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The Coca-Cola Co. (KO)

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MANAGEMENT DISCUSSION SECTION

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Okay. Great. So, we're going to get started. Thanks for joining us here. We have James Quincey, CEO of The Coca-Cola Company. So happy to be back in-person. Lots to talk about, so I'm just going to skip the pleasantries.

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

Okay.

QUESTION AND ANSWER SECTION

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Yeah, just a warning. So it's been two years, since you announced plans to reorganize this network model, which is something that I've been really intrigued with since that time. And given how long the pandemic has dragged on now maybe it seems like it was an interesting time to initiate so much change, global category teams to refresh people's memory, collapsing the organization in to the fewer geographic clusters, migrating back-office and non-consumer-facing functions into a centralized resource. So, just simply, two years in, it's a fair time to say what's working well, what sort of needed tweaks along the way and maybe what's ahead in terms of benefits to be accrued from these changes.

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

A

Sure. I mean, let's start with the benefits. The reduction in the number of operating units, the platform services that came off, the lean center and the focus on the marketing programs, the reduction in portfolio that all targeted at making us more capable and more able to keep achieving what we set out to say we want to do, which was just to get the revenue growth rate at the top end of the long-term algorithm, I'm leaving aside all the inflationary weirdness in the short term and potentially next year.

But all of those things are about reinforcing the capability of the company and the Coca-Cola system to be able to perform at the top end of the revenue, because once you become a largely concentrate company, the long-term growth of profits are going to be largely driven by the top line because there's not that much leverage below the line. So all those things and I think what we're seeing is that it continues to reinforce that capability. There's no silver bullet out there that's going to suddenly change the Coke company, it's too large for that. But these things are reinforcing that capability and reinforcing our confidence that we will be able to perform that sort of level. I think as a data point, just kind of looking at COVID end-to-end given that it's now been so long.

If you take the first half of 2022 and compare it to the first half of 2019 and just take what was the average annual growth rate in round numbers, in volume and price mix, you get about 2 and a bit on volume and you get about 3 and a bit on price mix. In other words, you get between 5 and 6 on the top line. And so you really can see that end-to-end and even through all the rollercoaster of COVID, we kept up that level of top line that we were getting coming out of 2017, 2018 and 2019. In terms of the development of the program, we took a very conscious decision despite seeming slightly quixotic in the middle of COVID, to want to reorganize, basically all virtually over Teams and Zoom and to string the portfolio.

But the intention was very much about leaning in to being more aggressive on getting done what needed to get done. And also taking the decision that once COVID ended and the reopening was happening and everyone was back to growth. The last thing we wanted to be involved in was a set of restructurings which tend to distract the organization from growing. So in the middle of COVID, there was an opportunity to get gone the kind of the restructuring and the kind of being – the things that tend to distract people from growth in the midst of when there was less growth available. And we were more focus on keeping the supply chain going.

So we really got that up and running. It's still a work in progress, as we've talked before, like I'm not a believer in perfect worlds and there's no perfect organization. So, there'll always be things to improve. I think the nine operating units are working well, I think they've done a great job in standing up platform services. We know, we've got bits that we need to continue to improve and we'll work on that in the coming months and the marketing effectiveness is really starting to work.

And when you look at the programs or some of the innovations on the core brands like Coke and Fanta and Sprite, they've been more effective and whether you look at simple measures like consumer engagement with some of the Coke innovations, if you take the consumer engagement with Coke Marshmello or Coke Starlight versus Coke Vanilla, you get a tremendous uptick in consumer engagement with the more recent ones and it's been very well thought through, all the way through to the effectiveness of the program. Seen in more tangible terms, how much gross profit will I get per dollar I spent on DME and an improvement in those sorts of metrics for innovation.

So, it's starting to work, it's a huge system and a huge organization. So it was always going to take years to see the full benefits come through. But I don't think we should consider them as benefits on top of some ongoing number, they're all about continuing to keep us at that kind of optimal level of performance.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.
Q

Okay. Is your sense that the sort of information flow and dialogue has changed in terms of the global category teams, that the ideal of team of people that are tasked with sport – hydration or tea, that's happening the way that you envisioned.

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

I mean, it's beginning to happen. I think it's providing a very important lever. I mean every – you can't have your cake and eat it. We have continued to make the decision that the primary kind of operating organization is geographic. We reduced the number of operating units to being really focused around, in the sense, like consumer groups and like retail universities. And therefore, one has to go, okay, that's the primary operating use, what am I leaving behind in that, and the bit that always got left behind in The Coke Company was a kind of a global perspective on a brand or a category, particularly some of the newer, more developing ones.

And so, you have to come in and cut across with something that looks and takes that perspective, not in a fully matrix way, where everyone can say no to everything else, but in an [indiscernible] (00:06:42) perspective with some clear delineations for who's looking at what, for what reasons. And that's where the categories can come in, whether it's, as I talked about on Coke, Fanta and Sprite, bringing some scale and some amp-up to some of the programs that they're doing rather than doing the same thing 10 times, you can do it one time, but better.

