26-Sep-2018

The Coca-Cola Co. (KO)

Bernstein Strategic Decisions CEO Conference

CORPORATE PARTICIPANTS

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.

MANAGEMENT DISCUSSION SECTION

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC

Thank you all for joining us this afternoon to chat about Coca-Cola. I'm Ali Dibadj, Bernstein's household, personal products and beverages and snacks items. Great to see some of the familiar faces in the audience, [indiscernible] (00:24) happy to chat about the sector.

Coca-Cola is our favorite pick for the sector, and we're very, very pleased to have with us John Murphy to chat about Coca-Cola more broadly, and the sector – the region he is head of which is Asia-Pacific.

Now, we were joking about this earlier, John has for years and years and years been introduced to me as the up-and-comer, up-and-comer, up-and-comer in The Coca-Cola system by many, many people. Now he runs the whole region, and he still stays an up-and-comer. So keep an eye on this gentleman and we'll see [ph] where he (00:52) goes from there.

Now, if you have questions, we have a lot of time for questions, hopefully at the end. You have cards, as you guys know, write your questions on them, hold them up, somebody will come by, and pick them up, and bring them to me, and I'll sift through and only pick the hardest ones for John [indiscernible] (01:06) much further, please take us through your presentation, and we'll get to [ph] you engaging tonight. (01:13)

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.

Okay. Thank you. Thanks, Ali. Good afternoon, everybody.

John Murphy, I'm based in Singapore and I run our Asia-Pacific Group that covers five business units. I'll cover – I'll touch upon in a little bit more detail later. Let me start by allowing you to read that for a few seconds. And before we get into the main thrust of this afternoon, next 20 minutes or so I'd like to cover three topics. The first two to talk from a total Coca-Cola Company perspective on the destination that we're working towards and how we are trying to position ourselves to have a sustained growth equation for many years to come. And then let me spend a few minutes just to give a drill down into the areas that I cover in Asia-Pacific.

So when James Quincey my boss took over as President in 2015, he inherited a pretty strong business, one in which, as you can see here, we have the privilege to compete in a very healthy industry, not only because of its continued growth around the world by platform, but also in terms of how diversified it is across many channels. And he also inherited a business with a fair degree of momentum across the portfolio and with a pretty decent amount of scale working with our bottling partners in over 200 markets around the world and with a customer outlet base of almost 30 million, almost half of which are actually in my region of the world.

Over the last couple of years, we've been working towards an ambition, an ambition to become a total beverage company evolving from our traditional focus around sparkling beverages. I like to think about total beverage company in the context of someday being in a position to offer the best possible solution for any occasion that one has particularly – and for right now that would be in the non-alcoholics space.

To get there, there is three very key areas of focus in the company. One is to develop a culture that's performance driven, empowered and accountable. Number two is to have our focus as a company on getting to really understand our consumer base and to focus on building brands to connect with that base. And thirdly and not importantly, not unimportantly – I'm sorry, is to move our business to being asset-light, high margin and high return.

Many of you will probably know that for years we've had significant investments in bottling operations and over the last two years to three years have taken a number of steps to refranchise those operations. We're left today with a relatively small footprint, primarily in Asia-Pacific and in India and Southeast Asia.

Over the last three years, we've seen significant transition inside the company and with our bottling partners to allow us to I think have permission to believe in this destination to become a total beverage company. First and foremost is to really double down on being consumer centric. To say consumer centric in the sense of being in a position to offer a beverage for every occasion. Number two is to focus our system on driving a healthy top line revenue equation away from and instead of our historical focus on volume.

Number three, to play in the categories that where we see the biggest value within the industry. We've got five categories that we play in, five category of clusters. And last but not least is to develop up and down in the organization an approach to test, experiment, learn, adapt and to move on.

Secondly within the context of the changes we're seeing around the world, our system – I think our system has become even stronger and fitter. We have been able to refranchise that I've just mentioned a number of our large markets to bottling partners who are both capable and aligned with our vision. And within the last 24 months to lead this transformation, there have been many changes made throughout our organization, and many changes made to our operating model whereby there is a leaner center and a much greater investment of resources in our operating units around the world.

