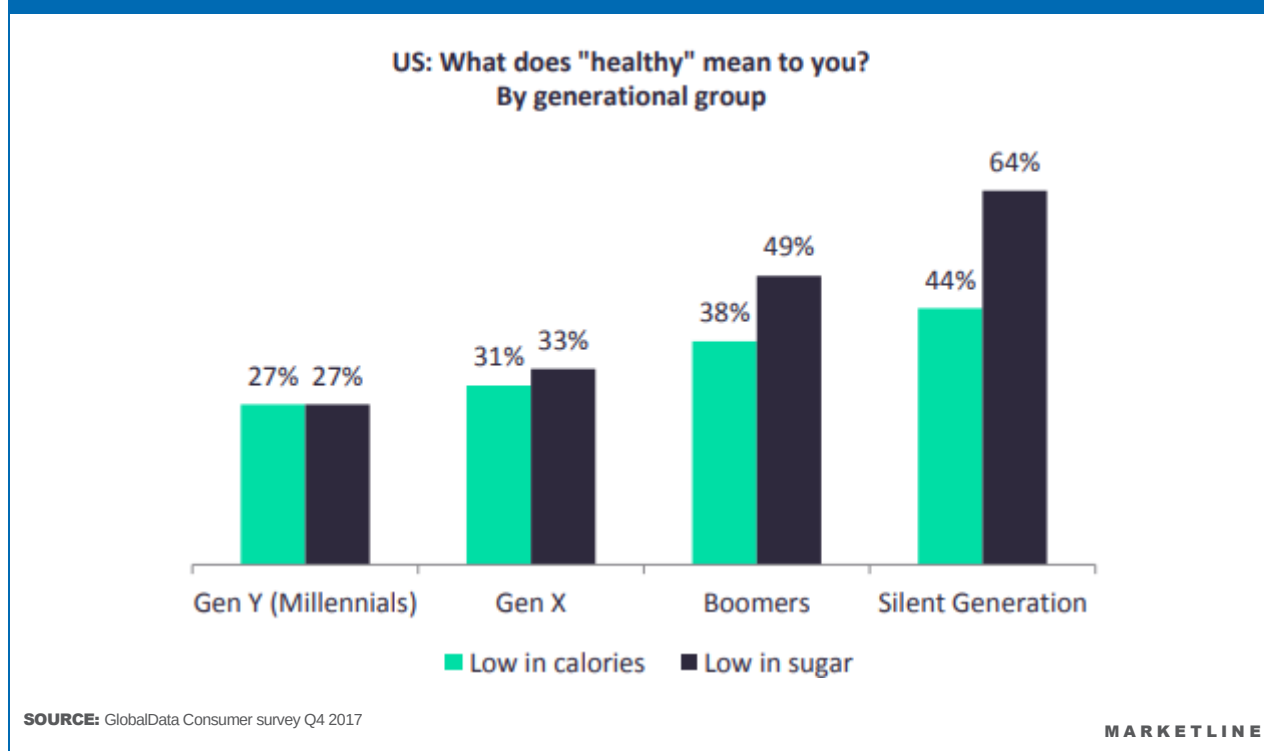
Figure 1: Millennials preferences when choosing beverages



A threat comes from preferences for natural sweeteners versus artificial

Notably, naturally sweetened is the leading claim associated with sweetening affecting consumer choice. This is especially marked for millennials, well above average at 42%. This highlights a longer-term threat to sustaining or further developing recent success of Diet Coke; the target demographic highly favors natural over artificially sweetened. While consumers have re-embraced Diet Coke not for its health connotations but based on brand being desirable, concern among millennials regarding natural sweeteners versus artificial may pose an impediment to the extent to which it can sustain a comeback.

Figure 2: US attitudes towards health by generational group



Diet Coke appeal to millennials is driven by factors beyond health-connected claims

Over a quarter of millennials associate 'healthy' with low in calories or low in sugar. Both of these are claims that Diet Coke (and Coke Zero Sugar) can associate with credibly. However, a health-derived motivation is not core to the appeal of Diet Coke among the millennial cohort. Notably, the association of low in sugar with health is much stronger, at 49%, among the Boomer demographic who formed the original target consumers for Diet Coke in the 1980s. In general, these claims gain traction with age; such a variation serves to underline the different concepts of what is healthy by age group. In contrast, US Millennials view 'natural' as a more meaningful health claim. Coca-Cola has been smart to not push the healthiness line as the USP of Diet Coke with millennials, whose perceptions are unlikely to embrace carbonated cola as a truly healthy category. Diet Coke (and Zero Sugar) do work effectively as 'less bad' or 'better for you' options when compared to a full sugar, traditional variant. However, the millennial connection Diet Coke enjoys is based on a lifestyle appeal, as reflected through the resonance of the advertising campaign. It has established an alignment with young adult identities and perceptions of themselves.

