

DRINK

Barg's

IT'S GOOD

12 FL OZ (355 mL)



KOERNER'S MARKETING WITH BITE

EDWARD BARQ MAY BE THE MAN RESPONSIBLE FOR GIVING HIS ROOT BEER ITS DISTINCTIVE FLAVOR, BUT IT TOOK JOHN KOERNER TO GIVE BARQ'S BITE.

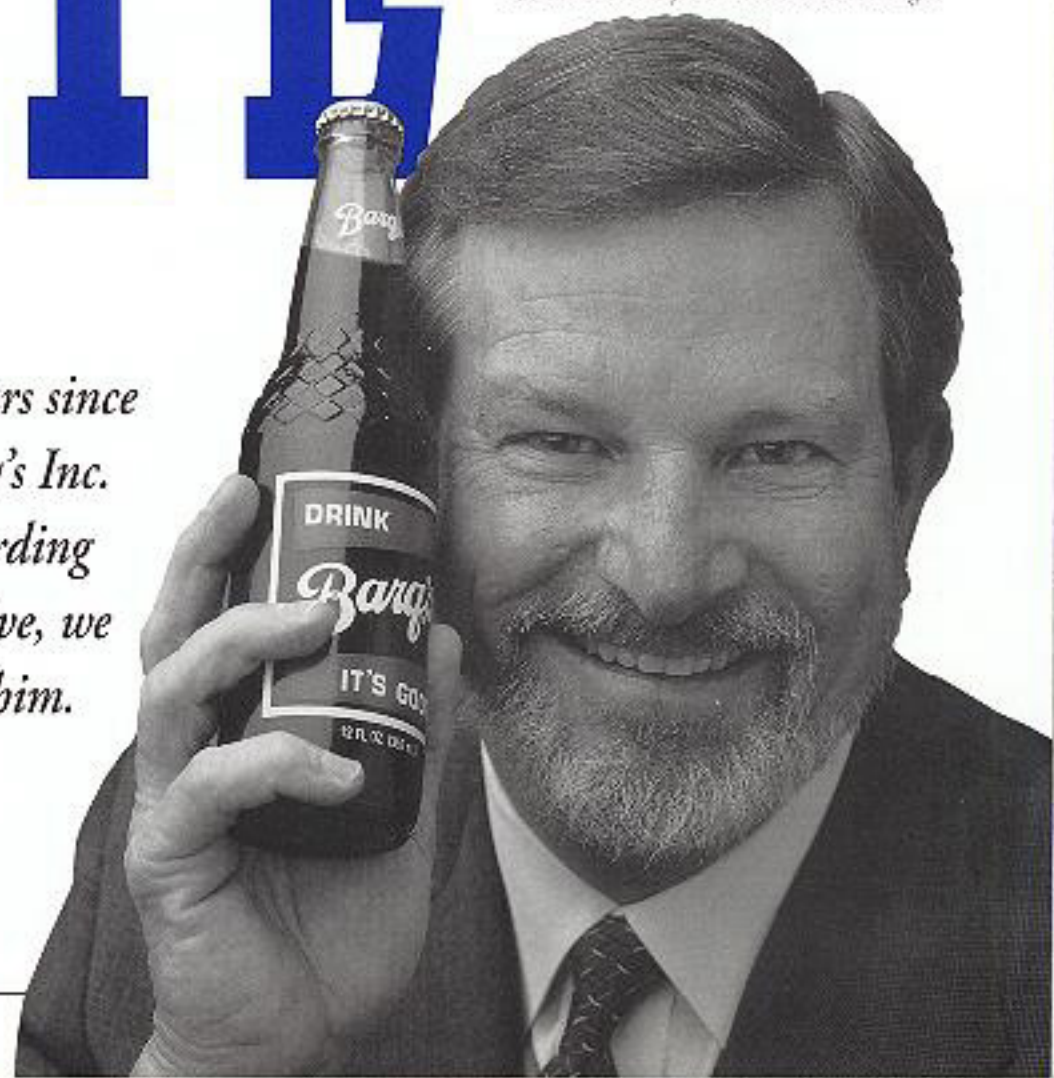
"Too many brands try not to offend people," says Koerner (A&S '65, L '69, MBA '70), the former president and co-owner of Barq's Inc, the national franchiser of Barq's Root Beer. "There's so much stuff out there, you've got to give your communication some sharp edges to make an impact. We worked very hard on that."

