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The Coca-Cola Co. (KO)

Barclays Consumer Staples Conference

CORPORATE PARTICIPANTS

James Quincey
President, Chief Executive Officer & Director, The Coca-Cola Co.

MANAGEMENT DISCUSSION SECTION

Unverified Participant

So, it's now my pleasure to welcome The Coca-Cola Company back to our conference, and that's with CEO, James Quincey, and CFO, Kathy Waller. Thank you, both, for joining us again this year.

James Quincey

President, Chief Executive Officer & Director, The Coca-Cola Co.

Thank you.

Unverified Participant

Coke is currently executing a comprehensive strategic and operational transformation. Key updates include shifting of focus from volume to value, accelerating brand diversification, reshaping the global bottling system, implementing a new operating model, and instilling a performance-driven growth culture.

During the last 18 months, these changes have culminated in Coke getting back to its long-term organic sales growth target range, while growing profits at or above the high-end of its algorithm. The company has also recently executed some M&A and, of course, we will touch on that this morning. So, obviously we're doing the chat. So, we will get started.

QUESTION AND ANSWER SECTION

Q

So, James, you've been CEO for a little bit over a year now, aggressively pursuing this ambition of being a total beverage company. So, the first thing I want to talk about was sort of cultural change. You've made the operating model changes, but the things that have to go with that is also cultural change. So, if you could just talk a bit about some of the biggest cultural changes that you're trying to bring to bear on the organization and how that's been going.

James Quincey
President, Chief Executive Officer & Director, The Coca-Cola Co.

A

Yeah. Sure. Obviously, the cultural piece is backing up the business strategy and aiming to reinforce the choices we made around the organizational strategy, in other words, pushing the accountability out to the field, out to the geographies, retaining just a few things, the head office in terms of setting strategy and governance.

And given that approach and that strategy for what we wanted to do, we said, look, we don't need to change everything in the culture. There's great passion in the business. There's great candid attitude. But we need to focus on four things. We need to recognize that large organizations, companies, governments, whatever, tend to become insulate over time, tend to try and replicate the past rather than the future.

So, we put the first item of saying we need to stay curious. We need to stay curious about what the consumers are doing, what works for our customers, what are new ways of doing things because, if we don't, we will always be trying to manage the business by looking in the rearview mirror.

But we didn't set – being curious is great and it can sometimes result in nice insights but no actions. We said, look, we got to be curious, we got to feel empowered, and that's supported the organizational strategy of don't come with the onset of Atlanta says you can't do that. What we can't do is written down. The things that aren't written down, there's space for you to do.

So, feeling empowered, feeling and focusing on inclusivity not just from a societal sense, but the ideas that we're in over 200 countries, just because you come up with a new idea doesn't mean it hasn't been tried. So, find out, get that learnings. Let's not make the same mistakes again. Let's make some new mistakes or let's succeed; so inclusivity. And then, finally, recognize that the world has moved on.

In the old days, if you put out one ad every quarter, it certainly made a sense to make that ad perfect; to invest the time in making it perfect. But in this new modern age where the cycle times are much faster there's not the time for that. And therefore, we need to be a little more like the software side of the world, version 1, version 2.0, version 3.0, and cycle through and learn faster. We said, look, if we focus on those four things, we will be much more forward-focused and we will lean against the natural tendencies of large and successful organizations, and that's what it will allow us to execute the strategy.

Q

So, again, roughly 12 months in, what letter grade would you give the organization on adapting? Because that's very, very different than the Coke – I read about the Coke I was told I was going to be covering in short order. This is a very different company. So, how do you think it's going and do you have almost like a scorecard for how often people are still checking back with Atlanta versus going for it in whatever region they may be in?

James Quincey
President, Chief Executive Officer & Director, The Coca-Cola Co.

A

Yeah. I think if I had to put a letter on it, it might be a B. It's not a D or an F, but it's not an A either. I think we can point to things, we can point to instances of people imagining there are lots of reasons they shouldn't do things when there actually aren't and they should go ahead and seize the day.