LIFESTYLE AND EXPERIENCE OVER HEALTH

Diet Coke has some credible health claims, but the key breakthrough has come from the fact that health is not the reason for consumers making the choices that they are. In fact their choices are much more nuanced and there is opportunity in the market for soft drinks to find a new audience if their products can reflect the needs of their consumers.

The power of understanding generational dynamics and breaking with advertising conventions

The Diet Coke relaunch success, both in the US and other international markets where a similar roll-out has occurred, such as the UK, is a testament to the power of doing research and developing a clear understanding of what resonates in design and messaging terms with a target demographic. The product itself does not necessarily have to change. In this case the advertising message and image portrayed connected with self-perceptions and consumer motivations many millennials hold, making Diet Coke an attractive lifestyle choice and indulgence rather than a functional option. It is interesting that a quick Internet search reveals numerous articles and industry expert views written, when the campaign began, about how the advertising campaign was bafflingly boring and lazy. One observer for Fast Company wrote "This is the embodiment of every derogatory cliché assumed about the ad business in one tidy 30-second package. Why did Paul Feig direct this?" And yet it worked. This suggests a gulf still exists between what industry marketers and thinkers perceive and what may actually resonate with the millennial consumers they often claim to understand. They may be dismissing approaches to those consumers that lead to products not resonating as well as they could.

Derision of the Diet Coke adverts and the brand's subsequent success suggests the benefits of challenging some conventions about what works with young adults. Millennials are clearly highly influenced by advertising that does not spin at them, trying to sell complex virtues in 'marketer speak'. They are receptive to an understated, stripped down 'coolness' in style that appeals to their individualist impulses and desire to buck norms (even if that, in reality, is a collective movement).

Diet Coke has been reflective about its own limitations

In some respects, it could be argued that they are open to superficiality if it speaks to their self-image and lifestyle; it is, however, also about stripping back the claims and virtues and making a brand about the experience and basic enjoyment. In some ways, the Diet Coke success in 2018 is about how the admission of a product's shortcomings (Diet Coke is still a carbonated soft drink, even if it is 'better for you' than alternatives are) in a roundabout way is refreshingly honest. It avoids the far-too-common overemphasis of nebulous health claims. Instead, it focuses on experience, taste, and relevance to a target demographic who are well informed about health and wellness and will pursue those goals primarily in other aspects of their daily behaviors.

CONCLUSIONS

The example of diet coke shows that there is a way for soft drinks manufacturers to mitigate the onslaught of the rally against added sugar products. There is some risk in the methods used by Coca Cola though, because consumer surveys have also revealed consumers are not satisfied with artificial sweetener products and consider them to be unhealthy, meaning that Coca Cola might have to consider a reformulation in the future.

Reinvigoration Diet Coke shows one way to offset threats to soft drink success

This case study has primarily focused on the US market. However, the relaunch of Diet Coke has reaped dividends in other markets such as the UK in a similar fashion. Notably, in the UK, where a government driven 'sugar tax' has come into force and incentivized change, reinvigorating a brand like Diet Coke has financial benefits given its sugar-free and therefore tax-avoiding nature. Rather than face the task of launching a new product with all the associated investment from production to distribution to advertising/brand building from scratch, making Diet Coke relevant to the current demographic center of gravity allowed Coca-Cola to leverage what they already had to 'remind' the marketplace of the brand and its new-found relevance, both as an experience and as a means of offsetting anti-sugar hostility.

Formulation of Diet Coke may still pose problems

There is some risk stemming from the continued association of Diet Coke with artificial sweeteners. While the relaunch has placed little emphasis on formulation, more taste and experience, consumer suspicion of and scientific research into artificial sweeteners creates a narrative that may place a ceiling on how far Diet Coke, or similar products, can go without change to content. Consumers continue to move away from carbonated soft drinks on health grounds. Also, natural sweetening is undoubtedly more popular, especially among younger consumers with their particular priorities and views on the meaning of health and wellness to them. While Diet Coke has reaffirmed that it has a place in the market and is a highly popular beverage, this does not mean innovation should not be pursued in other areas or under other brands.

APPENDIX

Further Reading

US Soft Drinks (2018) MarketLine Industry Profile

Coca-Cola (2018) MarketLine Company Profile

Ask the analyst

We hope that the data and analysis in this brief will help you make informed and imaginative business decisions. If you have any questions or further requirements, MarketLine's research team may be able to help you. The MarketLine Research team can be contacted at ReachUs@MarketLine.com.

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