For 19 years, to be exact. Prior to selling Barq's to Coca-Cola USA in 1995 for an estimated \$50 million, Koerner built the sleepy root beer bottler he and partner John Oudt purchased from the Barq family in 1976 into a major force in the beverage

It's been almost two years since John Koerner sold Barq's Inc. to Coca-Cola, but according to the daredevil executive, we haven't seen the last of him.

by Mark Messer

photographs by Mike Terranova





One of the first things John Koerner did at Barq's was update the traditional can, above, with a sleek, flashy design.



“There’s so much stuff out there, you’ve got to give your communication some sharp edges to make an impact.”

industry, known for offbeat promotions and a rock-and-roll sensibility. Thanks to innovative marketing and an ambitious expansion strategy, Barq's became the nation's No. 2 root beer, selling 40 million cases per year.

Koerner's daredevil business philosophy is no accident. It's an outgrowth of his personality. In a conservative environment like New Orleans, Koerner enjoys the reputation as something of a wild man. He is an avid sportsman who enjoys water skiing, wind sailing, scuba diving, fishing and hunting. To this day, he still picks up a residual check for designing boat stunts in the 1973 James Bond film *Live and Let Die*.

"A lot of times you can think clearer if you get out of the foxhole," Koerner says. "I think it's a poor management style to get in the heat of battle every day, where you're overwhelmed by the details and managing by the crisis of the moment. You have to allow yourself the free time to strategize."

According to longtime friend Oudt, that area is where John Koerner excels. "I always thought of Johnny as a very strategic thinker," Oudt says. "He was always more of an analytical person. I think a lot of it had to do with background. He had a lot more of the MBA in him."

"John has a great nose for business," says John Elstrott, director of the Levy-Rosenblum Institute for Entrepreneurship and a business partner of Koerner's. "He doesn't just recognize an opportunity, he knows how to pursue it to its conclusion. He has a good sense of what the customer will need and want, and he's really good at building a team and empowering people."

In New Orleans, Koerner has developed the reputation as a businessman who gives freely and generously of his time. He is a former chairman of The Chamber/New Orleans and the River Region as well as a board member of MetroVision and the World Trade Center of New Orleans.

At Tulane, Koerner serves as vice chair of the Board of Administrators of the Tulane Educational Fund and is a member of and past chair of the Business School Council. He is an adjunct professor of business at the Freeman School and a founding entrepreneur-in-residence who has lectured in the Cases in Entrepreneurship course since 1991. His gifts to the Freeman School

have supported everything from infrastructure to academic programs. In February, Koerner was named the TABA Alumnus of the Year by the Tulane Association of Business Alumni. Most recently, he endowed the Earl P. and Ethel B. Koerner Chair of Strategy and Entrepreneurship at the Freeman School, named in honor of his parents.

Ironically, the man who built a career on the brash, tangy flavor of Barq's initially intended to sell a much milder potable: water.

The year was 1974, and Koerner and Oudt, friends from Tulane Law School and budding entrepreneurs, had been working on a deal to buy Ozone Water Co. when a disagreement over accounts receivable torpedoed the sale.

The two executives-in-waiting went to a bar to drown their sorrows with their accountant, who they had been working with on the deal with. Almost facetiously, they asked him if he knew of any other businesses for sale. He mentioned a sleepy Biloxi, Miss., root beer maker that might be a good candidate.

John E. Koerner III was born in New Orleans in 1943. The older of two sons, Koerner could easily have entered the family business, a wholesale bakery supplier, but Koerner had other things on his mind.

"I would have had to wait 20 or 25 years before my turn," he says. "And that wasn't of interest."

Koerner attended Jesuit High School in New Orleans and then Tulane, where he earned degrees in math, law and business. For a brief period after graduating, Koerner worked as an accountant for Ernst & Ernst, but biding his time on someone else's corporate ladder was no more appealing to him than waiting his turn to run the family business.

In 1971, Koerner started a retail boat business, Koerner Marine, but he and Oudt still clung to their goal of going into business together—more specifically, purchasing a business together. They investigated a long list of companies—Ozone the most seriously—before setting their sights on the Biloxi, Miss., root beer bottler founded by a New Orleansian with a taste for sparkling wine.

Edward Barq started brewing root beer in

Biloxi in 1898 after his initial idea, making domestic champagne, failed to get off the ground. Boasting a sharp, tangy flavor personally overseen by the family, Barq's Root Beer soon became a significant regional beverage, even outselling Pepsi in southern Mississippi with a phenomenal 30 percent of the soft-drink market. In nearby New Orleans, Barq's Root Beer became a revered local tradition, the quintessential accompaniment to an oyster po-boy or a plate of red beans and rice. A generation of New Orleanians grew up with the company's ingenious slogan, "Drink Barq's. It's Good."