But I think they have made a tremendous amount of effort. And I can see that the effort is directed. There's a tremendous embracing of the strategy, of the organizational approach. So, I think they've made a lot of steps forward. I can see some areas where we still got some work to do. But that's to be expected.

At the end of the day, I don't believe the world is going to be perfect. Therefore, I'm not expecting a perfect result. It would almost be disturbing and unnerving if it were true. And therefore, there's always more to work on.

Q

So, not yet perfect, but you now have revenue growth comfortably come back into your long-term target range of 4% to 6% for about, I think, four quarters now. So, what would you say are the key drivers of that acceleration?

James Quincey
President, Chief Executive Officer & Director, The Coca-Cola Co.

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Yeah, I'm not sure the word comfortable has ever come out of my lips as it relates to top line growth. Look, yes, we had a good last few quarters in terms of the revenue growth. I think that it is a function of a couple of things. The first one is the momentum in the sparkling business. The simple maths of our business are, at least for the coming future, the sparkling business needs to grow in terms of revenue.

So, I think what we've done, partly the consequence and the benefits of refranchising, partly the reinvestment that we did over last few years, but also a refocus on a sparkling strategy, the One Brand Strategy for Coke, kind of building red into all of it and bringing the brand together where it had been fragmenting, responding some of the category concerns, the reformulations with less sugar, doubling down on Coke Zero Sugar, finding a new path forward on Diet Coke innovation. So, really working the whole cycle on sparkling and bringing in smaller packs and the revenue focus has given us some volume growth and some price growth, and therefore, revenue growth in sparkling. And without that, frankly, the rest of the equation isn't going to work.

But we've also taken a more disciplined approach in the other categories where we had invested a lot of effort of trying to get somewhere over the last 10 years. And I think that we've been focused on now is great. We've made some progress, but we need to be disciplined in either pushing some of those number two positions to leadership because that's where the scale and the margins come in. And if they're not making progress, what it's going to take to take to make some progress.

And then at the tail end, are we really being ruthless enough in being honest on this just isn't working. It's an entry and it hasn't got the traction it needs. We need to take it out and come up with a new idea rather than repeating it over and over again. And I think that has given us some traction on the still side. It's meant we've decided to walk away from some business, some low-margin waters, [ph] and things (7:12), but it's healthy in the long term.

Q

I'm going to stick with sparkling for a minute because I think probably the number one question that I get from people or maybe even it's a statement, it's not even a question is Coke's crazy. Why do they think sparkling is going to grow 2% to 3% over time? So, if you could just, for the audience, share your view how you're coming to your math on why you believe that there is that long-term growth in sparkling globally?

James Quincey
President, Chief Executive Officer & Director, The Coca-Cola Co.

A

Yeah, we may end up being crazy anyway. But look, globally, sparkling can grow. Why? Because it's a category that, yes, it's got some developed parts of the world and maybe those parts won't grow volume very much. But, definitely, between price and mix, if we do the right things on the brand marketing, on the packaging, on some of the innovations, it's a position where it can grow in revenue terms even if there's relatively little volume.

And then there are other parts of the world where the category is wildly underdeveloped. And if we build in the lessons we've learned in the developed world as we build that category out in the new world, it for sure can have traction long into the future. And I think that, therefore, the objective of seeing the sparkling category grow its revenue in low-single digits is absolutely attainable and it's what's been happening.

We've – in effect, over the last few quarters, what we've come back to is a balance of price/mix and volume. Actually, sparkling revenues have been growing consistently for many, many years. They're just growing, been growing more in price and mix than volumes. So I think we've got a little bit more balance back into the equation, but absolutely it's there.

Q

Wanted to just ask a little bit about emerging markets. I know we're not giving guidance at the conference, but there's definitely been a lot. Other than Canada, the hot topic is definitely emerging markets and whether there has been a – the degree to which we're seeing a change in consumer behavior outside of – well, the things have gotten worse and that there will be contingence. So, if you could just give us a little bit of an update, again, not in the scheme of guidance, but just thinking around some of your bigger emerging markets, what you're seeing from a consumer standpoint, things that have maybe materially changed for better or worse and how you're coping.