As we look to the future, we're excited about the possibilities for sustained growth ahead. This chart here gives you for the next on through 2020 our estimates of the retail value growth available to our industry. You can see on the slide the five clusters, all with healthy growth prospects. We play in all of these spaces, but to a varying degrees at the moment. Our sparkling business continues to be the largest part of our portfolio today and actually will be for a few years to come. And we are building positions in the other categories with a view mid to longer term to have scale, leadership that will ultimately translate into healthy margins and even healthier bottom line.

Many of you will have seen and read about the recent news of our offer to buy the Costa business based here in the UK. We think that offers us a terrific opportunity to play in a space that today we don't in hot beverages. The coffee category is a $300 billion category around the world, it is growing in every part of the world and we're excited about the possibilities ahead for us to be able to take into our system not only the Costa brand, but the capabilities that come with this to I think to give us permission to believe that we can be a meaningful player in this important space.

The world is changing in all around us every day. I'm sure all of you – I'm sure all of you experience that. In our world we see a lot of dynamism with the consumer. In Asia-Pacific, for example, we have a consumer base that is, it's a fascinating, it's a fascinating equation, rooted in rituals around homebrewed beverages, a broad palace to participate in hot, cold, sweetened and non-sweetened, increasingly curious to try more stuff and with technology being able to do so. And so it creates for us a very dynamic environment across just about all of our markets.

We're not immune, like [indiscernible] (10:44) we're not immune from the regulators. It is an important area for us to manage. And we do so in different shapes and forms around the world. And we've talked a lot in just about all business there, but we need to adapt to the digital world around us and it's an exciting space that we're playing in. And particularly in Asia-Pacific, we see there's been a tremendous – both opportunity and challenge for us to embrace as we seek growth.

With this changing landscape, we're pretty focused on a few priorities. Number one is to accelerate our – the growth of a consumer centric portfolio. Number two is to become really smart and good as driving the right revenue algorithm for our business starting with having the right portfolio in place, building brands that have staying power with the consumer and generating both top and bottom line growth for both ourselves and our bottling partners through with a variety of means around our, particularly leveraging our packaging architectures.

Our system is rooted in the franchise model that we think continues to be the best way to go to market. And yes with all of – with many of the bottling partners, I deal with in Asia-Pacific and work with, we all recognize that it's a – it's also a model that needs to get continued innovation into it. So we've got a lot of exciting work underway with our bottlers in all of our markets. Digitizing the system is an ongoing piece of work that is [ph] frankly (13:02) just absolutely mandatory in order to have permission to compete in the 21st century. And around the world we have directly employed, I believe, we employed the system around 700,000, 750,000 associates. It's a pretty sizable army of people when motivated and inspired in the right way, impressive what they can deliver.

When I think about Asia-Pacific, I think it's good to have a little map up here to describe the region. I am responsible for five business units, Greater China and Korea, ASEAN, Southeast Asia, Japan, India, Southwest Asia and South Pacific. And our Bottling Investments Group, which is today covers markets in Southeast Asia and about 65% of India and some of the Southwest Asian markets also reports in to me. Asia-Pacific represents about 52% of the world's population. So, a pretty sizable portfolio there to play with and to work with. And we have an industry retail value close to $300 billion and growing mid-single digits in each and every year. So good position half the industry and tremendous opportunity with both the size of the population, the degree to which it's urbanizing and the degree to which technology is engaging and connecting that base with businesses like ours.

We think there's a compelling growth opportunity in Asia-Pacific. This chart here I keep very close to me when I need moments of optimism. When you look at the percentage of beverages that today remain non-commercial and you think about the opportunity head by both commercializing them and playing with them it's pretty significant. So bringing the Asia Pacific non-alcoholic ready-to-drink business to the global average would generate an incremental retail value pool of almost $120 billion. So we think it's an exciting part of the world to not only to be in, but to be investing in and looking for exciting growth prospects for the future.

