

# **The Coca-Cola Company Raising the Bar: Marketing and Innovation As of Third Quarter 2023**

## **Robin Halpern (Vice President, Global Head of Investor Relations):**

This presentation is not intended to update, reconfirm, or otherwise provide commentary on post-third quarter trends and you'll see the forward-looking statement in a minute. Manolo, with that, I'll hand it over to you.

## **Manolo Arroyo (Global Chief Marketing Officer):**

Thank you, Robin. Good evening, everyone. Happy to be here today. Nancy and I are going to walk you through the latest and greatest of both marketing and innovation. As we start on slide 3, let me begin with some brief context. There are a lot of things happening out there in the world and the marketing landscape is no different - it's dynamic. And we're delivering in this dynamic landscape. First, the global population is aging. To deliver growth to the company, many of our brands have been around for decades and require updating in order to recruit new generations into them. Second, as you all know, the digital disruption has reshaped the media landscape and the way consumers relate to not only media, but also brands. We're delivering digital-led brand experiences to our consumers. And third, we're coming from a marketing model that while very effective, does have a lot of fragmentation. For example, we have more than six thousand agencies around the world, along with thousands of both marketing platforms and innovations every single year. So in order to deliver amongst this fragmentation, we needed to really move and evolve our model in a way that was balanced. For example, instead of relying just on the original power of our scale, we've focused on balancing our scale in a way that's still intimate and has a balanced speed to market.

As we transform our marketing approach to deliver amongst this dynamic landscape, we're focused on four pillars that will allow our marketing team to continue to drive our growth algorithm. As you'll see on Slide 4, the first pillar is reshaping our portfolio. We have reduced our original portfolio from more than 400 to around 200 brands today. And these 200 brands still comprise of twenty-six brands that are billion-dollar brands. When you really think about the portfolio, we still have the portfolio across categories to reach all the consumer bases.

There's a width and depth across all the different relevant segments in beverages and commercial beverages that exist today.

The second pillar of our marketing transformation is to shift how we approach innovation. So first, we set a goal to drive at least a quarter of our gross profit growth from innovation every year. In order to do this, we needed to change how we talk about innovation; it's not only product, package and equipment innovation, it's also the creative innovation, which has resulted in not less, but actually better and larger innovation across the world.

Our third pillar is to be more effective and efficient with our marketing spend. We invest a significant amount of resources in marketing, not only in the company but across the system. This was critical and we showed that every dollar would drive more and more top-line and bottom-line growth across the system.

And fourth, as I mentioned, we came from a model that was extremely fragmented. These 6,000 agencies are from around the world and from all different groups. To deliver growth, we are moving into a very unique, very different model that will allow us to still capture the beauty of leveraging creativity regardless of the source of the idea, and we're doing so in a way that is still driving scale at the intersection between creativity, media and data technology.

In addition to the four pillars guiding our transformation, on Slide 5 is a key chart highlighting how we're investing differently within this marketing transformation to recruit new consumers, and I want to leave you with two messages. Message number one is that our past model was perception based which we show on the left. What we've learned in the last 20 years is that although we were increasing the brand love, that increased perception and preference didn't necessarily translate into actual consumption behavior. That's the famous gap between what consumers say versus what they do. So how do you break up that path? It's very simple. Have your marketers not look into perception, but shift into actual behavior and that is really driving a very different dynamic in the way we plan and execute marketing.

The second message that I want to leave you with is that to drive different results, you have to do things differently. So for us, the core of what we're doing differently is investing very differently.

In the prior model on the left, it was a TV-centric model where we would basically achieve high-reach levels, 80, 90% population, including those that reject the category. In the new model on the right,

we have embraced the power of digital segmentation, allowing us to really focus our dollars in a much more targeted and strategic way behind what we call positive intenders. Intenders are either drinkers of the category or have positive intentions, but they drink in the category either with the competition or they're drinking your product with a lower level of frequency. But their positive intention is key. And then on the far right, when you see these rejectors, you don't need to invest dollars behind them and that drives a very different dynamic in this whole model.

