Corrected Transcript

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The Coca-Cola Co. (KO)

Redburn CEO Conference

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MANAGEMENT DISCUSSION SECTION

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Right. Good evening, everyone; or good morning, if you're joining us from the US. I'm delighted to welcome again James Quincey, the Chairman and CEO of The Coca-Cola Company to our 2022 Redburn CEO Conference.

James, thanks for joining. Great to have you.

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

Great to be here.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Some housekeeping, just first of all. So this presentation will be broadcast live on investors.cocacolacompany.com. The format will be a 50-minute fireside chat mainly between James and myself. But for those on the webcast, there is a Q&A function. So please submit some questions, and we'll try and squeeze in a few towards the end.

I don't think any introduction's needed. Everyone knows The Coca-Cola Company. 136-year-old total beverage behemoth that's actually been delivering tech levels of organic sales growth in the last year, a company with enormous history and heritage, very much at the front of mind at the moment being a key sponsor of the FIFA World Cup, where it's advertised every year since 1950, and good to see wins on both sides of the Atlantic last night.

QUESTION AND ANSWER SECTION

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Q

So James, when we finished last year's conference, we ended by talking about Omicron. And then, this year, we've had the awful war in Ukraine followed by soaring inflation. You've been CEO for five years now, but three of those years have faced significant disruption. So how do you think about consumer centricity, and how has it helped you navigate the challenging operating environment? And also, how do you assess the current health of the consumer?

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

A

So I mean, whether it's good times and stable or disruptive times and difficult times in places, whether it's pandemic or war or economics like inflation, maintaining that focus on the consumer and its parallel-twin of creating money for retailers is always going to be imperative. Perhaps one could argue more so in disruptive times because you end up having to change more things, whether it's the consumer marketing, because the mood of the consumer swings more drastically in volatile times. Whether it's the packaging and the price points and the RGM because you need to move around a lot more; or even, frankly, with the pandemics, the disruptions to the supply chain and the need to focus on continuity.

But ultimately, the North Star being centered on the consumer is always going to be true. And so, that, I think, is part of what has guided us through these tough years. It was what guided us through the better years. It's what will guide us in the future. So it always will remain incredibly important.

I think the other thing, the goals with consumer centricity, is not just thinking about the consumer in the sense of today, but where are they going towards. And so, not falling into a kind of a short-term-ish mindset of following them slavishly on the rollercoaster of the economics, but looking to where the puck is going towards and building the business for the long-term. And that's really driven by the insights engines that we drive internally in the company.

Where is the state of the consumer now? Look, clearly, there's a lot of pressure in the system. I think it is somewhat important to disaggregate the consumer. We perhaps have a tendency – or perhaps there is a tendency to overweight what's happening to US and European consumers and underweight the rest of the world. And perhaps for many companies that's an appropriate balance, given where their revenues and profits come from. Obviously, Coke being so global, that understates what's happening in the rest of the world. And you can see that in some of our numbers so far this year that there's been good – not just resilience, but good growth in a number of the emerging and the developing markets.

So the US consumer – the central developed market conundrum that everyone's struggling with is inflation shooting up, whether it's leveling off is a matter of current debate. But the inflation has gone up. It's gone up faster than wages, yet the consumers seem to continue to spend. Yes, it's sector-specific as to what they're spending on. Yes, those with more income seem to be more impervious to the squeeze on purchasing power than those with less. Those with less, clearly, in the US and Europe are responding with what I would see as classic recessionary behavior, reducing basket size, substituting brands or occasions into private label, into the categories that they value less and saving the specialness for the categories or the brands they love the most. Classic size of recession. So you do see that across the developed markets.

There are other parts of the world which are more resource-driven economies, which are quite resilient. Obviously, the emerging market economies, which are resource-dependent, tend to be doing less well. But again, that isn't even a rule because we've got very robust growth in India, which is also a resource importer, largely speaking.