James Quincey
President, Chief Executive Officer & Director, The Coca-Cola Co.

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Yeah. So, evidently, there's some significant volatility on the exchange rates in a number of emerging markets at least from our perspective and our experience. And then there's a lag effect before it gets to consumer. We came to experience when there's a substantive devaluation, especially if it's then followed up with a spike in interest rates by the central bank to try and put a floor on a currency. With some lag, that tends to feed through into an inflation and, in some extent, compression of real income.

So, the driver of impact on our category and I assume the rest of consumer product is the compression of local real incomes rather than the devaluation per se. That's a translation [indiscernible] (10:25) problem, yes. But, from a business point of view and growth point of view, it's the compression of the local real incomes that is the driver. And that's a lag.

How these [ph] spike (10:37) down, whether they'll be long-lasting or short-term, we'll see. You wake up and something different has happened every day. But, from a consumer point of view, they will lag. It takes time. I think in some countries where the currencies have been under pressure for a while now, you can see the squeezes in real incomes and you can see the impact in our volumes in the first half. But it's that dynamic of waiting till the real incomes get affected. That's when it starts to impact consumer products.

Q

Okay. So, let's switch to non-sparkling. So, for a big part of Beverages for Life is non-sparkling, so in that context, we can talk about coffee. So, first, I think it would be helpful just, again, given that the transaction was announced on the very last day of summer. I don't know if everyone here listened to the call or not. So, why coffee? Kind of what give you the conviction that this is a category that The Coca-Cola Company really needs to and has the right to participate in meaningfully going forward?

James Quincey
President, Chief Executive Officer & Director, The Coca-Cola Co.

A

Yeah. So, the starting point for that and the entry point is when we were standing back and as part of designing the Beverages for Life approach, we sit down and say, okay, where is the industry growing? If we take the leading cities around the world and look at what millennials [indiscernible] (11:50) what is the engagement with the beverage category in its widest possible sense? And you look and you find three things.

One, they're drinking more units of commercial beverages. Two, they're spending more money on those commercial beverages. But three, they want more diversity of offering. So, if we as the leader in the beverage industry and also everyone recognize that leadership gives you scale and margin, if we want to continue and expand that leadership well into the future, we need to have a broader portfolio and diversified portfolio.

In the ready-to-drink space, when you take the global averages, we're number 1 or number 2 in every category. But as you look at what consumers are doing, clearly, hot beverages, coffee and tea, are a major piece of the equation and a major piece of the diversification.

So, we concluded that really we needed a coffee play. If we wanted to be a total beverage provider to our customers across all the different channels, we needed somehow to get to coffee. And there are people out there doing lots of different strategies in coffee.

But when we looked at it from our point of view and said, okay, what could we do that would work and synergize with our system, but be true to winning in coffee? We came to the conclusion that we needed was a global brand, a brand that could travel around most of the world, and a set of capabilities that would allow us to have stores to build the brand experience, to continue to leverage the vending, we've invested a lot in cold vending through Freestyle. We think that there's a lot mileage in vending with a lot of our customers and in certain channels.

Beans and machines is a big part of the business in the more fragmented and large parts of the world. Obviously, there's ready-to-drink and then there's at-home. We felt that these five formats with a global brand, if we could bring the right coffee capabilities with that system that will be a winning strategy for us and create value for the Coke Company and the Coke system.

So, we had concluded that, as we looked continuously at our kind of M&A and strategy radar screen, we had concluded that. And then as chance would have it, all of a sudden, the one that's top of our list suddenly becomes potentially available with Whitbread announcing their demerger. And so, we went and chased the Costa business because it's actually the one that's fits in for us. It's also at the White Rock stage of life, by which I mean, for us to be able to create value for our shareholders we need to be able to do something with it.