Turning to slide 6, we're now applying our new marketing model into what we see as the future of marketing, which is what we say to consumers and where to say that. The drivers of converting someone that is only an intender into someone that becomes a regular or loyal consumer, for some consumers, is about consumption occasions or experiences. An example of this for some might be a passion point like culture, music or sports. For others, it's about innovation and ESG, and as you know for the younger generation this is very, very critical. That's the content. Now where it's really about delivering experiences is our shift of model. But this shift of our marketing model is not only from a TV-centric model into a digital model, it's more about a TV-centric model into an experience-based model.

So we have four winning experiences. Number one is product experience and product superiority.

Second when it comes to marketing, the way we connect today with generations across the world is digital. First, you're going to see some data around how we have not only enabled that, but how are we moving and embracing the power of digital. The third are experiences in our retail category. More of the marketing is happening in the packaging and in the retail channel which is driving consumption.

Then finally, we bring that to life through the power of live experiences. We understand how live events, street marketing, concerts, sport events, food events have a tremendous power to reposition our brands in the right way with our consumers.

Turning to slide 7, the shift and the numbers show how we have embraced digital. In 2019, around 30% of our mix of media was digital. This is total media spending globally, 30% was in digital, the other 70% was traditional TV. Right now, we have 60% in digital. Quite a few of our operating units, including North America and some of the other ones that Henrique manages have already surpassed the 60% you have seen. And you have seen some of the segments we are driving

with AI, which we see as a tremendous force in reshaping the way we do marketing across the board.

I also want to mention a very important competitive advantage that we feel in marketing that we have at Coca-Cola. When you look around the world, the number one transaction that is monetized in the world are Google searches, close to 8 billion per day. The second one in the world are Coca-Cola products, 2.2 billion servings per day. Every one of our packs in the near future will have a QR code, a QR code that will allow us to connect one side to e-commerce to transactions only channel. More importantly, it'll be a window. It's already a window into content, it's our new TV in a way, and therefore the importance and the way we're focusing on obtaining and increasing our first-party data, it is instrumental in this marketing transformation and ensuring that all the technology underneath underpins that.

To be able to transform from a TV-centric model into a digital first model, you need a different marketing factory. What I mean by that, the other model, the TV-centric model, as you may imagine, is about someone marketing with an agency. 15 days later, you get an idea. You counter brief, go on and on for a couple of months until someone gets into the final idea of the TV. That TV idea was surrounded by POS, promotions, et cetera, et cetera. Once it's ready, send it over to a media agency, and off you go for the next quarter or the following quarter.

In a digital world, you need a factory place where you actually produce and generate ideas and content that you chart with data in real time. And not with hundreds, but thousands of pieces of content, of marketing and inventory in the thousands, 24/7.

That leads me to explaining StudioX. We moved from the more than 6,000 agencies to WPP. WPP has 200 different agencies. We are not partnering only, let's say, with one big one within WPP, but we're partnering with 200 agencies of WPP with one single P&L, with one single relationship. And all of those agencies, an ecosystem of agencies that include creative agencies, media agencies, data agencies, come into a marketing factory that we call StudioX. And what StudioX is about is following nine physical hubs—one in each of our operating unit geography headquarters.

In each of those nine physical spaces, we have eight different marketing capabilities that you see in the circles on Slide 8. Creative production, adaptation, dynamic distribution, biddable media, et cetera. The importance of this is that they are all co-located. They're not

agencies in different buildings in different places. There's one single team, side by side, table by table, making marketing happen in real time. We have all eight capabilities with more than 2,000 employees of WPP fully dedicated to our marketing factory. This factory will be evolving versions 2.0 and 3.0 into more capabilities, including in homes.