By the time Koerner and Oudt entered the picture, the Barq's situation had changed dramatically. The brand that the two native New Orleanians had grown up with was by then available in a grand total of three markets—Biloxi, New Orleans and Cincinnati. Far from being a viable national or regional brand, Barq's was well on

its way to becoming a local curio. "It was steeped in the tradition of the '40s," Koerner recalls. "The soft-drink business had transitioned into electronic advertising, radio and TV, but Barq's was still sign boards in front of sandwich shops and pencils for the kids in school."

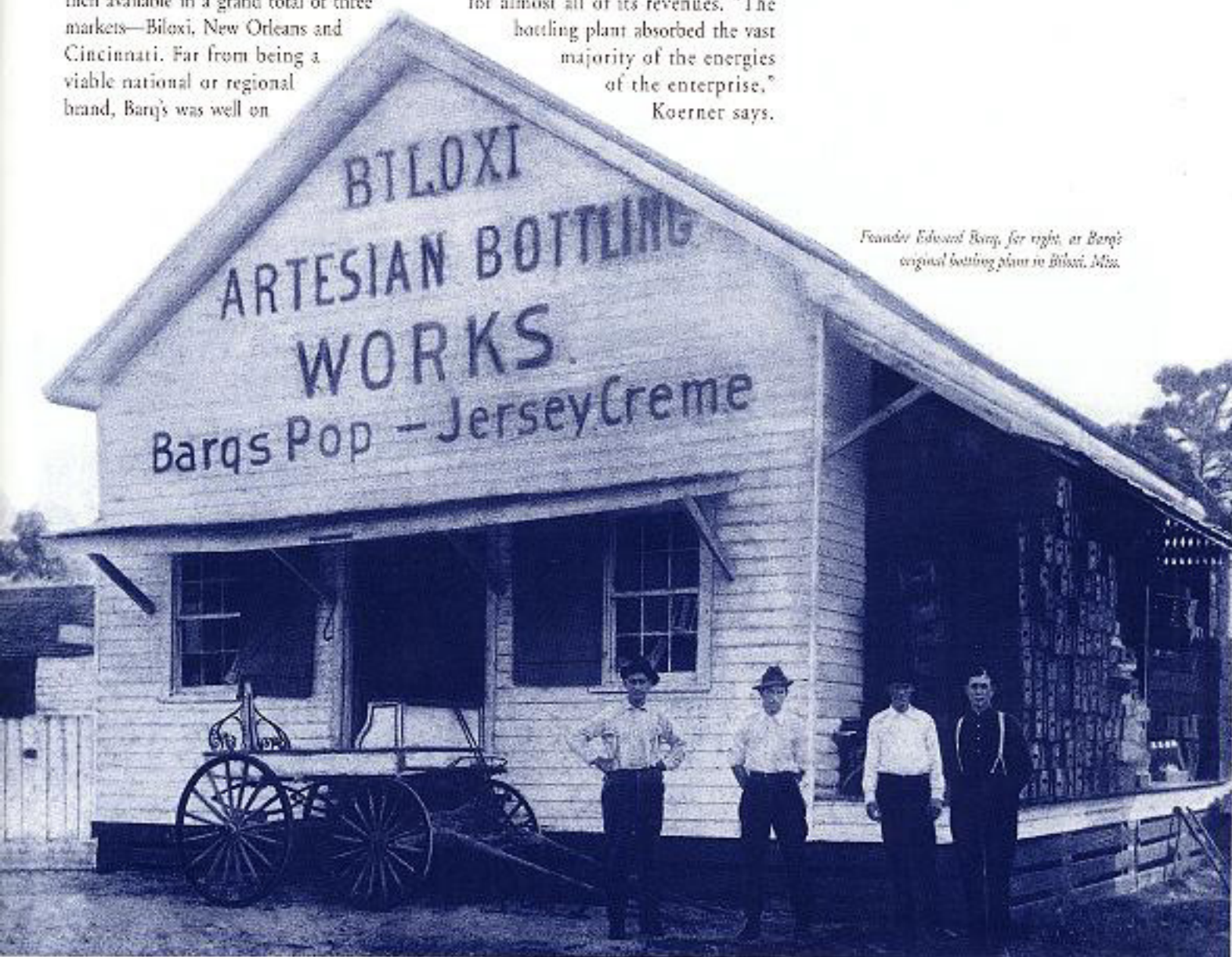
Oudt remembers the office shared by the company's principals, brother and sister William and Ella Mae Barq. "They had adjoining desks," he recalls. "They butted side-to-side, and they shared one telephone between the two of them. It sort of sat on the crack between the desks."