It's not just about getting it into the portfolio to have a picture on one of the eight slots on the screen, it's about how do we grow it. And what we found over our M&A history is there's a sweet spot for us which is brands grow and eventually they get to the point where they demonstrated success in a country or in a few countries, they created a brand that wins against robust competition, and it's starting to demonstrate an ability to travel to other countries. Yet, often, they don't have the resources, human, financial or system capabilities to really accelerate that global growth.

This is what we have. And so, if we can find brands that are proven to win in a few places and have the right formula, yet don't have this ability to scale quickly, that's where we can create a lot of value. And Costa is at that point two. It's done well in the UK and a couple of other countries, and we think the brand can travel, and it brings the coffee piece that we can match with the company and the system to accelerate it over time.

Q

So, we've been asked a bit about the valuation on Costa. Sort of I think many are saying it's a relatively rich multiple and also highlighting the same-store sales to clients in the UK as being a worry spot. So, can you just address those two topics?

James Quincey
President, Chief Executive Officer & Director, The Coca-Cola Co.

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Sure. I think the UK sales, they've slowed down, but I think they've chosen a strategy which I think is very compatible with the idea that there are these multiple formats. In the end, we're looking to build brand strength and build aggregate sales across the format.

And what they've been doing in the UK, they've said we're going to look at our market share and our profitability in a geographic area. And we're not going to worry about is the sale going through the store or the vending machine, we're going to look at the sum of total and the amount of capital it takes to growth that.

So if sales can grow and returns on capital can improve because you're using different formats to win in the local marketplace, it's a much better approach than just taking a format and worrying about how it's going to sell, because, clearly, you could improve the store sales by taking out the vending machines. But, in the end, you deploy less capital and make less money.

So I think they have an approach. The UK retail market is not without its problems. Clearly, they've got a plan to shift the estate between certain channels where footfalls are declining to channels where or locations where footfalls are increasing. It's not that there aren't any challenges, but I think they have a good approach that I think contextualizes the performance of the UK stores and their like-for-like sales.

So I think that's the strategy that works for us because what it says is we can grow the brand and we can seek to get the right return on capital and a good return on capital by balancing the opportunity across the different formats. If we can have beans and machines in only a few stores and that's the right approach for one country and, in other countries, it's vending in the few stores or vending in the beans and machines, we're looking for the combination that works across that.

And then in terms of the multiple, of course, we do like to pay less. Whitbread would've liked us to pay more. And then in the middle is the [indiscernible] (17:49). So, I think in terms of the multiple, I somewhat think that everyone is wishing that we could get away with murder. But, in the end, it's a multiple that's reflective of – a multiple that other liken companies trade at plus the control premium. And I think it's very much in the ballpark of other deals that have been done in this space; some a little less, some a little more. So, yeah, we do like to pay less, but that's where it has ended up being.

And in the end, if we had paid a little bit less or a little bit more, it's not about a few hundred million of more or less. This only works for The Coke Company from a strategic point of view if we can make a step change over time and it's about billions rather than hundreds.

Q

And just one more big question on Costa and the coffee category in general. So, I think the crossover that other big brands have had between the retail or the coffee shop experience versus the consumer products business has been a little bit track record mix, we'll call it. So, can you talk a little bit about how you think you'll approach sort of the, whether it's called, omni-channel or multiple formats and the intersection of the off-premise and on-premise in coffee for you?

James Quincey
President, Chief Executive Officer & Director, The Coca-Cola Co.

A

Yeah, I think even sticking with the on-premise, the on-premise itself for immediate consumption channels are multiple formats. Yes, in some parts of the world we'll have stores, but we can also be a much better beverage provider to other immediate consumption channels, whether it's the beans and machines or the vending machines. We have a tremendous business supporting customers across multiple channels in the on-premise or immediate consumption channels. And we can help them partner with a lot of people to grow both our businesses.

So, I think there's a lot of opportunity along that before you even to the at-home or the grocery side of the business. And again, we'll have to look at that and exactly how that works out. But I think, again, what we're trying to create is a strong brand and the right scale and economics by the different format. And it doesn't have to be the same weighting in every country.