That's StudioX and it's starting to yield results. As you can see in the chart on Slide 9, it's starting to increase our consumer base, and we're starting to see that conversion from intenders into regular consumers. In 2023, brand Coca-Cola recovered its ranking as one of the top 10 brands around the world. We lost that eight years ago and recovered this year. We also increased the value of the brand by 8% to \$106 billion while the rest of the food and beverage industry decreased in the same period by 2%.

Sprite in the US, which is the focus of Jennifer and team, became the number one preferred brand for Gen Z in the US. And we're becoming cool again. We're doing a lot of innovative things on AI and in marketing, but also in portfolio and innovation that my partner and friend Nancy will be happy to share with all of you. Thank you.

### **Nancy Quan (Chief Technical and Innovation Officer):**

Thank you, Manolo. I'm Nancy Quan. I am leading the technical, innovation and supply chain space for Coca-Cola. I'm very excited to be here to share with you what's happening in the innovation space. As we went through Emerging Stronger, and through the last few years, we really reflected to think about, how can we continue to raise the bar on innovation? What is it that we need to do to not just improve what we launch, how we launch it, but even where we launch? It really boils down to these three pillars on Slide 10 that I'll be talking about.

The first one is around being smarter with our innovations. This is about market intelligence as well as consumer intelligence. The second is having a competitive edge, not just in the product portfolio, but also in packaging and equipment. And the third one, and this one is very close to my heart, especially through the last few years, is making sure that we consider how to continue to create value across the end-to-end system. Through the pandemic and through the last few years with all the disruptions and things, as you could imagine, we are probably as close as we've ever been to the bottling partners around the world. Through the pandemic, the supply chain had to make sure that we worked through border closing, ingredient shortages, etc. Even with the dynamic environment we're dealing with now, we are connecting almost every two weeks. We've continued that through to

make sure we also bring that into other areas much more proactively, such as the innovation space. In innovation, we're working on how do we invest longer term, and looking at the longer-term investment? We're also looking at how do we continue to think about asset utilization? How do we improve the capability of the overall system?

Let me start with intelligence. This is market intelligence. We have a new frameworks on Slide 11 that I'd like to share with you in terms of how we're starting to look at how we launch and what we launch. The first one is around data science and AI. There's a lot of data and analytics around in the marketplace. What we're doing is taking market data, so what's selling, eCommerce, Google searches, et cetera, pairing it with social media, using an algorithm and understanding what is the pulse of the marketplace? What should we be launching and where, what's resonating, what's not?

An example we have is the Coca-Cola Creations. You've seen this product, hopefully. This is really about, how do we connect to different generations? The gen alpha is a generation that we've been working on [and realizing] gaming is very important for them. We developed a product specifically for that consumer. The other thing [we've started to do] is started working with influencers. This is where we realized that marshmallow is not just a sweet snack, but it's a DJ called Marshmello. We co-developed the product with him in the lab in Atlanta. This is just the way it must be [in the future]... not necessarily to sell more Coke-Creation products, but to bring more attention to the brand by working together.

The second area is this famous S-curve on innovation. Innovation usually goes through this curve where it's slow to take off, then it takes off quickly, and then sometimes it kind of flattens or even declines. For us, we've had examples where we came in too soon or we came in too late. There's a lot of data now that we're tapping into to understand, how do we come at the sweet spot, which is what we call phase two, right when it's starting to pick up and right before it scales.

I'll give you another example. Through the pandemic, we heard a lot of noise about immunity. Immunity was big. Everyone wanted products with higher immunity. Normally we would start developing the products and then by the time we launched it, it was reduced. But with our intelligence now, we realized immunity started producing and things like hydration, well-being, even mood started picking up. We were able to get some of our recent hydration products launched at the right time and brought into different markets.

The third one is really around clustering. Historically, we would say, "Who wants to launch a product?" Or it goes into the big markets, US, Europe, China, India, etc.. This clustering is really thinking about the "what." What is the maturity of the market and how is the category being developed? What's the consumer looking for? What's the perception on this? And instead of just having one product go everywhere, really being thoughtful on what the next launch is and the launches after that that make sense. We've got some analytics and data to help us identify those spaces as well. The Minute Maid Pulpy is a great product example of this.