William and Ella Mae did not particularly enjoy traveling—a necessity to develop a franchised brand—so by the mid-1970s, the company was relying on its bottling division for almost all of its revenues. "The bottling plant absorbed the vast majority of the energies of the enterprise,"

Koerner says.

"Ninety-nine percent of the effort was going to local business, when, in fact, the opportunity was in the national franchisable brand."

Founder Edward Barq, far right, at Barq's original bottling plant in Biloxi, Miss.



"When you start getting letters from moms, you know that your advertising is communicating correctly to young people."



One of Barq's most memorable promotions was 1992's "Soviet Union Going-Out-of-Business Sale." Ad in youth-oriented publications like Rolling Stone encouraged consumers to send away for authentic Communist pins.

"Ninety-nine percent of the effort was going to local business, when, in fact, the opportunity was in the national franchisable brand."

The Barqs sensed that the business had become more complicated than they could manage, Koerner says, but they were understandably reluctant to part with the company their grandfather had built by hand. Beginning in early 1975, Koerner and Oudt began courting the Barqs, assuring them that their grandfather's brew would survive and prosper. Would it ever.

The deal took two years to iron out. When it was finally completed, the two partners flipped a coin.

"One of us became president and the loser became chairman of the board," recalls former chairman Oudt. "Of course at that time, we had no board to be chair of, so it wasn't a terribly prestigious title."

Koerner and Oudt wasted no time putting their plan for Barq's into action: They were going to take it national. Adopting a strategy similar to that of Dr. Pepper, another outsider soft

drink, Koerner and Oudt set about expanding Barq's distribution by forging alliances with local Coke and Pepsi bottlers, convincing them one by one to add Barq's to their line. To sweeten the deal, they used cash generated from the Biloxi bottling plant to boost advertising allowances for local bottlers, the kind of aggressive tactic that Barq's would become known for.

The strategy paid off. Barq's eventually built up a network of more than 400 local bottlers, reaching a potential market of 75 percent of U.S. households.

"We sold them the concentrate, and they would add the sugar, water and bubbles," Koerner says. "But they also had production equipment, sales teams, receivables, capital

and they had the local knowledge. We didn't bring much to the party except a good tasting product and a marketing program they could execute."

"We were pretty lucky in our timing," adds Oudt. "We found ourselves in a period of time when Coke and Pepsi were tolerating small cross-franchise brands like ours to exist with their franchise bottlers as well as their company bottlers. If we had tried to do what we did in 1976 starting in 1996, I don't think we would have had a chance."

In addition to the expansion strategy, Koerner and his vice president of marketing, Richard Hill, spearheaded an innovative marketing plan for Barq's.

"You need to differentiate your product, you need to define your competitive set and how your product is different in a positive way that can be communicated," Koerner says. "Soft drinks are all sugar water, so the imagery has to be more or less manufactured from scratch."

Sugar water or not, Barq's had a couple of things going for it. One was its "bite": Barq's has a sharper, tangier flavor than rival brands. Another was its "punch": Barq's is the only root beer with caffeine. In Koerner's estimation, that combination was a perfect match for a generation weaned on computer games and music videos. Barq's targeted its irreverent, rock-and-roll imagery directly at 12-to-24-year-old males, eschewing the 18-to-34-year-old market that most root beers aimed for.

"We used a lot of urban advertising—graffiti in the background, MTV-ish sort of stuff," Koerner says. "With that type of advertising, you're clearly communicating to a specific demographic. And then they respond positively. They embrace you as their own."

"You usually know it's working if you offend moms," Koerner adds. "When you start getting letters from moms, you know that your advertising is communicating correctly to young people. That's one of the sure signs."

Moms surely had a field day with some of Barq's promotions. It was a regular advertiser on MTV's *Headbanger's Ball*, a show devoted to heavy metal music, and sponsored a contest in which the winner received a Jeep, a \$1,000 supply of Barq's and a

personal visit from metal band Anthrax. In 1991 Barq's sponsored *Freddy's Dead*, the final entry in the slasher-film series *A Nightmare on Elm Street*. Cardboard likenesses of Freddy Krueger, the razor-fingered villain from the films, touted Barq's in supermarket displays.