So I think we're still in the territory of slightly weird economics. The math, ultimately, will play out. And I think, therefore, it's going to be really important as we go into 2023 to remain consumer-centric, to remain focused on creating value for retailers, and to remain flexible and accompanying the consumer with the right marketing, innovation and, of course, RGM to hit the price points as we expect the consumers to feel more squeezed from a purchasing power point of view going into 2023.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.
Q

Interesting. And then perhaps, more broadly, how has the company's strategy strengthened the resiliency and responsiveness of KO and the broader Coca-Cola system over the past few years? I mean the latest curveball we've had has been a stronger dollar. Does your approach to managing the business change at all during periods of high currency volatility?

James Quincey
Chairman & Chief Executive Officer, The Coca-Cola Co.
A

We manage the business for the long-term. We've lived with some dollar strengthening for a good number of years now. I think what's changed very specifically is we have added to the [indiscernible] (00:06:50) of saying, look, this is a local business. And just to back up one second, the beverage industry largely competes in local terms on local pricing. Even though there are a number of commoditized imports that are priced in dollars or euros, the business is largely run in the local currency because there are much more local costs than there are commoditized international dollarized costs. And so, we're pricing it local.

So we look to be relevant with consumers and retailers locally, which means winning in local money. Historically, we have therefore been, in some respects, unfairly oversimplifying perhaps the sum of the parts. And we – on the talk over the last number of years to become more than sum of the parts by being more focused on our resource allocation and our portfolio management, such that, particularly in times of dollar strengthening, we could become more than the sum of the parts and as we are this year, clearly, delivering strong US dollar growth in the EPS despite a very strong dollar this year.

So very much, it's a question of how do we overlay that agility and resilience as a corporation to be able to redirect resources, all in the service of the long term health of the brands and the top line, but how can we use that to offset in the meantime. And that's allowed us to strengthen the brands, work with the bottlers on the RGM and the distribution and the local market execution, such that we can be an all-weather performer.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.
Q

Yeah. That local focus has really paid off. I mean one of the hallmarks of your [indiscernible] (00:08:43) CEO has been that organic sales growth acceleration towards the top end of that 4% to 6% long-term range. I mean, inflation-driven pricing skew short-term results, but what gives you confidence over the long term of sustaining top of the range growth? And how do you see the balance of that between price, mix and volume?

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

A

Sure. So the first kind of foundation stone in long-term sustained growth is the degree of development of the beverage industry on a global basis. If you just imagine two bottles for a second, one that's the developing markets, one that's the developed markets, the developed economies; the developed economy is about 20% of the global population. And the beverage industry is a people business.

So 20% of the world, you imagine their bottle, three-quarters, 70% to 75% of everything they drink is a commercial beverage of one sort or another, whether it's a non-alcoholic ready-to-drink, whether it was hot drinks, whether it was alcohol, it accounts for about 7.5 out of 10 of all the drinks they consume. So it's commercialized. But our share within that is still in the low-teens. We often talk about our share in any RTD. But as we've expanded the beverages we drink and as we gain share from other categories, we have an enormous opportunity, not just to finish off the development of commercial beverages in the developed economies, but to continue to gain share as we have done over a long period of time.

The other bottle, which is 80% of the world's population, so think China, India, Africa, to some extent Latin America. There, the beverage consumption is a quarter. So only a quarter of beverage consumption is actually commercial. And there, again, we have a modest share seen in total. And so, we think there's huge long-term potential to build out the beverage industry. Ultimately, this bottle is 4 times bigger than the bottle that's already been developed in the developed economies. So we think there's huge long-term potential for the development of the beverage industry.

Second, as the leader in non-alcoholic ready-to-drink, not just the leader, but the leader gaining share each year, we think we're the winner of the long-term we're in the industry. So it's an industry that grows. And if we gain share, then that adds to the growth equation. And it's not just a growth industry; it's actually a very stable growing industry. And what I mean by that is if you take a histogram chart and you plot out over the last 20 years or go back further, what did the industry grow each year? Like, how many times did it grow 4% or 3% or 5%? The highest column – the medium column is 4%. And if we didn't grow 4%, it grew 3% or 5%. Of course, this year is slightly different with inflation.