Q

It may be too early to ask the question, but how do you think this sits in with the bottling network?

James Quincey
President, Chief Executive Officer & Director, The Coca-Cola Co.

A

Yeah, we have a hypothesis on how it fits with the bottlers and a hypothesis on which formats and which countries should we prioritize first. But as you kind of stay in the question, we need to be able to close the deal and really engage with the managers that are in the business to complete that analysis. And of course, in the case of the bottlers, engage with the bottlers too.

But if you go around the world, in pockets, in small places, you can see the bottling system engage in different – in each of the different formats of the non-store formats of the coffee already today. They're very small pieces we've dabbled here and there. So, we know that there's synergy and value that can be created working with the bottlers.

The bottlers are enthusiastic to start the conversation. We're a little hamstrung by the process that needs to be done to complete the acquisition, but that time will arrive when we can actually have a great conversation. And I am absolutely sure there will be ways to creating value together.

Q

One topic that I have sort of sound interesting is the various route-to-market that The Coca-Cola Company employs around the world. And then particularly, the joint venture in Latin America with Jugos del Valle. So, can you just talk a little bit about why that was the right structure in Latin America and whether or not it's a model that you think makes sense in other areas of the world?

James Quincey
President, Chief Executive Officer & Director, The Coca-Cola Co.

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Sure. I think in order to think about its applicability to the rest of the world, I think it's worth going back to the reasons why we did it in Mexico at the time. And I think what's important to know about the Mexican market and why we did the solution we did is, at the time, we were basically a sparkling and water business in Mexico. We had a few entries into the other categories. We were mainly a sparking and a water business. And that business, the sales were roughly 90% to the mom-and-pop stores and less than 10% to the modern trade.

And as we looked about where the consumers were going and the new categories that were growing, we could see that these other categories, juice, sports drinks, et cetera, et cetera, were only 50% in the mom-and-pops and 50% of the sales were in the modern trade. So, there was a very distinct difference in the distribution profile which was very driven by the consumers. The other categories tended to be higher priced and those consumers tended to go more to the modern trade. It was very important to recognize the difference there.

Now, at the time, we were 13 different bottlers. So, for each modern trade customer they had, the company plus 13 bottlers showing up and I think it would be fair to say that we were not the most effective partner to work with at the time. So, when we made the decision collectively to get into these other categories and, again, fortuitously, we found a path to making the acquisition of Jugos del Valle, we made a set of decisions that we are going to prioritize doing justice to those categories.

Rather than trying to buy Jugos del Valle or enter these categories and force fit it into the existing system because the existing system is what it is and, therefore, burden it with all the problems of the existing system which are likely, given the market structure, to completely destroy our chance of success, we said we're going to start by doing justice to those channels – doing justice to those categories. What is it that gives them the best chance of success?

So then we came toward what we need in this case then is a central manufacturing platform. We had 100 plants in Mexico or something at the time. We said we only need three or four plants to do these categories. We need a central manufacturing system. We need to have one central organization that sells to the modern trade so we can be absolutely world class in terms of servicing the modern trade on these categories.

And then, as it relates to the mom-and-pop where there's clearly a distribution expansion opportunity, the central manufacturing would make the product and the bottlers would take you to the mom-and-pop channels in all the 13 different bottlers and expand it. And that structure of the joint venture are very much the principle of let's do justice to the consumers and the category first and back it into our system rather than forcing things to fit into our system. We've tried that before and we've generally not succeeded to win.

And so I think, again, it's one of those early proof points that have led us to keep doubling down on. We must start with the consumer. We must start with the consumer and we must do what's required to win in that category even if that means coming back and having to reinvent the way we do things rather than just jamming it through and being lazy and just replicating the way we do things.

Q

So how does that tie into then the current structure in the U.S. in terms of the system? Could you still have bigger bottlers but many bottlers?

James Quincey
President, Chief Executive Officer & Director, The Coca-Cola Co.

