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# The Coca-Cola Co. (KO)

## Bernstein Strategic Decisions Conference

# CORPORATE PARTICIPANTS

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

**Beatriz R. Perez**
*Chief Public Affairs & Communications Officer, SVP, The Coca-Cola Co.*

# OTHER PARTICIPANTS

**Callum Elliot**
*Analyst, Bernstein Autonomous LLP*

# MANAGEMENT DISCUSSION SECTION

## Callum Elliot

*Analyst, Bernstein Autonomous LLP*

Hi. Good morning, everyone. I'm very delighted this morning to be kicking off our Bernstein Strategic Decisions Conference by welcoming James Quincey, who is the CEO of Coca-Cola. James is also joined this morning by Bea Perez, who is – her official title is SVP of Communications and Sustainability, but I like to describe it as Head of ESG and Bea I'm hoping is going to bring some ESG insights this morning as well.

So, just a couple of very quick housekeeping points before we dive into the conversation. You can submit questions I think on the right-hand side of your screen. There should be a box to do that anonymously. And we'll try and integrate some of those as we go through the conversation. And if you have any technical difficulties, please do feel free to reach out to your Bernstein sales counterpart.

But with that, I sort of want to dive straight into it and, I think, to focus really exclusively on long-term strategic organizational things today, given we've got James here.

# QUESTION AND ANSWER SECTION

**Callum Elliot**
*Analyst, Bernstein Autonomous LLP*

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So, James, delighted to have you. I'd like to start by talking about some of the organizational changes, some myriad changes you've made over the course of the past 18 months through this crisis period. Externally, to investors, a lot of these organizational changes, they often seem quite abstract to us. So, I'm hoping you can bring some of those changes to life. And specifically, from your perspective, amongst the many changes that have been made, which do you think we should all be focusing on the most which are the most important? And how are those changes actually impacting the way that Coke does business on a day-to-day basis? And specifically, why do you think those changes better positioned you for operational success?

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

A

Sure. Firstly and obviously, the organizational changes in and of themselves are only a piece of the puzzle of what's needed to bring the strategy to life. I mean, notwithstanding obviously just having the right strategy, the organizational structure needs to be married with the culture that we've been driving – the cultural changes we've been driving over the last number of years and the development in the talent pipeline. So, see the organizational structural phase as part of the puzzle we've been developing over the last number of years to push the company towards a greater growth orientation. And for example, several years back, we reduced the size of the head office. We put a much greater emphasis on the growth mindset and growth behaviors. And so, this is another piece of the journey.

And perhaps to make it more tangible, think of it in a few different ways. Firstly, it will probably be an oversimplification. But it helps to think about it. It's like, probably through most of our history, we have organized the business units or the operating units, the operators in the field as much as anything, yes, around countries, but also around the distribution of the franchise map of the bottlers.

And now that we've come all the way through refranchising, we come from having a finger in almost 40% of all the bottlers to really just having a small – single small – low-single digit percentage of the total bottling system, now, we have been able with this new upgraded, more capable bottling system to push our organization to be more organized around the biggest centers of consumers. I mean, if ultimately the Coke Company succeeds because it's consumer-centric, everything starts with the brands and the innovation and the marketing, now, we need to be as close to the consumers as possible, not stop with the franchise system as the first variable in organizing ourselves.

So, think of it, if you like, simply as putting the consumer as the first organizing principle rather than the franchise system and that in a way is very symbolic of the direction of travel. But that then flows through into a set of decisions which is to put the marketing function more in the driving seat in terms of what are the big programs that are going to make a difference [ph] for all the brands (00:04:32) whether they be global brands or regional brands or local brands. And that's a question of not just the marketing and the innovation making that more effective, but also the efficiency of the large sum of money that we spend to bring all those programs to light. And we see great opportunities both in the effectiveness and efficiency.

The second thing I would say is platform services. Self-evidently, there are things that remain tremendous local, not just the kind of 26 million or so customers the bottlers visit every day and the fact that this is a people business in the sense we're trying to sell to all consumers around the world. But there are some things that are simply much better done once and globally. And given our orientation in the past with a lot of empowerment across the full spectrum of activities, we have been particularly ineffective at doing those things that just simply would have been much easier to do once.