When I mentioned earlier about the idea of becoming a total beverage company, it's actually – it's not that new. I worked in Japan in my first overseas assignment in the early 1990s and I did a project there which was entitled becoming a total beverage company. And so Japan has been and continues to be a pioneer for us and proof that it is possible to move from being a one or two category company to being a player in every meaningful segment. Today we've got a healthy share position. We have a portfolio actually that goes as close as I think we have anywhere in the world to being able to deliver on that ambition to offer a superior beverage for every beverage occasion and we are learning in other parts of the world how to turn Japan from being the exception into being the example.

I have used this slide in a number of discussions on some of the things we're trying to scale across Asia-Pacific based on the experiences that we've had in our pioneer markets and also in other parts of both Asia and around the world. But a few points I'd like to highlight that I think are critical for not only for us, but indeed you could apply this I think to a number of companies is, first of all, it's really important to anchor the portfolio around brands that lead.

Leader brands by definition are the ones that generate the velocity, the margins and ultimately the bottom line that we need. And in Asia-Pacific, we have divided those into sort of three buckets. We've got our global brands that are pervasive like Coca-Cola, and some of our regional brands like a Georgia Coffee and local brands like in India Thums Up we think are critical to have in any portfolio to anchor the business around.

The second thing that's been a great learning and I think in other parts of the world resonates very well is how important is to not stand still even regardless of the strength and the bigness of a brand. And so keeping brands relevant is something that is very much under the hood when we talk about following the consumer. China is a good example. In our Chinese New Year promotion, we have a huge promotional calendar to capture the opportunities in Chinese New Year every year. And it's built around a relationship that we've been developing with the consumer for many years through brand Coca-Cola.

This past year we had a digital red letter in China, in Chinese New Year, many of you have probably already know that the tradition to give gifts to people, give money in a red envelope. And so, we had a digital promotion built around the red letter that generated, I think it was 560 million engagements with consumers in that Chinese New Year period. And so, when I talk about building relevancy, it's really critical that we capture those sweet spots between what's important in the daily lives of people and how our brands can intersect with those moments in a meaningful and ultimately for us in a profitable way.

Third point you hear a lot of – there's a lot of literature out there about the goodness of failure and how important it is to embrace this, just some tremendous examples I think from my time in Japan, we try to get into the green tea space three or four times. We finally with a brand called Ayataka about six, seven years ago practiced and today it's a $1 billion brand and one of the fastest growing in the Japanese market. To build out to play with the consumer on every occasion demands a supply chain that's nimble, that's agile, that allows you to invest ahead of the curve that allows you to create the networks that are needed to make good on your promises as consumer. This little graphic here is something that we're building and replicating across the region and is the key actually to opening the door for us I think to become a total beverage player.

The last, but not least, the franchise model works beautifully when we have a partnership with our bottlers that is aligned and both sides are both motivated and excited about what's ahead. And we've done and are doing a lot of work with our large partners in the Asia-Pacific region to ensure that we have that right spirit, the right tension and ultimately the right execution in the marketplace.

China and India for me personally are two mega priorities. A couple of points that I'd share with respect to both of them is, is that to capture the opportunities of an India and China is that I think about them like continents. And what is critical to be successful is to go really granular and understand the consumer, customer channel and competitive dynamics in the case of India by state or in the case of China by province. And there are dramatic differences from one end of a country to another, and it's incumbent upon companies like ours to not only understand and appreciate those differences, but then to shape a portfolio and a business system to be able to capture them.

Sometimes it gets lost in the equation that we operate a daily business, tomorrow, we haven't sold anything. And it keeps us on our toes and so assured. And one of the big opportunities in the developing world is to continue to expand our distribution footprint. This year we will open 300,000 new points of availability, new customer in China. We will open 200,000 in India, and we'll do the same next year and we'll do the same the year after.

I mentioned earlier that we have almost half of the retail outlets of the Coca-Cola Company's customer base around the world. There are 30 million customers in retail outlets in Asia-Pacific. We are present in 15 of them. Of those 15, we deliver directly to 2 to 3. The remaining 12, we work through partners and wholesalers. So it's really important that as we continue to build out a portfolio of exciting consumer solutions that we don't lose sight of the importance of making that portfolio available on a pervasive basis. And these two countries particularly present tremendous both short and longer term opportunity to do so.