But I think it underlines the stability of the growth of the industry. And then, if you add on the share gains, you see that relatively clearly that idea of getting into the top end of the 4% to 6% range is doable if we do our homework. There's no silver bullet to making it happen, but we absolutely can make it happen. And it's likely over time to translate into a balanced contribution from volume and price/mix. Not necessarily the same everywhere. So the US would be less volume and more price; and in India, clearly, it's going to be much more volume than price. But the net of all those different states of development of the markets is roughly an equal mix of volume and price over time.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Q

Yes. 80% volume growth in India in Q2 is probably my personal highlight of the year, so far. But within that vibrant industry, Coca-Cola is obviously the biggest brand. And I think it's fair to say you've taken a more experimental – or your predecessors, with the launch of Coke Energy in 2019. And then, more recently, the creation [indiscernible] (00:12:58) launching some Pixel and space-flavored variants. How would you describe your approach to stewarding the Coca-Cola brand?

James Quincey
Chairman & Chief Executive Officer, The Coca-Cola Co.
A

See, for me, it starts with this idea that over the last 130-plus years, as you pointed out, each generation of managers has managed to make Coke relevant to the next generation of consumers. If they haven't done so, one of those S curves would have turned up and someone else would have substituted Coke. So the one part of the great success of Coke has been the ability to make it relevant for each generation.

And so, that is our North Star as we think about Coke today, and Coke going into the future. Like, what makes it relevant? And then, that then breaks down into a series of things, whether it's the nature or the tone and style of the marketing, or where the marketing is. It's shifted from – over time, it shifted through every media form as they've been created and then displaced by the next media form.

So the content style, where are the consumers engaging with content, all the way through to where are the boundaries on the product variants of Coke. It's not that long ago that a Diet Coke was seen as an outrageous heretical idea, Diet Coke only being launched in the early 1980s. And here we are many years later with Coke Zero growing fantastically double-digit volume growth for multiple years in a row. And really powering alongside, yes, still growth in Coke Original. But that testing the boundaries, whether it's Space Coke or Pixel or Marshmellow, that's about engagement with consumers. They're not designed to be variants that will last forever, but they're more engaging and more interesting demonstrably than a flavor, a Coke with vanilla or something.

And so, really, it's about marrying the insights of the consumers with the central mission to continue to make it relevant for next generation. And if we do things that don't work or don't work in their first version, like Coke Energy, then we should stop them and move on to the things that do engage consumers. And I think that combination is really helping us drive growth through the Coca-Cola total franchise.

And of course, the latest iteration of that, something we're very excited about, just launched in Mexico, is the premixed cocktail of Jack Daniel's and Coca-Cola. And so, it's about this testing the boundary of what consumers want to engage with and the degree with which they engage with it, all in the service of continuing to make Coke relevant for the next generation.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.
Q

Yeah. CCP brought some of that Jack and Coke to their CMD. It was great. And Coke is, obviously, the backbone of the portfolio. But what are your considerations when you think about constructing a brand portfolio that reflects both what consumers want today, but then also your view of – your longer-term view of what the future looks like. And we've seen the company push into coffee and alcohol recently. Where do you set the boundaries of what the company's portfolio would encompass?

James Quincey
Chairman & Chief Executive Officer, The Coca-Cola Co.
A

We don't set the boundary. The boundary is set by, I guess at the end of the day, two things. One is what is the consumer actually interested in? Where is the growth in beverage going to be, back to the consumer-centricity? If it's got to start, it's going to start there.