And perhaps a simple example would be our own ERP systems. And it's top of mind because a month ago or so, we've turned on our latest upgrade – our full upgrade to S/4HANA. And to give you the contrast of the difference, when we last did SAP which is almost 20 years ago or about 20 years ago, it ended up because every part of the world was allowed to customize, not just on I have to customize the local regulation but because they just wanted to see the world a different way. We had the world's most complicated SAP implementation from 20 years ago, probably one of the most expensive and supporting that over the last two decades has gotten increasingly difficult and costly.

And so, when we upgraded our ERP, we said we're going to do it once. It's going to be global. And the only changes [indiscernible] (00:06:33) that are compulsory due to regulation. It has gone much quicker at much lower costs. It will be much more effective. And that will just be one piece of a digital backbone to the enterprise that self-evidently needs to have much more commonality in the engines, even if ultimately used to a high degree of differentiation locally with consumers. Hopefully, that will give you some feeling for what we're talking about.

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**Callum Elliot**
*Analyst, Bernstein Autonomous LLP*

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I think so. I kind of want to dive into that local versus scale trade-off in a little bit more detail if that's okay and particularly as it pertains to branding and marketing rather than some of the less consumer-facing things. So, with this sort of matrix-style leadership structure you have, where you have the category leads and then the country leads, I'm particularly interested, if you make a marketing or innovation decision essentially within Atlanta, how much power do the country operating units then have to say, actually, we don't think that product is going to work in this market or to tailor their marketing plans and the innovation plans to their specific markets?

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

A

Yeah. So, the first thing to remove from the chipset is that anything that's global is necessarily done in Atlanta. That is not the objective. The category heads are distributed across the world. The category teams that work for them are distributed across the world. And we have very, very intentionally not created a superstructure at a global level that's supposed to be some sort of matrix, whereby there's a fully staffed category team and a fully staffed, let's say, local operations team that then have all the resources to argue with each other endlessly. That's not what we're trying to do.

The objective is much more of a [indiscernible] (00:08:34) category whose accountability is to look at the categories globally. But if they want to get some things made, some things done, then it's about bringing together the best resources from the best places from the field operations to make it happen. In the end of the day, the people who need to make the ads in China are in China and similarly ditto around the world. Yes, there will be some things that are common. For example, we updated the visual identity of Coca-Cola earlier this year. That's only going to get done once globally. It wasn't done by a team in isolation in Atlanta. It was led by the person leading the Coke category drawing on the resources across the world.

So, it's much more an attempt to precisely avoid the two-way matrix and focus in on a network whether the global actions of those things that are most compelling that they draw on local teams or a network of local things to get it done at scale so that we do have those things that benefit from being done globally are most obviously the first things that get done. And then, the majority of things still ultimately are local. I mean, the bottle of the product is all made and sold and distributed locally. There's virtually no international shipping. So, again, it's – don't think of it as the pendulum's gone from all local to all global.

**Callum Elliot**
*Analyst, Bernstein Autonomous LLP*

Q

You sort of – when you started your first [indiscernible] (00:10:11) you were talking about how we can't at these changes, these organizational changes in isolation, right, of the – some of the cultural changes you've made. So, can you give us in that context shifting the culture towards more of a growth mindset, can you give us any examples of success stories, if I can call it that, of how changing this organizational structure has kind of tied in with that shifting towards the growth mindset to actually deliver faster growth?

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

A

Sure. I mean, we set out on this journey putting the growth mindset first. We said we wanted to be more curious, more empowered, more inclusive, and more agile. And now, we started whatever it was four or five years ago, and very much pushed it because the most important thing is culture. As everyone knows, the old adage that culture eats everything else for breakfast. That's where we start. We said, look, there are lots of great things about our culture, but this bit about staying externally focused and consumer focused is going to – this, we need more.