And last, but not least, in both India and China, if you're not already going digital, you are really less to the equation. And over the last couple of years, our digital efforts have been built around five very key focus areas. One is learning how to market in a digital world. The chart here says digital marketing, we'll have trouble getting people to understand that it's marketing in a digital world, and that's really, really important. Number two is the e-commerce space, while its small as a percentage of today's base, it's rapidly growing and demands new capabilities to capture the potential there. Number three, the B2B space is one where for our system is critically important to understand the technology developments and how new players are coming in to participate in the distribution space.

Number four, data and analytics like every business it's an area where we are investing significantly, but doing it in a much more collaborative fashion with our Bottling partners, so that we can actually leverage data in a way that helps grow our business. And last but certainly not least, getting leadership of our system right down into the lower levels to embrace what it takes to operate in the digital world, requires many of us going back to school, and sometimes on learning what we've learned in the past are relearning or learning new stuff and that's an ongoing challenge.

And so in Asia Pacific, we have a mantra. Today, we think it's not just the compelling opportunity for the future, but it's time for us to win and to take advantage of the tailwinds available to us. We've got a compelling growth opportunity. We're very clear on the global priorities that James has and continues to assess and how they need to get translated into our markets. We work hard to align and motivate our partners to be on this journey and across and up and down the organization, we are investing heavily to make sure that we've got both the right people with the right mindset and the right freedom to go off and do what they do best and ultimately help create the value that we believe that is available.

Ali Dibadj

Analyst, Sanford C. Bernstein & Co. LLC

Great.

John Murphy

President-Asia Pacific Group, The Coca-Cola Co.

So that's it for the sort of the opening and I think I'm going to sit here.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC

Please do, yes, yes. Look thanks very much, we'll do questions.

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.

Thank you.

QUESTION AND ANSWER SECTION

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC

Q

There are a couple out here, please pass them forward. We'll do a little bit of quick-fire on some of these questions, they will be about top line, they will be about margins, they will be about strategy about Asia-Pacific and more broadly. I do want to start with Asia-Pacific and just talk about the volume growth you've seen recently, so 5% in terms UCV growth.

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.

A

Yes.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC

Q

How sustainable is that, what's that coming from? And if you can, look the pricing was less than the volume. How much is that part of the strategy as well?

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.

A

Yeah. First of all, the volume growth has been driven primarily by an uptick in performance in China and in India. We've enjoyed for the first two quarters of the year, and actually towards the end of last year we had seen some momentum building, enjoyed positive growth in both of those markets. We're also seeing in some of our mid-tier developing markets. So for example Vietnam. Vietnam is having a very strong year. So the volume growth is primarily coming from the big developing markets. In the case – and you have to then I think look at each one of them to – and before I conclude on what does this mean going forward.

In the case of China, we've come off a very arduous refranchising process about a year-and-a-half ago, we have – I think our system really focused on the marketplace. The macro environment in China has been helpful and it's interesting that there we're seeing the economy has been much more consumption driven today than it was in the past. So I think we're seeing the consumer equation much more healthy in China.

In India, we have come off a couple of very challenging years, when we went through a number of changes in the tax code that had a short term depression on the business. And we see India bouncing back both on the macro front, but also when you look at the big regions on the consumer equation and certainly in Vietnam. So I think we're seeing the benefits of a favorable macro environment. Consumers are spending more money on non-essentials and I see that in those larger markets I see that continuing for the medium-term.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC

Q

And you have had some issues in some markets, so South Pacific only being 6% of volume, but it's been quite challenging.

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.

A

Yes.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC

Q

Can you talk about what makes that a challenging marketplace?

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.

A

South Pacific, yes. South Pacific is made up of Australia, New Zealand, Papua New Guinea and the Pacific Islands. So actually Papua New Guinea is now – was moved out of the Pacific Islands. So it's primarily an Australia story. Australia has been a challenging market for gosh for the last three or four years. And we are in the early stages in working with our bottling partner Coca-Cola Amatil on a program to both capture what we still believe is some pre-seasoned growth in our core business. But the Australian consumer has moved faster than we have into this total beverage play. And I think we have been latter than other markets to invest in the capabilities needed to become a participant in the total beverage space. So sparkling beverages have been challenging and the newer categories have grown faster than we have. We think as we go forward about 30% of our growth can still come from sparkling, but a big chunk will come from investing and participating in the newer categories.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC

Q

Okay.