A

Yeah. I think it's certainly one of the breadcrumbs on the way to the way that the U.S. system, the System of the Future, as it was called, project was designed. So, even though we had bought the U.S. operations of CCE, and we had then taken the [indiscernible] (25:22) from Coke Refreshment and done the refranchising, we recognized, in essence, many of the same things that have been true about the stills categories in Mexico, but were true about the sparkling category in the U.S.

In other words, we needed to have a platform so that we could coordinate production. We didn't need centralized production. It wasn't the same kind of dynamic, but we need to make sure we didn't have bottlers building plants either side of the river. So, there is some central coordination in the production.

We absolutely needed to make sure we were able to have one voice to the customer. Clearly, we weren't going to be able to be high up in performance with customers if we re-fragmented ourselves. So there is a national sales organization and a way of approaching customers in a unique way.

There was a new thing that hasn't been true at the time of Mexico, but clearly its true 10, 15 years later, which is we needed to have a data or an information architecture that allowed us to be able to connect us [ph] to everyone (26:23). The value and the use of information puts a big premium in not letting us re-fragment ourselves. So, there's a lot of IT coordination as well. But, again, very similar to Mexico.

The products then push the local bottler who wins in their local marketplace, has the passion for the local marketplace. And I think the combination of those doing justice to the consumer and being – starting from the point of how am I going to organize myself to help every customer, every retailer grow the beverage category faster than their business. What does that flow through in terms of the organization of us and the system and put that in place. And I think that's what's been behind or a big part of what's been behind us having a good run of success in the U.S. in the last number of years.

Q

I'm going to switch maybe and ask a little about the regulatory environment. So, last year, we're all panicking about sugar, now its caffeine and plastics. So, let's first maybe talk a little bit about potential UK caffeine regulation.

James Quincey
President, Chief Executive Officer & Director, The Coca-Cola Co.

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I don't think they're going to regulate caffeine in the UK. I think that there's some pressure on the school environment and the near school environment for a whole series of different food and beverage categories. And I think that's very logical given the government's health strategy for children. And so, I wouldn't be surprised if there were more things put in place there. And I think a lot of them have some logic to them. But, in general terms, I don't think there's a big change coming from caffeine. So, I think that's what's going on.

Now, plastic is a different thing. The good news about plastic is it's a completely solvable problem, especially PET, because PET is fully capable of being collected, recycled, and turned back into bottles. And actually it's fully achievable to get back to a closed loop economy in terms of PET bottles. I think, quite logically, governments are moving towards, okay, I want to find some way, shape or form to make sure plastic stops being single use. And I think we're fully on board with that.

We have a strategy came out in January and said we're very much focused on a world without waste. By 2030, we want to make sure we recover a bottle or can for every one we sell. And we want to be able to use as much as possible recycle back into our own bottles and cans. No new technologies ultimately needed. New technology will make it easier, but new technology is not needed. What's needed is to solve the organizational problem of collecting the bottles and then putting in the infrastructure to basically chop them up and make virgin material again.

So, it's solvable, we're very committed to doing it. I think a lot of other companies are moving also in this space. We go to the Consumer Goods Forum which is kind of the retailers and the manufacturers get together. I think there's a lot of energy around finding a way of getting this done. Not to under estimate the organizational problem of getting municipalities all around the world and getting collection systems up and running, but it's a fixable problem.

Q

So, it's not sugar, sort of the...

James Quincey
President, Chief Executive Officer & Director, The Coca-Cola Co.

A

Sugar's fixable too. It's a question of providing choice. It's a question of the smaller packages and the reformulations and the innovation. But I think all of these things require some adaptation. I think, in the end, the learning is you can't be against everything. You have to be in favor of something that's progressive and moving the world forward. And all of these problems require some form of adaptation, but if you embrace that idea, the business can grow. It has to adapt, but it can also grow.