And the reality is we were starting to see the dividends coming from that. As we came into the back end of 2017 and then in 2018 and 2019, the top line growth of the company was at the high end of our stated long-term rates. In other words, we were growing the top line at 5% to 6%, which was where we said we wanted to get to currency neutral and drive the business. So, the culture and on top of all the strategy decisions we make was getting us to the place we said we need to get to, to be able to sustain a top-line growth-led recovery in profits and ultimately sharing the value. Obviously, COVID has knocked things off course, but the organizational changes among other things we've done were – or are a step in reinforcing the direction of travel that was already established prior COVID and enabling us to get back on that track of getting to a place where you know the top line grows in the higher end of our range and it's a top line led recovery and profit growth and sharing the value. And this organizational change is one component that reinforces our ability to make that true.

**Callum Elliot**
*Analyst, Bernstein Autonomous LLP*

Q

Okay. Maybe just building on that and some diving into one specific area and a bit more detail if that's okay. I love to touch on kind of digital assets, digital capabilities. I'm wondering, I'm hoping you can give us some more insight maybe into how some of those digital tools be it AI machine learning. How are they helping you be a faster, more agile organization in keeping with those key priorities that you set out?

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

A

Yeah. Clearly, the digitization of everything around us is ongoing. It's a journey we've been on both in terms of our interactions with consumer, our interactions with customers as I told you [indiscernible] (00:13:34) some of the examples earlier even internally, I mean when you look at the digital – the potential right from the front end with consumer. Let's take an example of Japan. In Japan we have an app called Coke ON, which you could use to interact with the vending machines which are for those who don't know, there's about a million vending machines that we own, distributed around Japan and the app will interact with it. It's customized promotions, individual offerings by consumer. 26 million Japanese have that app downloaded onto their phone. So a huge part of the population is engaged with our products, with our brands through an app and through the vending machine. Obviously, we'd like the – we'd like to do better in that business and I'm sure we will once the lockdowns in Japan come off.

But right in the front end of the consumer, even though we are predominantly a business that sells through all the customers, where we need do to face directly with the consumer. Like for example, our vending machines in Japan, we found ways with apps to really engage with consumers. And taking the next step down, which is engaging with consumers even though they're buying the products that predominantly in someone else's location, which is of course the vast majority of our business. We have a range of things going on around the world. We have [indiscernible] (00:15:05) to take a place like South Africa, interact with people on Twitter, about the Coca Meals campaign and personalized postings where you can take multiple examples.

And then, as you get to the customer, for an example, what we did in Turkey. We created basically a central engine that allowed each of the customers to customize their own ads. And so they, I have a kebab shop in Istanbul or a coffee shop in Istanbul. There's a standard platform which they can basically represent themselves and their business team. And so, you've got tons of individual store owners basically being able to market themselves and of course market Coca-Cola with it. So, there are lots of examples coming up of how we've been able to interact with consumers and customers on the front end.

And then on the analytical end, it's about the analysis. The more data you get, the more you can do analysis wherever that takes you whether that's on the consumer or on the customer side. We – it's led us to launch brands because we can see how people look. For example, if you're on the freestyle machine where you can mix and match the different drinks, you can see what people are doing. So you can launch either in and out or launch new flavors based on what people are actually mixing. We were able to put together Sprite with Ginger [indiscernible] (00:16:40) informed by looking at consumer trends. So the data comes in. And all of that is of course only important to the organization seeing the insights and doing something with it. Well, some of these are automated engines that once designed, only lots of human interaction. But to launch new products specifically, it requires of course someone to take the data and create some insights and create some launches from it.

**Callum Elliot**
*Analyst, Bernstein Autonomous LLP*

Q

Those analytical capabilities, are they central? Or is that something – those digital skills kind of [indiscernible] (00:17:18) the whole organization?

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

A

I don't think it would be fair to say that everyone who works in Coke has AI analytical skills. It's not central. Back to my point about the idea that something is done in column for the globe does not equate to it's done centrally in a single place and in particular in [indiscernible] (00:17:42). So in our platform services where we do have actually multiple teams of people looking at analytics. But those people are predominantly not in Atlanta and not in one place. They distributed around the world to be able to provide service. I mean if they were all in one place, they'd never be able to [indiscernible] (00:17:59) while on the other side of the world. That would be self-defeating.

And so, it is a distributed model. We have pockets of excellence, of course, with some of these analytical services, but we are looking to support the business. The objective is the commonality of all things that we need to call which typically means that the software and the backbone rather than [indiscernible] (00:18:26) so that's where you need people to interact with it who actually are distributed around the world.