One of its most memorable promotions was linked to, of all things, the downfall of the Soviet Union. According to Koerner, one of the benefits of being a smaller company like Barq's is that advertising can more easily be keyed in to current events. In 1992 Barq's pushed that concept to the extreme by sponsoring a "Soviet Union Going-Out-of-Business Sale." Consumers were able to send a proof of purchase and \$1 to the company in exchange for an authentic Communist pin.

"It went over very well," Koerner says. "Sales upticked, and we built a lot of credibility with our distribution system. Distribution systems tend to have a healthy tension with the creative element. With that promotion, they stopped fighting us and accepted with exuberance every other program we came up with from that day forward."

Besides his maverick approach to promotion and marketing, Koerner is also unorthodox in running his organization. While some executives spend 16 hours a day at the office and feel a need to be involved in every decision, Koerner takes a much more relaxed approach. He was always careful, for example, to leave his weekends free for hunting or fishing with friends or his two sons. "Empowerment and delegation is difficult for some people," Koerner says. "To me it comes naturally because I've got a lazy streak. I try to get good people with energy, intellect, attitude and integrity and then cut them loose. It's amazing what people can do."

By 1993, Barq's had firmly entrenched itself as the nation's No. 2 root beer, holding a 13-percent share of the \$1.8 billion root beer market and topping such rival brands as Pepsi's Mug, Monarch Co.'s Dad's and Cadbury Schweppes' Hires. Barq's was still several laps behind market leader A&W, which sat atop the fold with a 30 percent share, but the gap did not particularly disturb Koerner.

"In print you saw us compared to other root beers, but that's not the way the consumer thinks," Koerner says. "People generally drink colas, switch off for one drink for variety and then go back to colas. So they'll drink three colas, then come out and drink an orange drink; three colas and then come out and drink a root beer. So the truth is, we were an alternative beverage to cola, which describes 40 percent of the soft drink industry. Our competition was anything that wasn't cola."

By the mid-1990s, Barq's had leveraged its image for all it was worth. Available to 75 percent of the United States and poised to make a serious run at A&W, Barq's would need cash to take the next step. Koerner began to investigate taking Barq's public.

"I thought it would have been nice to take it public," Koerner says. "I think [an IPO] could have generated a pool of money from which we could have done a lot of other things, but we never got it done for whatever reason. Our research was presented and my partner said, 'Nah, that doesn't fit.' So we sold it."

"You've got to remember that over the years, the Coca-Cola Co. had never in its history purchased a franchised brand," Ouch says. "So when we made our deal with Coke, it was a first."

Since selling Barq's in July 1995, Koerner has been anything but idle. Through Koerner Capital Corp., Koerner oversees a variety of private investments, ranging from low-fat snacks company Guiltless Gourmet to a number of Internet firms, such as communications company Transphone. According to the investor, he's as busy today as he was in the heyday of Barq's.

"John is an entrepreneur deep down in his soul," Elstrott says. "He's driven to create another great business. He's gone completely outside of what he knows, which is beverage marketing, and into the Internet—totally outside his realm of expertise, but he's not intimidated by that. He's fearless."

"I'm enjoying the Internet-type companies," Koerner says of his most recent investments. "The information side of the computer is just now being discovered, and the entertainment value of the computer has yet to be discovered. There will be marvelous opportunities as you see a change of that magnitude."

While Koerner sits on the board of many of the companies he invests in and holds control positions with several of them as well, something is nonetheless missing from John Koerner's life, and he is the first to admit it. "I'm not running anything, with all the fun and positive stress that goes along with it—hiring people and empowering people and all the rest of that stuff," says Koerner, whose entrepreneurial aspirations are limited by an intention to stay in New Orleans. "I'd like to be back in that."

That desire to run a business is particularly strong each Christmas. That's the time of year when holiday cards and phone calls begin to trickle in from his former employees at Barq's, a closeknit bunch that numbered only about 60 even when Barq's was at the height of its operations. "They're all calling me back saying they sure miss it, their new job isn't the same," Koerner says, a nostalgic smile spreading across his face. "But that happens. You have to move on to the next thing and create the next team. And that's what I'm trying to do now."



Koerner, left, shows off his (temporary) Barq's tattoo, another of the company's promotional giveaways, for the cover of a trade magazine. On the right is Barq's chairman John Ouch.