And then, secondly, of course, is can we do it? Can we do it and be competitive? Can we generate a competitive advantage in the service of the consumer and in creating value with the retail? Obviously, the business system we have today is a starting point that, obviously, we look for synergy with. So the boundary is not a fixed line. Being an engineer, I described it and some people like the explanation, some people hate it, but I'll go with it anyway. For me, it's much more probabilistic. It's not that there's a line from here to X that will do all that, and then beyond X that will do none of that. The line is – the idea is more probabilistic in the sense of, I have this position with these brands, what is the next thing is that is most likely to be successful. And that's a combination of how it connects with consumers, how it sells to retailers, how it fits with our business system and the type of marketing brands that are good at selling. So then it becomes a probability of success.

Clearly, things that are nearer in are more likely to be successful than things that are more different to us. But you've got to marry that probabilistic idea or our starting point with where's the consumer going and put it all together. So the boundaries are not fixed. We're interested in things that grow, that have good economics and in which we can believe we can generate competitive advantage. And so that then turns into what I've described as kind of four buckets or four podiums.

And what I mean by that is the portfolio ultimately ends up being made of the gold medal position on the podium, which is things like Coke, those brands or categories where we're clear leader either globally or in some countries in a category by a good distance, real quality leadership. And that tends to come with scale, obviously, and margins. And so job number one is to reinforce and make relevant all the brands in the gold medal position.

Then in the silver medal position, still big brands, but they might not have the clear leadership. They might just be number one or close to number two. And really, the mission there and it includes some big brands like Fanta and Sprite is to enhance the degree of leadership, because as we do so, we gain not just scale but margin. The margin improvement is greater than the corresponding scale improvement. And we've got quite a lot of positions around that where we would like to see increased quality of leadership.

The third podium in the portfolio ends up being those things where we have a clear vision of how value and competitive advantage can be created, but we've got to execute. And in that, you can put coffee, we put out a strategy when we invested in Costa. Obviously, that all got sidelined by the pandemic. But ultimately, we're back to the question, okay, now that things are largely reopened, let's execute and demonstrate is – does the vision hold water or not or hold coffee [indiscernible] (00:20:07).

And then the fourth bucket is experimental things. We don't know enough to even get to the third podium. But we're willing to try things. And perhaps that's where alcohol has been in the last couple of years is we tried Lemon-Dou in Japan and then we tried premix cocktails in Brazil. We tried distributing spirits in a couple of countries. And as we learned more, obviously the next step is to be able to crystallize out of visions, okay? This could be big because if it's not big, it's not really material to the Coke Company. And we don't want to distract ourselves with lots of small things. So scale is a price of entry and there'll be many more things in the experiment bucket, but not of them will make it to the next stage.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Q

Interesting. And then supporting the portfolio has been the revamped marketing approach. And we're a year into the new relationship with your global marketing partner. What have been the main benefits from moving to this new marketing model and the broader transformation of your marketing approach?

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

A

I think the benefits are very simple and straightforward, not that we have got it all fully up and running and now completely happy. But the easy starting point was when you make a huge simplification like that and you increase the scale, you get a great deal of efficiency benefits that we have used to reinvest in a number of things. So there's a great deal of improvement in the efficiency of the buy and the spend. But more importantly, and perhaps, more longer term, because the efficiency is kind of a one-off that then gets baked in is the increase in the effectiveness.

And as we've started to simplify the number of campaigns and focus on high-quality ones, we already start to see not just benefits in terms of impact, but in terms of turnaround time and speed, which then obviously helps us make – keep more consumer centric and keep driving value for the retailers. And so whether it's examples like what the fancy campaign or even the co-creations which travel around the world, I mean, the rate at which we're moving the right things around and stopping the things that don't work and moving the best practices and really driving up the effectiveness of the marketing, I think that's the thing that actually is the one that then endures as an advantage going into the future.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Q

And those traditional, the red lorries are still out in force, which is good to see, they are in London last weekend. And a bit of...

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

A

[indiscernible] (00:23:01).

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Q

It's good to see. And then it got me on YouTube as well. So full end-to-end marketing. A bit of a sweeping question. But as you look forward, what are the opportunities you see that have the greatest potential for growth from a regional and a category perspective?