**Callum Elliot**
*Analyst, Bernstein Autonomous LLP*

Q

Makes sense. I suppose another aspect of digital that maybe historically at least has been less relevant to your business is e-commerce given the heavy bulky nature of the products. It means that shipping them around the world as you kind of earlier pointed out is not something that happens very much.

That having been said obviously through the pandemic, we have seen a bit of a spike in your categories like we have in kind of all categories. So, I guess my question is do you think that historical inhibitor around this sort of bulky heavy nature of the products – do you think that that will mean permanently that e-commerce penetration lags in your categories relative to other consumer categories? Or do you think over the long term, your categories can catch up in terms of e-commerce penetration?

And I guess one sort of specific point about e-commerce that I would love for you to touch on if it's possible, around for the Coke system in the US if you're fulfilling orders in – servicing orders through fulfillment centers that span fulfillment centers that span multiple different bottle or territories. How does the kind of the system there with that complication?

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

A

So, the specific one at the end, there's a pre-agreed methodology for products that are made in all the territories that move into borderless territories. So, there's a whole protocol for what – the whole protocol depending on where it's made, who made it, which channel it went through, which route to market it went. So, all of that is set up. Of course, when you introduce something new, you go back to it, but largely, that is a pre-program.

E-commerce, firstly e-commerce is not one thing. Now, there are multiple pieces of e-commerce, but let me break it down into four pieces. One, there's the e-commerce which is the Coke system to the customers; secondly, customers being the retailers. Secondly, there's the whole grocery channel which is predominantly where you centered the question in terms of penetration, the purchase for kind of future consumption at home. The third bucket is delivery for immediate consumption of food and beverages, generally speaking. And fourth is direct to consumer by the Coke system.

And I think each one has its own dynamics and its own future and they cannot all be lumped together. Starting at the end and working backwards, direct to consumer, we have a whole set of things as we mentioned to US, there's a US app called myCoke and you can order product. And we've used apps around the world to let people order special edition bottles. The reality is that's on a Coke-only act where all you order is Cokes is unlikely ever to be the majority of our business for all the obvious reasons that you don't wake up on Sunday morning and go to individual sites to order each category you need in your life one by one. And ultimately the challenge of beverages in general are actually any individual category of food and beverages is the value of the order is always small and particularly for many categories is also heavy and therefore doesn't lend itself to delivered to the consumer. So that's always going to be small. [indiscernible] (00:22:20) can still be high value. It can still be engaging for the consumers and it will have [indiscernible] (00:22:25).

The second phase is food delivery as an immediate consumption. Obviously in the pandemic that has shot up. And our key imperative there has been to help these food aggregators in particular increase the incidence of beverages within the order because actually that's in a way super high leverage for them in terms of margins because the food is going anyway and you can attach a drink to it. And food orders delivered to your home tend to have a lower incidence of beverages than if you actually buy it in the restaurant of course. The chances are you're combining it with beverages you've already got in your house.

I think the food delivery business clearly made a step up in the pandemic. It's noteworthy that most of them don't make money if they're aggregators. And so I think there is ongoing shakeout to come in the sector. But from our perspective we do see that there will be more food delivered for you to eat immediately and our objective is to drive up business which actually what has been relatively prosperous for us because we obviously have a very high share and a strong relationship with customers in terms of helping them in their restaurants, and it's a question of helping them get those extra sales whether it's them selling directly to the consumers or going by these [ph] aggravators (00:23:53).

The third bucket, which is perhaps where you send to the question, but given that half our business is away from home, remember that that means half our business is at home. So the e-commerce we talk right now is for the half [indiscernible] (00:24:07). Here, you got multiple versions of people. Clearly there's been a step-up whether it's delivered to the consumers' house or flat whether you click and collect or any other version of the same thing. And it's made a step-up. And I think that there'll be some [indiscernible] (00:24:27) new point from which this business will grow.

But again, the economics of [ph] deliver to you (00:24:35) are stressed seeing from the macro global perspective. Of course, there are segments in the population that are able to make large enough [indiscernible] (00:24:48) safely free delivery to manage the timeslots or were happy to pay for delivery or there in parts of the world where people are prepared to invest capital to subsidize the whole system. But it's still at the point of margin dilutive for the grocery retailers in general. And so the economics to that have yet to shake out.