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.

A

And that's not an overnight success story.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC

Q

Okay. A couple of questions on – including mine on Philippines.

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.

A

Yes.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC
Q

And changeover a bottler there that seems to have always – recently been a challenging market place. Why was FEMSA not the right partner? Can you give us more of a focus on the challenges that you are seeing there?

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.
A

Yeah.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC
Q

And what the fix is?

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.
A

Yeah. First of all, I don't think – it's not a question of Coca-Cola FEMSA not being the right partner. The conditions on which they decided to invest in the Philippines in 2013 changed pretty significantly towards the end of last year with the imposition of a pretty hefty sugar tax. And so they had the option before January of 2019 to put that business back to us at the same prices as they brought us. And the assumptions that they had originally invested have changed and they felt it was in the best interest of their shareholders to make the decision that has done. We tried to come to a middle ground and what they wanted for their shareholders was a little bit different that we felt was the best decision for ours. And so they've given it back to us.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC
Q

But do you think were not for the sugar tax change, it'd be as it was a year ago in that marketplace?

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.
A

Yeah. I think the conversations would have been very different. I think it played a pretty significant part...

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC
Q

Yeah.

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.
A

...in the conversations and given the time period that was in the agreement, I think it also contributed to the decision.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC
Q

Okay. Now you mentioned Japan a couple of times. We do have a couple questions about Japan...

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.
A

Yeah.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC
Q

...back in the day, Japan used to be 20-plus-percent of the Coca-Cola Company's operating profit.

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.
A

Yes.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC
Q

It's not anymore. It's half [indiscernible] (34:43). Can it get back there? And well we'll start with there.

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.
A

Just given the math of the rest of the world I would love for it to get back there. I would love for it to be 20%. I don't think it will get back to 20%. Do I think there is still growth in Japan? The answer is yes. But I think we need to make some adjustments to how we go to market and where we focus in the markets in order for that to happen.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC
Q

So for example?

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.
A

So, for example take a look at the demographics of Japan. I think I read recently that 20% of population of Japan today is over 70 years of age, now most of them will live for another 30 years given the longevity there, but our traditional approach is to focus on people between the age of 18 and 49. So, one could argue that for many, many years we have had a significant part of the population off our radar screen. So I think it's incumbent upon us in the spirit of what consumer-centric needs to look like going forward in Japan to bring them into the fold and bring them in very quickly and understand what they're looking for and build a portfolio to deliver it to them.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC
Q

We'll talk about the portfolio a little bit.

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.
A

Yeah.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC
Q

Clearly it's much more of a total beverage company in other places that you've mentioned. What are some constraints about turning the rest of Coca-Cola into that total beverage company that Japan has?

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.

A

Let me start at the back end. I think one of the constraints that sometimes is easy to overlook is your ability to make and deliver a broad portfolio of products. For Japan, when I worked in Japan in the early 2000, back in those days, Japan represented about 1% of the world's global coffee export markets. So you need a big capability in how to manage coffee to get it into a can. We were the largest milk purchaser in Japan. So the capability to manage agricultural commodities is not something that you just turn the switch on in markets of the proxy world. So there's a supply chain capability that's required, you need to invest ahead of the curve, sometimes to be able to tap into the emerging trends. Today, for example, in Japan, we're seeing a much faster shift by the consumer into PET coffee than we had anticipated and we're not ready for it. And those kinds of barriers that have gotten in the way – are getting in the way on the market.

The other side of the equation is building $1 billion brand is not an overnight success story. And I think part of what has been special about our portfolio in Japan is that it's combined this – been able to leverage our global footprint of brand with creating local brands that are unique to what the consumer is looking for. So getting that brand portfolio rise is – let's say, it takes time.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC

Q

So let's talk about the brand portfolio and the product portfolio a little bit more broadly than that. You have alcoholic drink launched in Japan. What are the learnings there and can that be something bigger? Could we see Coca-Cola buy a beer company or anything like that?