And then the last one is our experimentation. You've heard us talk a lot about experimentation. This is an area that is super exciting, and we have here tonight what we call the "Shaken" machine. It's in the back, and you'll be able to taste it later if you haven't already experienced. This is leveraging our Freestyle technology and making a cocktail dispenser. At the push of the button, you can get a Moscow mule, Cosmopolitan, Rum and Coke, etc... and get a great tasting product. We applied our knowledge in taste and are able to deliver some great tasting cocktails.

Our experimentation is, "Where's the best place to go with this?" It's probably not where there's a bartender right next to the machine; it's in the venues where volumes are high. We have a few units in Mercedes-Benz Stadium in Atlanta being tested. Cocktails generate a lot of premium for the venue, but when half-time comes, there's long lines at the bar so they traditionally can't serve everyone in that time frame. So we have a few units there and it's lifted sales about 30% to 40% on average.

We also put the Shaken machine to the ultimate test. We brought it into a Taylor Swift and Ed Sheeran concert, and it made it through. But we're also learning a lot along the way. This is an example of how we're being smarter on understanding the pulse of the market...when, and where, and what to launch.

Next on slide 12 is super close to my heart, and this centers around consumer intelligence. Through the last few years in particular, we're really digesting what is the consumer really thinking, and being able to tap into a much deeper insight than we have in the past.

As an example of these deeper insights, we're now able to tap into more than 20 billion conversations in over 10 languages. Historically, it may be in English or through the internet. Now, we're able to get into their native languages. People speak differently when it's in their own

language, and then we can decode it, really understand it, and understand what are some of the insights coming from those communications...those conversations.

We also have the capability to do multi-sensorial facial coding. Historically, when you have product tests, consumers sit in a place and they answer the question, and sometimes they'll tell you the truth. Sometimes they tell you what they think they should say, right? With multi-sensorial facial coding, you can start reading really what their facial expressions are saying. For example, when someone drinks Sprite, refreshing looks like this [raising eyebrows]. They'll drink it, and then you see this [raising eyebrows]. We've seen with Fanta, there's this thing that they start lip-smacking. They go, "what does that taste remind me of," right? You can see when they smile, when they smirk, when they grimace. And so, we're decoding that and really understanding: are our products resonating or not with the consumers?

The next area is around product mapping, we're able to understand the sensory profile of different products around the world. What's driving preference in the UK versus in China versus India, etc.? We've looked at over 1,200 different products and mapped them and put them into our database to understand what's driving their preference.

And then, at the very end, we're able to take the whole flavor mapping and use things that make sense to us, scientists, compounds and things, to really understand what specifically is driving that preference. There's an example where we've been developing a product for the UK market. We found that through our product mapping, we identified different products that are in the market and even different products that exist. We went back and did the flavor mapping. We found out there's a black essence tea flavor, which is driving preference in the UK. It makes sense, right? People in the UK love tea. So, we're able to add that type of aroma essence into our products that is winning with the consumer. These are some of the things that we're working through, and we have a lot of capability that we're continuing to build.

The next area we're innovating as shown on Slide 13 is around bringing that competitive edge. I wanted to make sure we focus not just on the product capability, but product, packaging and then also the equipment space, which I'll talk about over the next few slides.

First, on products - you see on here on Slide 14, there's five senses. You see a big tongue, the nose, ears, eyes, touch [the five senses]. That's how our products are connecting with consumers. You hear the sound



of a can being opened; you smell; you see the fizz; you feel the contour bottle, you feel the packaging. For sure, taste is really important for us. So then, if you go to the Coca-Cola and it tastes great we know what's happening in the taste buds and even the aroma. Aroma is 60% to 80% of taste, and so if we know what's happening in the taste bud and then how it resonates through the neurotransmitters, how does that impact what the consumer is doing?