Do I think that food and beverages in general are somehow going to converge on music and film and personal care like beauty products? Not quickly for all the very precise reasons that I'd be laying out for the various different pieces. Many of those other things are very individual. And the value of the order whether it fully digitizes music or film or its high value to volume like beauty care products or fashion items. The value of the item is much greater relative to the cost of the delivery. When you get the food and beverages, it's a much tighter equation. So yes I think it will grow. And yes we've been doing a lot of work with customers to position ourselves very well.

I mean how do we help them make the most of what they're selling? And I think it's going to make a huge difference in the long run particularly as in several possible these e-commerce grocery systems are also tied to other things. Although, other ecosystem elements whether they be entertainment. There are a few grocers or people selling groceries who have many other arms and that in itself will make it more interesting and more sustainable.

And the other bit of the equation is from us to the retailers. There's a huge opportunity for us to do much better in both the efficiency of the selling and distribution and the ability to use the sales force to increase the value of the beverage category for the retailers just in digitizing the way we work with the retailer. So you can go to Australia and if you're an independent store owner, half of those orders are already coming over [indiscernible] (00:27:03) platform. So do I think [indiscernible] (00:27:05) is going to be the predominant for ordering for independent customers like it is for large retailers, absolutely. I think the idea you're taking an order manually or because the store person is physically there is going to be the minority, the base itself. In a way I've laid that out in a way in standing order of penetration.

**Callum Elliot**
*Analyst, Bernstein Autonomous LLP*

Q

Makes sense. [indiscernible] (00:27:38) I wanted to sort of gear a little bit and I know we've got Bea who has been sitting there very patiently waiting for ESG question. So I have a few on ESG that I'd like to ask and maybe putting them to both of you but they're definitely bringing Bea into their conversation. And I guess my first question is you guys hosted a very useful ESG specific call towards the end of last year. And I was a little bit surprised by some of the things you said because it sounded to me at least that a little bit like some of your ESG investments are considered maybe in isolation of return on capital goals, that kind of thing. So I wonder if you can just talk a little bit about how those ESG investment decisions take place.

And maybe for Bea specifically how your specific sustainability team engages with the board operating units when those investment decisions are made. I think you guys have an announcement this morning about a partnership with one of the – towards cleaning up rivers and reducing plastic pollution. So very topical given that announcement and hoping to understand a little bit more about how those decisions are made.

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

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Shall I go first? Okay. Let me make an overall point that I know Bea can get into lots of specific examples and she's got more examples than time available I'm sure. Let me make a simple analogy and Bea will probably bury her hands in it [indiscernible] (00:29:18) so many times. Let me go back to the history of British Leyland's. You're too young to know what British Leyland was but it was in the 1970s the third largest car and truck manufacturer in the entire world based out of Birmingham where I happen to grow up, just down from the [indiscernible] (00:29:35) factory.

And within a very short space of time, they basically managed to destroy the entire British-owned car industry including British labor effectively going bust and disappearing. And they made multiple mistakes. But one of the mistakes they made was to view quality as a parallel and an external or extra feature to the car rather than to the feature. So you used to make the cars in the factory. And make them great, they had lots of errors. So they sent them to the quality department to fix the errors. And then, they sold them to you, the consumer which still had errors in them. So you then have to spend the weekend rebuilding the car.

And along came principally, the Japanese at the time. And so, we've got this new idea. We're going to internalize the idea of quality as a part of the product you're buying. We're going to make it right the first time. So we don't need the quality department. We're going to save a fortune. And you can do something else at the weekend. And of course obviously, the story has one ending.

In a simple way, think of it sustainability as the same thing whilst, you think of it as separate and different to the business. It will never – it will never be able to make the breakthrough and scale obviously. We need to put ourselves in the mindset that sustainability is an integral part of what we're selling. And that actually, businesses without a strong sustainability approach and just not going to exist in several decades time. And so, we just need to get on with it and in a way, there's a statement of belief that the economics can be sorted out within the context of the business. And a lot then, a trade-off of business versus sustainability but an integral part, of we just need to make the transition, whilst also achieving success with the business.