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.

A

Just a little context on the pilots we have in Japan. Our competitive set in Japan is made up primarily of the alcohol companies Suntory, Kirin and Asahi. They all enjoy participation in the alcopop category. It's a $3 billion category in Japan and it's profitable, very profitable, and they use that to fuel investment into categories that compete directly against us.

It's supply chain-friendly. Most of the products are produced in cans, so it's a sparkling beverage with a little bit of alcohol in it. And we felt that for Japan, it was something worth experimenting with. So we've launched – we've had a pilot running in Kyushu in the west of Japan for a couple of months that has gone reasonably well, and we will seek to expand that into the national footprint over the next 12 months to 18 months.

And we're learning from us. Whether we'll do it elsewhere is certainly, has not been decided yet. And we think it's a long way from whether or not we'd get into other alcoholic beverages.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC

Q

But as a total beverage company, we all are talking about NARTD, do you think NARTD drops the NA part and just becomes alcohol as well as part of the addressable market for Coca-Cola?

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.
A

Yeah.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC
Q

...if that ever happens?

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.
A

Yeah. I've used my boss's language, he will say, I'll never say never. Right now we think when you look at the slide earlier, we think that there's enough opportunity for us to get our arms around in the non-alcoholic space to keep our [indiscernible] (40:57)

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC
Q

[ph] For non-alcoholic of Energy (40:58) can you talk a little bit about Energy and Monster and how important it is to you and the region?

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.
A

Yeah. Energy is a – in most markets it's a pretty sizeable category, and with the agreement that we struck with Monster or whatever it was two years, three years ago, they're responsible for playing in the Energy space around Asia-Pacific. And they do – they're – I think they're learning. They're learning what does it take to be successful in the developing world, in markets like India and China. They have – I think they're in the early stages of building both the capability and the footprint that I think that they think is possible there. In some of the developed markets like Japan, Australia, they're enjoying I think a lot of momentum.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC
Q

Okay. So, we talked about Energy, we talked about [indiscernible] (41:59) we talked about sparkling obviously, each of those have their own regulatory questions as well around them. We've got several questions just around the question of obesity.

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.
A

Yes.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC
Q

Is that becoming a bigger issue in the emerging markets. What are you doing about it? Do you have metrics on BMI of your particular country? I mean, how do you manage this new evolution of kind of clamping down on sugary beverages that have started here and now is spreading everywhere.

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.
A

Yeah. First and foremost I think it's important to recognize and acknowledge that it is an issue. I think for – we might have been later than we should have been to do so. Secondly, we are doing a lot. We are doing a lot in the – with – working with regulators with other stakeholders who to only do what we think is right for our industry, but also in the total context to deal with the issue. An example – good example would be in Singapore, the Health Promotion Board in Singapore has become a very, very good partner. And we work not only with them, other members of our industry and others in the food industry to come up with a more comprehensive set of solutions.

We are investing heavily in smaller packages. We have done a tremendous amount of reformulation to reduce the sugar footprint, particularly in our sparkling portfolio. We are in – we have expanded and continue to expand our low and no cal footprint. Japan, I mentioned earlier, they are a pioneer today, 62% of our portfolio in Japan volumetrically is low or no cals. So, we think the sugar challenge is one that embraced the right way is one we can make tremendous progress with over the next few years. In a number of markets, as you're aware, some governments choose to use taxation as a way to regulate the ingredients. We have a point of view on that. We support the concept of generating revenues through taxation. But we will fight our corner if we think it's discriminatory against the specific category like our own. And we're very active in conversations with governments around the region and ways to optimize a tax strategy if that's the one that they choose to pursue.

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.
A

Okay. So we only have about five or six minutes on clock on this. We've talked about total beverages, which means more fragmenting of brands that circle the many, many more brands there. Doesn't that change the power dynamic between your bottler and yourself right? They are the kind of captive distribution, you have to come into them to take more and more products as opposed to having a singular Coca-Cola brand that they'll take. What does that mean to your economics? What does that mean to having bottlers continue to be separate as opposed to need that power in house?