Q

I have one more big question for me, but then I've got – so that's the warning to the audience to be ready to ask a question if you have any. But with the other – I mentioned growth of sparkling as being one area that's kind of pushback or concern I hear, and the other of course is diversification, just it's the right thing to do for the business, of course, but there are margin consequences that come with that. So, can you just remind us a bit on how you plan on managing through the sort of, by definition, margin dilution that you see as you diversify the portfolio?

James Quincey
President, Chief Executive Officer & Director, The Coca-Cola Co.

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Yeah. I think there are – I mean, firstly, I think the Coke shareholders want to take money to the bank. So, if the top line can grow faster, and even if those percentages are slightly less and that generates more money, then they're going to be happy than have less top line and a better percentage and less money. But I think it's about the portfolio management.

The good news is this is a huge business that needs to develop over time. There's a couple of things that I think are very important. One, most of the other categories can, when you reach leadership and have scale, develop attractive both margins in percent and dollar terms. So, part of this is about getting across the river.

We talked about in the Investor Day about leaders and challengers and explorers. So it's not just a question of is this category a lower percentage margin or a lower dollar margin than the sparkling category. Actually, the question is both more complex and more simple. It's more complex because even the sparkling category has very different dollar margins depending on which country you're in, depending on whether it's more developed or the emerging end.

So you get mix effects within sparkling every quarter. Within the categories, most of them tend to be explorers, i.e., very low market share but high growth or in the 10% to 20% market share, but not leader and therefore not the right margin. When they get – in the countries where they're after leadership, they tend to be attractive.

So, we can manage the portfolio. There might be some – we've talked about there's likely to be some gross margin percent compression as we push that process forward. Part of what we're doing on productivity is protecting the operating income margin and the refranchising is mechanically change the margin structure as well.

So I think it's a big mix thing and sparkling is not immune from mix in of itself either that we have to manage. But, in the end, we believe it can generate – through diversification, it can generate greater scale at good margins so the dollars on the bottom line are better than the alternative strategies.

Q

I'm going to look out to see if there's anybody with a question they want to jump in with.

James Quincey
President, Chief Executive Officer & Director, The Coca-Cola Co.

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No one.

Q

Okay. Don't say I didn't ask. Okay, here I go. So, I also had a question about small brands. You mentioned the framework of the...

James Quincey
President, Chief Executive Officer & Director, The Coca-Cola Co.

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Leader, challenger...

Q

...leader, challenger, explorer, [indiscernible] (33:24) direction I want to go in. And I think that something I found really interesting is the – I guess, so few companies have found a way to sort of do both. The shore up and strengthen big brands, while also recognizing that small brands need different business systems and different degrees of attention, and I think at the Analyst Day you outlined how you're approaching that.

So, within VEB, can you talk a little bit, maybe a high level discussion of VEB; sounds like you had a good amount of success in the U.S. It's a model now you're starting to export to other markets. So, can you talk about how you're evaluating where VEB belongs? How you make that global decision about where VEB and small brands should be explored next?

James Quincey
President, Chief Executive Officer & Director, The Coca-Cola Co.

A

Yeah. So, I think they've done a great job in the U.S. in sourcing the brands. The VEB was – ultimately, its first focus is finding the brands to invest and then bring into the system. Often, they would invest in them and actually the founders and the inventors would be the ones running them rather than us, which actually then, of course, abase the logic of it needs to be run in a different way. So, really, the first task of VEB was finding the right brands and the opportunities and we've done some more ones this year, some more investments. So, I think that's where it's really worked.

The U.S. is particularly dynamic in terms of new brands, so it had a logical origin here in the U.S. We're starting to bring that thinking to the rest of the world. Depending where it is it crosses with the second piece of the puzzle, which is operating in a different way to do justice to those small brands, so that they don't get lost in the big system because they need different treatment. The key success factors are different on what you need to do but needs to do different.

So, sometimes in the rest of the world, you see more of the second thing because you're in the smaller countries, you don't – there are not that many things to buy. But they infuse the approach that's needed and that's been developed by VEB. So, I think trying to organize ourselves over time in a global VEB sense will make some sense. But it's really those two things. It's sourcing and doing the investment deals and then it's operating some of these small brands in different ways to the big leadership categories.