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

A

Part of the problem here answering the question is like what timeframe are we talking about? And like what are we – what we mean by growth? Is it volume or is it immediate revenue, immediate profits for the long-term development? Why this goes back to the bottles question and to the portfolio answer? There's no one lever called – that gets pulled or doesn't pull that makes all the difference. Unquestionably, the nearer term in you are, the more that the top line is going to be driven by the existing portfolio, that's a kind of – a self-evident kind of mathematical certainty. And so the sparking business called Fanta, Sprite, the other sparking breadth have been driving growth and will continue to drive growth for a long time into the future.

As I said earlier, that might be more price-led than volume-led in places like the US, but it's going to be volume-led for many, many years to come in Africa and India and ASEAN and China. So I think the decomposition of growth is about what's growing where and the portfolio effect and how that then turns into creating a business mass and then creating ultimately US dollar revenue over time. And I think the thing we focus on is how do we optimize resource allocation so we make the best decisions to get the most progress each year. I think that's how [indiscernible] (00:25:05). Everywhere you look, there are opportunities.

The problem is not the lack of opportunities. The decision is how to make sure we advance in a methodical way and we don't just disperse our efforts over lots of small things and overweight, if you like, towards the experiment podium and underweight to the gold and silver medal podium. There has to be you take all the countries in the world, they each have that gold, silver, bronze and experimental podiums. The key art is in managing the resource allocation, all of the number of podiums and the number of countries to optimize the long-term development and also get the near end results that we're looking for.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Q

Exactly. And you've spoken before about how top line growth drives the bottom line performance, given the outsourced operating model. But beyond top line growth, what are some of the key long-term operating margin levers that you can pull to drive margin expansion?

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

A

Yeah. Clearly, the primary driver of profit growth is going to be the top line, the sheer effect of volume and price mix with all its components of RGM. Within that, as I kind of intimated in the description of the portfolio and the podiums, there is potential for margin improvement in a sense in the gross margin. As brands and categories move up the podiums, they don't just get bigger. They tend to also come with improved margins.

Now, even for us in an asset-light model, sometimes the improvement is more the operating margin and the gross margin because the company is likely to be investing heavily in marketing, which is post gross margin rather than the bottlers. So the effect is there still, it's just not as pronounced for us as it might be a market for bottler and we'd be looking for the operating margin.

Having said that, that does not mean we won't pursue high-value categories where it basically works in dollars and cents rather than percentages. Sometimes people rotate too far to percentages and decline to pursue opportunities that have a lot of dollars and cents, but don't necessarily have the right percentages, largely because they have high input costs. And so we do see there's a number of categories that remain attractive for us that have larger than average input cost, and we're not going to deprioritize them just because of percentages if we think they create a lot of value. And so that tends to kind of be the calendar effect on the gross margin.

The other thing that is happening, it's not fully happened yet. Obviously, the refranchising is not totally complete. We continue to aspire to be the world's smallest bottler. We're down to owning about 3%, either majority or controlling majority of the global bottling system from a much higher number 5, 10 years ago. So we will over time and at the right time, look to get that number down, which obviously has its mechanical effects on our margins.

Then beyond that, it's about managing each of the line items, whether it's the trade promotion spend, the SG&A, the productivity, the marketing. We will be judicious, detailed stewards of the investments. But in summary, let me come back and say the margin expansion is not going to be the driver of the value creation of the Coke Company. It's going to come from the top line. The top line is the first, second and third drivers of profits and ultimately cash flow.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Q

I like that. And we've seen the system shift over the past decade or so from a volume to a value-oriented system, which typically means a stronger focus on driving revenue per case growth by expanding single-serve formats and improving execution in the away-from-home channel. If we enter a consumer recession, what benefits does this yield versus the previous model that focused on volumes?

James Quincey

Chairman & Chief Executive Officer, The Coca-Cola Co.