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**Beatriz R. Perez**
*Chief Public Affairs & Communications Officer, SVP, The Coca-Cola Co.*

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Yeah. So, I think that's a good segue and thank you, Callum, for that question. So, I think I've been personally on a 10-year journey working to integrate it into the business. Exactly what James has said as I'm sure he's tired of hearing me saying this, but in the early days, we were really pushing hard to make sure that it was part of business planning, annual objective setting. And ultimately, we had set a goal to make it a part of comp. Today, it's a part of short-term compensation and we've threaded that needle through as what James talked about.

But where did we start, and you heard James talk a lot about the network. When we design and develop the goals, we work across the network including our bottling partners to look at everything from enterprise risk management then a materiality matrix to the business, what's critical to the business within the ESG space. And then from there, we move into the target setting and we look at which targets would make the most impact for the business and we layer that in with the external conversation in terms of listening to our investors, to our key stakeholders, customers, consumers, the NGOs, academics to look at what really is a place where we can be credible to drive that difference.

And when we set the objectives, we're looking at enterprise risk, efficiency and growth. So, that's the needle we've been threading. We've been getting better at the growth equation. But let me start a little bit with the enterprise risk piece. If 46% of our volume is in high water stress areas and that's critical to the business and that's core, first and foremost, to beverages, so we have to ensure that we're focused on water. That's why the water goal was actually set all the way back through. 2007 is when it started. 2010, it became official. And we achieved it five years ahead of schedule, but that didn't mean that we stopped.

When we went to the next evolution, we started to layer that in and bring in the impacts around the climate impact in terms of agriculture, ingredients, water and ag and the supply base. So we do look very closely to the entire supply side, ensure we're mitigating that risk.

If I go into cost efficiency and into savings for a moment, think of packaging. So we do have a world without waste goals to design in better materials, design out waste. In Europe, for example, since 2018 we've lightweighted the 500 ml package by 40%. You can imagine that that's also saved money. Less material means less cost. Same thing, less water use, less cost. So that's where a lot of companies stopped where Coca-Cola kept going as we said.

While we're doing these different activities within ESG, we ought to see that the consumer landscape has changed and they expect the brands to do this. Exactly what James said in his car example, we don't want to be obsolete. And actually what's really fascinating is we've been looking at consumer data all the way back to the 1970s. J. Paul Austin, one of our former presidents of the company, looked at academic data way back when. And he gave a famous speech that actually end up – ended up in Congressional record. He gave it to the Georgia Bankers Association. But essentially it was about do you evolve or do you become obsolete. And [indiscernible] (00:34:38) was – it was a Latin phrase which meant so where do you go from here essentially. And so that was back in the 1970s.

And so a lot of the data has been showing trends over time in terms of what consumers expect for brands. And today we know that consumers absolutely expect it. But how do you tell the story to get credit to drive the growth for the brands. And so there's a couple campaigns that we launched. But I'll just give one other example. James is right, I have too many examples. But here's what I think worth noting. So there is a campaign that we launched to tell the story around circular economy and water. And we did that within Poland in phrase called it NEVER SETTLE. What we saw coming out of that campaign is not only did consumer advocacy grow, but so did purchase intent. And so we saw 50% of consumers said that they'd be more than willing to advocate for our brands with friends and family. And so, it does translate into consumers giving us credit for the work that we're doing, but only if we tell the story and connect it into marketing.

So, the announcement you heard of today, that's The Ocean Cleanup. So a young entrepreneur named Boyan Slat, trying to ensure that the oceans are cleaned up the riverways. There's a 1,000 rivers that ends up putting most of the pollution into the oceans. Coca-Cola, through World Without Waste, has a goal to collect 100% of our packaging back, and we create the circular economy. We want to make sure that we don't let those packages get there in the first place.

But when they've gotten there, how do we take a producer's responsibility to clean them up? Because at the same time, we want credit from the consumer to help drive growth for our brands, we have to ensure that they understand that we are being responsible with some of the activities that we know we're accountable for. And so, when we launched The Ocean Cleanup, it was to help clean up the oceans. But also, it's embedded into the marketing teams to ensure that we're telling the story, which will create awareness for the issues that exist, but also connect it to our brands to create that deeper association for the work that we do.