Q

There's one thing I noticed and this maybe a little micro to ask you, I apologize, but in the New York region, I think there was a move of VEB being distributed through an independent and then bringing it into Liberty which just struck me as an interesting sort of [indiscernible] (35:59) are these brands graduating more quickly or is there something also happening within your bottling network that says, within the network, we can figure out how to do two things at once. There's room for the red truck also providing the, like, nurturing and love to the small brands at the same time.

James Quincey
President, Chief Executive Officer & Director, The Coca-Cola Co.

A

I can't say I'm fully familiar with the Liberty one in New York, but it's true. As we're gaining more experience of the companies and the system with being able to do justice to the leaders, do justice to the challengers and do justice to these small brands and, for sure, we're not where we all want to be yet, you see the bottling system start to develop some parallel capabilities. In the old days, we and they would try and put everything through the same pipeline and that's the thing that didn't work.

And a bit like where we started with the conversation around Jugos del Valle as a parallel system to the big red truck, the bottling system is putting in these parallel capabilities so that things can graduate through the different bits of school – junior school, middle school, high school. So, the bottler capability is growing and it's allowing us to do more things. Someone's running from the room.

Q

They don't want me to call on them. Let's take about zombies. So that's all in terms of cultural change and behavioral change, right, the idea of allowing failure; making room for failure. So, how has that gone in terms of, I guess as you put, the scorecard or the letter grade on culture change and asking Atlanta or not. But what about killing off things that aren't working well enough? Are you seeing enough of that activity yet? How much reluctance is there in the organization still?

James Quincey
President, Chief Executive Officer & Director, The Coca-Cola Co.

A

Yeah. Let me define the zombies for those who haven't heard the speech as well. It started with the idea of brands or SKUs. Typically, we'd launch into a category, and if the success criteria of launching into a category is you got to be growing double digits or much faster than the category you're entering because, otherwise, what chance is there you'll ever get to greater than 10%, you'll ever be on the track to leadership.

There are plenty of brands, tiny brands out there, and SKUs out there in the Coke system which have very low share and are either not growing faster than category or going slower than the category. And so they're just consuming management time and resources. And actually, you can extend that into projects and all sorts of other ideas.

And we had not historically been good at getting rid of these things because, in a way, the nature of the organization is always to look for opportunities. So, every ugly little project that come along, the deformed thing that wouldn't grow, the brand manager will look at it and all they – instead of what it was, all they would see is hope. Hope that they could make it better the next time around. And so, these things would just constantly be zombies. They'd be dead, but not actually dead.

And that's part of our B grade. We've made some great progress in parts of the world in really thinning out some of these brands, some of these SKUs, some of these projects. So, culturally, we're making good progress, but it's hard because they're all someone's great idea out there. And part of the B grade is we haven't done as good a job as we should have done on finishing off the zombies and recycling the money and the resources into it.

I think some part of it has been a choice around culture and organizational projects, because if we want to be true to the idea that the business units own the accountability and the decisions and they got to do the things, there's no point us coming in over the top and dictating which SKUs and which brands should be exited, because there might be some that, for very good reasons, happened to be on the zombie list that are going to be off next year.

So, we publish the list and we invite them to consider which ones truly are zombies and should be finished off and which ones are not. They have to take the action because that's part of driving the accountability. So, not surprisingly, doesn't work perfect the first time around, but everyone knows that next time the list comes out and it's all the same zombies, it's not going to look pretty.

Q

I just kind of vision this thing with like little clip art.

James Quincey
President, Chief Executive Officer & Director, The Coca-Cola Co.

A

Yeah, yeah. You told me. That was the emoji zombie. So, now, I can just respond to e-mails with the zombie emojis.

Unverified Participant

Perfect. All right. Well, that's it. I think we're going to breakout. So, thank you very much for being here, James.

James Quincey
President, Chief Executive Officer & Director, The Coca-Cola Co.

Thank you.