A

Yeah. Let me just open parenthesis and talk a little bit about how – the one of the principal mechanics behind the value shift, which is how we charge our bottling partners for the concentrate. The volume model was largely linked to a model of concentrate pricing whereby we charge X amount per gallon. Whether the bottler use that gallon of concentrate in large two liter PET packages or small 8 ounce glass bottles, the price of the concentrate was the same, which obviously created an incentive in the year for the bottler to focus on selling as many 8 ounces and not trying to over promote the 2-liter because it came with very expensive concentrate, because it's an average. The value orientation is underpinned by a pricing mechanism referred to as incidence pricing whereby essentially the gallon of concentrate is a percentage of the price realized by the bottler.

Therefore, if the 8-ounce bottle is sold at a higher price per liter than the cost of the concentrate that's in it is higher. And in the 2-liter PET bottle, which sells at a much lower price than the cost of concentrate. And what that does is it orientates both the company and the bottling people to pursue. They don't have the same economics, but they have the same directional interests as to what should be built over time, not just on an in-year basis, but on a long-term basis. The mechanism was actually designed or brought into life to help combat inflationary pressures in a fixed concentrate world, I think convert it from fixed price to incidence precisely to deal with runaway inflation.

What it turned out to have much greater benefits of aligning the system and focusing them, particularly through RGM, on what is the optimal price pack, a channel strategy to engage with consumers and create value for retailers. And it was a very important discovery underpinning initially the long-term success of the Latin American system. And then it was rolled out around the world, including into the US. And I think this has helped bring the system much closer together, which means instead of arguing at cross-purposes, we can now focus on the direction of the things that work for both of us in similar directions. And I think it's been a critical – a critical enabler of RGM and the packaging diversity strategies that have been a critical way of meeting consumers with the right price points and the right channels, particularly as income inequality widens and inflation goes up. And so it's very important to us, and that's part of what is underpinning this shift.

Charlie Higgs

Analyst, Redburn (Europe) Ltd.

Q

Yes. It's also been critical for building alignment with the bottlers. And we continue to see an evolution of the relationship between KO and the bottling partners, increases to incidence rates, territory refranchising and recently signing of some new agreements and long-term agreements in particular with some of the Latin American bottlers. How do you think about stewarding the system over the long term and what is the optimal structure of bottling bottlers in a region?

James Quincey

Chairman & Chief Executive Officer, The Coca-Cola Co.

A

Well, optimal sounds like a destination. And unfortunately, I am not a believer that there is some perfect world [indiscernible] (00:33:35) which we will certainly reach. Because even if we did, the changes in the consumers' interests, the retail landscape and our competitor's actions is going to mean – it automatically is not the optimal answer the next day. So [indiscernible] (00:33:54) it should change every day and there's an infinite number of answers.

But we need to constantly ask ourselves the question of what is the way, the best way to organize ourselves, to drive the long-term health of the system, which is about value creation and our competitive advantage. And to the extent that invites us to boldly do new things at scale or experiment with things to learn about where the boundary is and where the evolutions could or should take place, then we should do so. It's a very valuable symbiotic system. But it would be a mistake, I believe, to see it as fixed and final.

We always have to challenge ourselves to say, how are we staying relevant. And therefore what do we need to add and what do we need to subtract in making this happen? And as you point out we work having deepened our relationship with the bottlers, got more and more aligned around succeeding with the products we have. We're continuing to experiment with the boundaries, continue to look for how do we stay ahead of the game and reinforce the competitive advantages of the system in any particular region. And it doesn't even have to be the same answer in every region.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Q

Interesting. I'd like to end on a few on ESG, where the first one on plastic, I mean, given 90% of your packaging is already recyclable, the main challenge is getting consumers to recycle their products and improve collection rates. What are some of the key initiatives the Coca-Cola system is taking in that regard to improve collection rates?

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

A

Yeah. Sure. Collection rate is definitively the biggest gap. Let me segment the world into a couple of pieces. One, the developed economies where labor rates tend to be high and emerging markets where labor rates tend to be low. And the importance of the distinction there is the cost of the collection system. Because ultimately our bottles, our PET plastic bottles have an intrinsic value unlike many other types of plastic or single-use plastics like ourselves. We use shrink wrap around the cans which like for example, in Europe, we've moved out of and moved to cardboard because that shrink wrap has no recycling value.