So that kind of gives you a flavor for the continuum of enterprise risk, cost savings, efficiencies, all the way to growth.

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**Callum Elliot**
*Analyst, Bernstein Autonomous LLP*

Q

Super helpful. Look, I think we could spend almost the whole session and talk about ESG. But I just want to build on it with kind of one specific follow-up, which is around sort of competitive dynamics. And if you see – it sounds like you've got lots of initiatives going on. And many of them just touched upon the – if you see some of the competitors you're competing with globally, so not following suit and not doing the same things especially as it pertains to things like 100% OpEx and things that are costing you money to make – to go down those parts. Would that influence your decision to continue down these policies, if you end up sort of doing it alone? And we actually have a question from the audience as well. It's the most popular question we have. So I want to try and tie it in because it kind of pertains to the same point, I guess, which is almost the same question I just asked about competitors.

But from a consumer standpoint, and I guess, the question that the investor is trying to ask is, are you seeing willingness from the consumer's perspectives to pay more for these sustainable products? And if they're not willing to pay more, will that dilute your margins at the end of the day, if you yourselves are incurring incremental costs to make this transition and consumers are not bearing that cost? So, two parts to it. From my perspective, the competitive dynamic and then, this kind of extra angle around the consumer's willingness.

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

A

Sure. So I know there's a saying that leadership can be lonely. Sometimes you have to lead. And it's core to our business. So if we're looking at our business in isolation without the industry, we know the enterprise risk frameworks that we see. Water is critical to our business and we know that we operate in high stress areas. So we have to protect water for people and for our brands.

At the same time, we have to deliver it in something, packaging. So, if you look at the core areas we've selected, it's core to our business so we do need to do this in our business regardless of competition choosing to do it or not. But I'd say in our industry, we've been fortunate. So even over 10 years ago, there was a group called the Water Resources Group which was about pulling in the water conversation and scaling the work that we were doing in a pre-competitive way.

So you have Pepsi, Danone, Unilever, Coca-Cola all a part of the Water Resources Group. Fast forward to today, the Ellen MacArthur Foundation, a plastics organization toward that Global Plastics Action Partnership, all have different competitors from the industry as well as government and other organizations who have joined in. So, we do like to do it together. We don't want to do it alone. But if we have to lead and it's critical to our business and we will in those cases to get it going.

But I do even remember when James first presented our work with that waste at the Consumer Goods Forum and you have competition there as well as manufacturers, retailers, people quickly signed on to the plastics partnership because they started to see the implications to their businesses as well. So, leadership sometimes means just also getting it going and others will quickly join. So, I think it's important for us to continue to do what's relevant to our business.

If I go all the way through to the consumer side, what we've seen there is that there's a lot of data that says consumers will be willing to pay more. The trends have gone up. Do I really believe that I'm cynical in terms of looking at the data? Because I believe that the other sort of with trends, there's also countertrends, right? We're also seeing that consumers expect this to be about how brands make their brands, how they sell their brands, how they distribute the brands. And so, it's become part of that baseline of the expectation. Back to James's analogy about the car company becoming obsolete because they didn't seem to understand that it became a part of the core proposition of the brand.

And so, I'll say too early to tell and if they'll pay more, but we recently in the US launched our 13.2 ounce 100% our PET bottle for Coca-Cola. And it's a premium price. We know it's doing well. Early days, right? But will that continue in terms of seeing increased price for products and services you embed sustainability in their business? I don't know. The jury's still out on there. But I'd say that regardless, we need to make sure that we're doing the right things for our business to mitigate the risk and drive right things for our business to mitigate the risk and drive growth where we see the opportunity.

**Callum Elliot**
*Analyst, Bernstein Autonomous LLP*

Q

Super helpful. Thank you. We've got only a few minutes left, and I have a whole bunch more questions that I want to ask on innovation, on marketing. Those are different areas of the business. So I think we'll probably move on from ESG. And I want to tie in because of the time limitations a couple of different questions into one if that's okay, James. So I wanted to ask about coffee. I wanted to ask about energy, and I wanted to ask sort of more broadly about marketing and changes in marketing through the pandemic, changes in ROI as you're shifting to more digital marketing.