We use all of that technology, and we build toolboxes so that we can continue to develop products that are superior in taste. Then, in the middle, you have product superiority. We have our ranges of products. For sparkling. Fanta and Sprite we've relaunched them in many markets, and a lot of what you're seeing is because we're using a lot of these tools to really make sure that the superiority is being delivered in those markets. Coca-Cola Zero Sugar, we worked very hard. It's not by chance; it tastes great. There's a lot of science and investment behind that. In Alcoholic ready-to-drink, we've also applied a lot of this knowledge that we have on really great taste into our ARTD range.

And then on stills, there's a few different things. In our coffee products, which is ready-to-drink: imagine the difference between drip coffee and espresso. We're able to really fine-tune, through our process technologies and capabilities, how do you really dial up the different extractions, the flavor tones that you want in the products? Another example is Core Power, it has one of the highest protein levels of any beverage that you find in the marketplace. If you taste a lot of the other products, they're chalky when you get to very high protein levels. But Core Power is very smooth. If you haven't tasted it, I recommend you try it. It's one of the best products because of the technology we're using to get that feel.

And then on the far right, there's functionality. That's something that we continue to drive. Aquarius and Bodyarmor Flash I.V. are two examples. The Aquarius product, I will share, it was launched in Japan I think earlier in the year. It's IP-protected where there's amino acids and electrolytes bringing superior hydration. Why do you need hydration? When you drink something, you want it to stay within your body, your skin, it hydrates you, etc. You don't want it to go straight through. We have identified how to bring best hydration and zero sugar/zero calories. These are some of the things that we're doing also in the functional space. You can see on the bottom of the slide, there's a lot of capability we continue to build, whether it's AI digital tools, organic chemistry, Taste/Smell biology, etc. This is really where the physical and the digital get combined together to bring us the capabilities.

The next area we're innovating is around packaging, which you can see on Slide 15. And I want to spend a little bit of time here because we often talk a lot about products, and we haven't shared with you a lot of things that we have behind the scenes on packaging. This facility here on the left, it might not be exciting to you, but it's super exciting to my team. The PETC, Packaging Engineering Technology Center, is a facility that we have that is able to do everything from design simulation, injection molding, blow molding, coating, all the way through to validated model. Someone can take a back-of-the-envelope design and then come out with a validated and approved bottle that's ready to go into the system. And in there [PETC], we have designers, material scientists, packaging scientists, analytical chemists that are all housed there to help us try to make sure that that design is delivered, runs well, and is optimized from a sustainability lens and a runability lens for our system. As you can imagine, historically, when we tried to develop, we had several suppliers that we had to go back and forth with. This is all housed in one place.

We can do things like this bottle here [lightest weights bottle]. As you can imagine with sustainability, every single gram of plastic is important to us. And we said, "what's the ideal between PET and glass?" We have a bottle here that's in many markets already and it's got a very thin layer of glass coating. It's got a 1000th millimeter of the size of a hair. It's really fully recyclable, and what that brings us is you can really reduce the weight. We've been able to reduce the plastic weight 38%, but at the same time increase the shelf-life and freshness so that you went from a 12-week shelf-life to almost a six months shelf-life. What does that do? It's not just the benefit from a sustainability and a cost, but you can start producing much earlier for the high summer season. So we can really leverage the facilities year-round.

Slide 16 shows the range of packs that we have. Some examples we're looking at from affordability, premiumization, and sustainability. We're able to hit different price points with great shelf-life. You can see things like the universal bottle or premium glass bottle. The Schweppes model is designed after a champagne bottle. It's got a beautiful design. There are packages you can bundle well. You've got different sizes of Coca-Cola contour. You've got sleek can, mini can, and slim cans.