The PET bottles have a recycling value. If they can be collected, they can go into a system that can be made into new bottles or they can be made into the sportswear that most of the people on this call wear at some point or into carpets or into lots of other things, unfortunately that's down cycling because it's lower grade plastic. So the key is collection and recycling into PET bottles because then it keeps the economic value and keeps the circular economy.

Collection is a challenge. In the emerging markets, collection rates are going up because the economics are there to have people collect the bottles or the cans or the glass or the cardboard, but specifically our PET bottles. Then we have to do two things. We have to help get our PET low, so we have to make sure that the regulatory environment allows recycled PET to be used in food grade PET. So if I can [indiscernible] (00:37:24) bottles and we've made good progress around the world in encouraging, helping governments to put in place the regulatory structure and then secondly building infrastructure to actually do the recycling. And that's making a lot of difference in the emerging markets.

In the developed world, where labor is more expensive, really even more so than in developed markets, where we need to work with other industry partners to get the collection up. In the developed world, really, it's a coming together of the manufacturers, the retailers and local governments to get the collection facility whether it's curb-side collection or deposit systems, it needs a more cohesive structure from all the players to put in place the collection system that [indiscernible] (00:38:18) obviously is then multi-material that will include the PET.

And it's very doable. There are countries in the world with over 90% collection, both emerging markets and developed countries with over 90% collection. So it's very doable. And we have countries where we're already selling the full portfolio in recycled PET bottles. So, this is not a moonshot problem. This is an organizational challenge. In the near-term, it's hard. It's doable. We're at about 60% – just over 60% collected. There's a long way to go, but it is very doable and we think it can be done.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Q

Great. And then lastly, on the climate, given most of the system's CO2 emissions at Scope 3, I sit with suppliers and distributors. How do you encourage these third parties and support them to decarbonize their operations?

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

A

Yeah. The challenge of net-zero is it's actually always someone else and in a way where the retailers Scope 3. For us, the Coke company, the Scope 3 sits with the bottlers and the supplier. So our focus is on what's happening in the bottling system and we have – there are bottlers who set their own net-zero goals like CCP and CCH and so that's a key part of it is the bottler goals that are being set. And then we've got work into the carbon footprint and really it's in a few primary areas, whether it's the cooling equipment, the conversion cost, the electricity, if you will, of making the packaging materials and then in agriculture. And in the end, it comes down to a relatively small number of key things.

[indiscernible] (00:40:20) confine innovation. That means we use less energy to run the coolers or we use less energy to do the packaging and this is very doable. If you take a can, most people can remember cans when they were kids, particularly, [ph] the older (00:40:39) on this call. And if you stood on it, you had a very hard time making that can crumple because the wall of the can was very thick. Nowadays, the thickness of an aluminum or aluminium can is about the thickness of a hair. You just need to touch the side as you're standing on it and the whole thing crushes. So using less material, what we call light-weighting, uses way less carbon, so less use of material uses less carbon.

Secondly, the collection or the recycling of the circular economy is a critical way to reduce the carbon footprint, a recycled PET bottle or a recycled aluminum can has a much lower carbon footprint than a virgin one. So actually, the climate goals and the world without waste goals, the packaging goals, heavily work together. They are very synergistic and they deliver results for each other. So as you look at the closing system, the stuff that we touch more of that makes a huge difference.

Obviously, as the green transition happens and energy itself comes with less carbon embedded in it, that makes a huge difference. You can't get all the way there without green energy. And lastly agriculture, there it's a much broader scale problem of improving agricultural practices of which we and many others are engaged so that they can be – we can get the outputs without the same level of carbon being used or released in the production of agricultural inputs.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Q

And like you say many of your climate initiatives are good for financials as well such as light-weighting. We'll have a look at the Q&A in a second. So please submit questions if you have any. But I'd like to bolt one on just quickly if I may please where we've seen a few appointments today such as Henry Braun as the newly appointed President of International Development which coincides nicely with 100 years of international bottling operations I think. What would be his key priorities going forwards? And then also what does John, the CFO, is adding oversight for bottling investment groups at?