So if I lock those together, can you talk a little bit about whether plans in energy are moving given the recent announcement around Coke Energy specifically? How excited you are about the coffee category broadly and your plans for Costa outside of the UK? And as you're kind of talking about that, maybe you can tie in the marketing element, how easy it is to build these brands, Costa outside of the UK, how easy it is – is it going to be to build this brand in a category where you already have established brands and what that means for the future trajectory of these categories in your portfolio going forwards.

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

A

I think there was space to get a couple of more things in. Let me throw out a couple of ideas. Firstly, on energy, coffee, and on demand, I mean, the two biggest drivers of growth in terms of the – a new growth in terms of the beverage industry have in a way been the polar opposites. There's a whole cluster of categories and brands growing under the energy – I'm calling it the energy need state or pick-me-up-and-recharge need state motivation consumer. Not the category but the need of the consumer. I want to be recharged out whether that be – and a lot of it is obviously there's marketing that's intrinsic to the brand but there's intrinsic state. They've got calories, they've got caffeine, they've got other ingredients but it's a recharge mindset. And the other one is kind of a I want the enjoyment of the beverages but I want it without the calories and I want it without – with as few ingredients in as you can possibly make it while I still enjoy it. Let's call that flavored sparkling water in the US.

And in a way those two big trends continue. They continued during the pandemic and they're going to continue post-pandemic. And that takes us down not just a set of actions about doing justice to all our brands [indiscernible] (00:44:29) the intersection of both or not only sitting over one of those two Coke over meals for example continues to be huge and growing. So Coke is still the biggest driver and Coke Zero with it.

But that recharge needs state is going to grow and Coke's going to participate in it. Our partners with Monster continues to do well and all the categories will do well in that. I mean whether you call it flavored milks or with Body Armor and some of the stuff we're doing in sports drinks. So I would look at it as that recharging these days is going to grow, categories and brands will compete in it including coffee. I mean one could think of coffee is as an occasion where you sit down in a coffee shop but also a tremendous amount of also tremendous amount of coffee consumption including the ready-to-drink coffee [indiscernible] (00:45:20) actual needs are not wildly dissimilar to the other category. So we see there's a lot of demand there and there's a lot of opportunity for us.

Secondly, how long does it take? It takes time. The funniest bit about the consumer products industry is when you call it a fast-moving consumer good. I understand that relates to rotation in the store. But if one were to try and use that in terms of industry structure, it would be a completely wrong. Industry structure globally in aggregate changes relatively slowly.

New big brands take time to build and take time to get from small to medium to large to leadership. And that will be true of any brand would grow and it will be true of costs that are outside of the UK. But it's not that it's not possible. I mean, I take another UK brand, Innocent, which was the chilled juice brand when we invested in it in 2009, it was 20% of the size of the leading chilled juice player in Europe. And then 10 years later, we're clear leader.

But it is 10 years later. No one goes from nothing to scale [indiscernible] (00:46:47). You can do an analysis of all brand launches in the US market went as good – very good historical data and go back a very long time. And you can see that for the first few years, it's very difficult to distinguish the ultimate success stories like [indiscernible] (00:47:01), like Monster from those that ultimately go nowhere. Even after five years, you can distinguish but it's still not the standout that it is after eight years and more.

So beverage brands take time to – food and beverage brands take time to grow to get real scale and impact on a broad basis. And so, we need to keep going with the markets and keep going with innovation, keep going with all the commercial and executional allowance to steadily build these brands over time. That's what we were getting to work before the pandemic hit. Like I said at the beginning, we were getting top line growth up at the higher end of our range, 5%, 6%. We were gaining market share steadily each year. And that's the track we can get back onto as we build out the portfolio over time.

## Callum Elliot

*Analyst, Bernstein Autonomous LLP*

Fabulous. Look, I have many, many more questions, but I can see that my instant messenger is flashing red at me. So, I think I'd be in a lot of trouble if I tried to ask you anymore. But, James and Bea, thank you very much for your time. Thank you, everybody, on the line for listening in. And we look forward to having you back someday soon in person [indiscernible] (00:48:23).

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## James Quincey

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

Fantastic. Thank you.