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.
A

I think it's a pretty complex equation actually. For us, I think, the economics – the economics work over time. In order to pursue a total beverage strategy just a few things, especially at the starting point, a few things I think you have to believe in. First of all you have to believe that there is – that the opportunity exists to grow our core business in the short to medium term. And we think that's very, very possible, and I think our [indiscernible] (46:03) too.

Secondly, to complement that you've got to believe that you have the ability to build brands that over time can scale and ultimately deliver the kind of margins that we've historically enjoyed in our core business.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC
Q

[indiscernible] (46:20) always margins – and just because they are always margin dilutive, right, relative to [indiscernible] (46:24)

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.
A

Not always...

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC
Q

Okay.

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.
A

Not always. But typically in the early days they can be. And, but over time the – what we've seen is the economics of some of these other categories, if you have a leadership position are not that different than our core business. But that takes time and it also takes a leap of faith by both the company and our bottling partners to invest ahead of the curve. And for them I think one of the biggest challenges is to make that commitment not – if you were to invest, for example, in aseptic technology, which you need to be able to participate in the value-add dairy space, in unsweetened green tea, you're investing significant chunks of money before you see a product, a solution. And it takes a foundation of trust in each other's capabilities before they can do that. And I think we're making progress on that front with our bottling partners, but it certainly changes. It changes the complexity of the equation to create value for both sides.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC
Q

Okay. I am going to try to slide in three questions, if I can. One is around just in terms of these margins for now are going to be little bit dilutive perhaps, you have a cost savings plan of $3.8 billion as a company as a whole, oftentimes as the water goes down you see more opportunities arrive. Do you think as you look at it for your region or as you talk in meetings about the overall Coca-Cola Company, we're going to get to more than $3.8 billion as a target for cost savings.

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.
A

Yeah. I think there is always going to be more opportunity. I think productivity needs to be and become part of your DNA. And no matter where you are at a given point of time, there's always got to be, especially when you take the total amount of spend, regardless of the line item it fits in, and I think that there is continued opportunities.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC
Q

Two more. So again another question related to this [ph] following the thread (48:40) what metrics are you being judged by, right? So, I get volume, I get now revenue right, what are the metrics are you guys judged by? So for example, is there sustainability piece to it, which is becoming extremely important, is there an ROIC metric, what are the metrics do you find are important?

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.
A

On an annual basis our incentives are aligned to revenue, profitability and cash flow, number one. Number two, our variable incentive scheme, so to speak, are linked into whatever objectives you set at the start of the year. Those objectives are now, it's now mandatory that you have an objective on people development, on sustainability, and on some on the softer areas that historically we are less than [indiscernible] (49:40) a little bit. So I think there is less room to hide than they used to be, as it should be.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC

Q

That's great. And again, kind of hopefully this has been [ph] a threads of our (49:49) conversation. My last question is in terms of less room to hide, how has life changed under Quincey.

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.

A

There is less room to hide.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC

Q

I hear that. But [indiscernible] (50:01)

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.

A

Yeah. I think there are a couple of points to say about working with somebody like James is that he's a very inquisitive and curious individual and he starts I think with a premise that he's not necessarily right. And that creates a very, very healthy dynamic in any conversation when the top guy in the room is one who is openly willing to say, I don't really know what the answer is here, but I think, you can help me. That creates a very different dynamic.

Number two, he is – I think, he is very comfortable with empowering big decisions into the organization to people who we trusts and he's building a cadre of people, not only around him, but down into the organization who he trusts to take that empowerment. With that empowerment there will come an accountability to use it properly.

And part of the change dynamic is a little bit paradoxical somewhat to, his personality is that you're being held accountable. And if you deliver fantastic and if you don't there is nowhere to hide. And I think that's both within our company and with our bottling partners, I think is creating what I would call a sense of positive tension that in my experience is a necessary ingredient to value creation.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC

Right. Being a building a cadre of people including up and comer, John Murphy, so thank you very much for having us.

John Murphy
President-Asia Pacific Group, The Coca-Cola Co.

Thank you very much indeed. Thank you.

Ali Dibadj
Analyst, Sanford C. Bernstein & Co. LLC

Yeah. Thank you.