On the sustainability side, the six-pack is a keel-clip pack. Instead of the plastic ring, we've been able to use recycled cardboard to hold the stick packs together. The tethered closure is relevant in Europe. Not only have we been able to launch it across Europe, we've been able to

save 1.65 grams of plastic with every bottle and cap. And then the 100% recycled PET is now in over 40 countries.

And the label-less one, I do want to talk a little bit about this, but you see the Coke design, we think it's one of the most beautiful designs we have. Before, when we first tried to do it, we tried to say, "How do we do a label-less bottle?" The engineers took the label off and then they looked, okay, here's the label-less bottle. Then we said, "Okay, that's not good enough. Let's use the PETC." Because that [bottle] was very stocky, as you could imagine, and it didn't run as well. We used the Packaging Engineering Technology Center. The designer talked to the guy that was running it on the actual line. And with that, we're able to get as close to the original design as possible with the minimal amount of plastic. That's just an example of some of the packaging innovation.

And then, the last area I'll share with you is around the equipment innovation starting on Slide 17. Let me start here and talk about the variety that we're able to bring now. You have of course the Freestyle machines, the range that comes with Freestyle. This is a 9100 unit. This unit here is the Freestyle Flex, so it is half the price and footprint of the Freestyle.

And then you have, of course, water for some areas that need it. You have hot with Costa coffee. You have Project Shaken which is the cocktail dispenser. And then this cooler next to the Costa machine [on the slide], I thought it was worth sharing. I was just in China last week and this cooler is cool in the summer because you want cold beverages. But in the winter, the top three shelves, at the switch of the button, turns hot, so it becomes warm. There's 15,000 units that are already in the Chinese market and it's very sustainable. See, there's a sustainability side there. The team's been working with our partners, the equipment manufacturers, to really bring these things to light, to get our products where they need to be at the right temperatures.

And then, on the far right, if you ask what is the biggest challenge that we have on some of our equipment, one of the things is Freestyle's big, it's expensive, not everyone needs the same variety or even the same model. And this is the Freestyle Flex. It's bringing a very different opportunity. It is, like I said, half the price. It enables, again, different venues with a much bigger footprint opportunity for us.

This Coke&GO machine is an autonomous cooler. Basically, you open it, there's a camera, it recognizes the products. You can pay, it charges you, it's connected, and then you can take the product. It's 45%

cheaper than a vending machine. And then, of course, we continue to refresh our legacy range, as well, with more dynamic facings.

The important thing for all these is they can be connected from a digital ecosystem, so it can connect to the consumers, connects back to the operations, and it also connects to each other, and we continue to learn from those. And [you can] imagine if you're a consumer and it can connect to any of these machines, either a cooler or a Freestyle unit. At 2:00pm, this person usually drinks a coffee, so let's push a coffee coupon. Or at the gym, this person would benefit from a Powerade, so we should send a Powerade one [coupon] to them.

The connection is a really big part of it. Of course, every piece of equipment we're looking at that goes through our sustainability function, as well, to make sure that we are reducing energy as much as possible. We have coolers that are out in tests today that are 40 to 60% lower in energy utilization than in 2021. Those are some of the things that we continue to work on in the equipment space.

I talked a lot about how we're looking at the innovation. This is just a range of some of the things that are in our innovation pipelines and are out in the markets around the world. You could see it is not just products and it's not just marketing. It's a range across categories, sparkling, adult sparkling, coffee, tea, juice, dairy, etc. And it's also packaging and equipment.

Finally on Slide 18, we started this journey actually as we were emerging stronger, we're starting to see benefits and results and momentum come from this. As Manolo mentioned, innovation contributed 25% of Gross Profit Growth. We have looked at what is our success rate from 2019 to '22, it's double the success rate, and we have really good ways of measuring that now. And then, the last one is we're not just doing it at the expense of profit. Per launch profit is growing on average 12% between 2019 and 2022.

That's the summary. Again, it's around being smarter with our innovation. It is around bringing a competitive edge to product, packaging and equipment and making sure that we're tight with the system and looking at it from an end-to-end value creation for the full system.