James Quincey
Chairman & Chief Executive Officer, The Coca-Cola Co.
A

Let me go in reverse order. John taking on bottling investment is relatively simple in the sense that our objective is to be the world's smallest bottler. In other words, a good number of those are subject to ultimately when will we divest them. We have on-hold IPO with Coca-Cola Beverages Africa and we've currently completed a couple of deals in ASEAN. We've just done Cambodia, we're just trying to get Vietnam over the line. So simply put, see it as part of completing the play on becoming the world's smallest bottler and then it's more easily connected on a day-to-day basis because it intersects with the decisions on where the refranchising is going. So it's kind of like makes sense from a purely practical point of view.

Henrique's role is to help develop and lead the operating units. We have, as a company, over the years had – we have [indiscernible] (00:44:05) in a simple way, two objectives organizationally speaking. One is to be obviously the most efficient and effective that we can today. And the second is, it needs to also develop the talent for the future. And when you look at the Henrique's analysis clearly, as you've seen over the last 10 years, 20 years, 30 years, we've taken lots of different shapes and forms at the top of the house in order to help people develop, but also to help lead the operating unit. So Henrique's role is clearly to fulfill a part of what Brian was doing in terms of being the core part of corporates working closely with me and John to help direct and lead the operating units and help grow the talent there.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.
Q

Interesting. And then following on, there's a question here on why does The Coca-Cola Company need to hold stakes in many of the anchor bottlers? And what benefits does that confer beyond just economic interest?

James Quincey
Chairman & Chief Executive Officer, The Coca-Cola Co.
A

I mean, need in a strict sense you can argue about it. We have most of the stakes that we hold in key bottlers are part of a joint commitment and alignment and typically are linked to shareholders' agreements. So most of the large bottlers in the Coke system now are particularly the public ones, the essential composition is a large family or family grouping that owns the biggest stake in the bottling company, the Coca-Cola Company that owns 2020 and a bit percent of the company and then public shareholders.

And we have found over time that having the anchor family, it really provides a long-term view investor group that are not distracted by the ups and downs of today and tomorrow, but are really focused on the long-term value of the franchise in the enterprise and with which there are deep relationships with the company and frankly between the bottlers and that provides a lot of stability and support for the management teams of those public bottlers. We tend to be tied in with shareholders agreements in a lot of those and so the equity stakes are part of that ecosystem of keeping us all together.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.
Q

Perfect. And then I think the last question we'll take in the Q&A. So there's been a lot of focus on the success of Coca-Cola Zero Sugar after the reformulation. Do you see a similar opportunity with some of the other sparkling flavors like Fanta and Sprite Zero?

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

A

Hopefully. Look, I don't – let me back up. We're always on the zero versions, whether it's the sparkling beverages or frankly some of the other [indiscernible] (00:47:12) categories, are always looking at the quality of the zero version relative to the original. I'm trying to get them closer and closer to be able to deliver on the brand promise and the intrinsics without calories.

So to the extent, there are Sprite Zeros out there or Fanta Zeros out that we don't feel they're as good as the original. Absolutely, we keep looking to try and improve that. And we have done so over the years. So it's not a sudden big bang, we have been making tweaks over the years to those different formulas. Bear in mind that the Fantas and the Sprites around the world are not all one formula partly because of juice content regulation in different parts of the world. So there's not a big bang and it's not exactly one thing. But absolutely we continue to look at opportunities to do even better by improving the zero formulas.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Perfect. Well, we're very close to hitting on time, so I think we'll call it a day there. But, James, thank you very much. It's been a pleasure as always, a fascinating discussion. And thank you very much, everyone online for listening and have a great festive period coming up.

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

Great. See you.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

See you.