All the way through to some of the other categories and taking a global look at not just – take juices, for example. So, we have juice relationships with the people we get juice and fruit from, some of those relationships are global and some of them are local. But there wasn't someone sitting in the center going, well, how does the evolution and the availability and the cost of different types of fruits by different categories impact the innovation agenda and the branding agenda of the global juice portfolio. And bringing that together brings a degree of optimization to where you're going on formula innovation, where you're going on the development of the category. That just adds to what the local operating units are doing.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.
Q

Okay. Great. One other organization-oriented question. John Murphy is going to be assuming the role of President on October 1, along with his role of CFO after Brian Smith retires as COO. You've mentioned that you're – in the press release anyway, you mentioned that you're evaluating future plans for the COO role. So, I was just curious on anything you can share, update-wise, or speaking maybe more generally to your thoughts on the most effective executive leadership structure that you see overseeing the global operating units?

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

A

Yeah. I mean, no new analysis to share. Surprise, surprise. The global oversight of The Coke Company and The Coke system is always going to end up being a team sport and it needs multiple people in different configurations to get that done. Certainly, the way we've had it for the last few years with Brian, as COO, has been fantastic. He's helped me a tremendous amount, a very long career and he has a very deserved retirement ahead of him.

For those of you who don't know him, he's a very – he looks very youthful for his age, but he's done a great job and that certainly helped us get to where we've got to. But there's no one-size-fits-all organizational structure for Coke because it's not just about how do we need to manage it. It's about who's available, where, at what stage of talent development. And so, we always have to balance, how do we have to organize the constellations to both run the business and to continue to give upcoming executives challenges and experiences.

And so, over our history, we have used the COO role at times and then not at times and had lots of different configurations, but the objective is always to balance the need to lead the company and the system with the need to kind of bring generations of executives up through the senior levels.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Okay. I want to talk a bit – going back to the category of teams. I apologize. But beverages for life has been this hallmark of your tenure as COO, but you would think the last few years, the acceleration that we've seen in top-line growth, a lot of it comes back to the success of brand Coke, increasingly Fanta and Sprite, but very much brand Coke. So, we know in the industry overall the mathematical importance of the healthy core. But as you think about resource allocation and opportunities for the other categories that you've been exploring, how do you manage that, right? How do you manage and think about the development of these categories and also now including hot coffee and alcohol as well, if you want to touch on that?

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

A

Yeah, a couple of thoughts. I mean, firstly to the question where we set out beverages for life and then it's like, well, perhaps sparkling grew more than people were expecting. When we did beverages for life, and there were a number of conversations in the early years about should we set an objective of sparkling should be this much and this category should be that much and set some kind of objectives in terms of the total portfolio mix.

And very clearly, we decided not to because that would have been, in essence, counter to the very idea of beverages for life, which was very much pointed at declaring the consumer centricity of the business and saying if consumer has to be in the center, our objective is to provide the consumer with the drinks they want, the brands they want, of course with the appropriate level of profitability, but really to put the consumer at the center. And in doing so, we need to do, justice to each brand and each category and then the consumer end up deciding.

I mean if they decided to drink slightly more sparkling or Coke Zero than we expected relative to a juice drink, that's the consumer's decision. We're not going to force them to buy what we want to make. We need to make what they want to buy. And so, that was very intentional and then, obviously, we work on each brand to give it's just desserts, and so then the result is what the consumer is driving towards and as you say what's we've seen is kind of reinvigorated sparkling category, a lot of growth with elements like Coke Zero, but also rejuvenation of Fanta and Sprite.

But we made steady progress in the other categories. And when it comes to resource allocation, clearly we have to make those judgment calls, in the strategy processes and in the annual budgeting process. There's no magic black box because you ultimately face the choices of what is going to give you the best result in the short-term and what do you need to achieve in the long run. In the short run, backing the current winners, a bit like investing momentum investing, works when there's momentum.

In the long run, that could end up being a difference [indiscernible] (00:12:40) in the way the same is true a bit with brands. And so very much we're focused on trying to strike that balance each year of where to allocate DME people, capital, both us and bottlers to both get the numbers in the short-term drive the momentum of the business. But also develop a long-term portfolio and make sure that we are where we have brands that don't have the same level of market share in a given country as Coke. But it is making steady progress to increase its market share or increase its leadership ratio versus other competitors and take into account the economics. We're not going to invest as much money or any money necessarily in 24 pack case water in the US versus ready to drink tea in China.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Yes. Okay. Alcohol, So never say never when James Quincey is CEO. I think it's sort of the – what people walked away from the last couple of years within some experiments that we've been hearing about. So I guess how would you describe. I mean is to say cute experiment, is it bigger than that? You know how would you articulate the aspirations of the vision for what role alcohol could play in the portfolio?

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

A

It hasn't got to the stage of vision. I mean if I break out, I might break our portfolio down into four kind buckets or podiums if you like. You've got Coke on the gold medal podium, it's over 50% share of the [indiscernible] (00:14:15). It's a huge share of the beverage industry, say gold medal far exceeds any other of that. Then you've got the silver medal if you like, where we are number two or number one, but we're not a distant number one as we might be with Coke and there's some work in progress on share or margin or whatever. But that's kind of silver medal. You've got Fanta. You've got Sprite. You've got tea, ready-to-drink tea in Japan, you got all sorts of categories in countries there.

And then you've got to kind of the third position, where we've got an idea of what we want to do. We have a clear vision about how we could create scale and materiality for the Coke company, but what needs to happen is to execute on the thesis to make sure that it's worth a long term play? And so you have to become the third bucket, and then the other four bucket which is, we haven't even got to the third bucket yet. So that's the true experimentation bucket. For me alcohol is in this bucket. You can of course you can do a mathematical calculation of, okay, if I could get a certain share of flavored alcoholic beverages and flavored alcoholic beverages for a certain percentage of the beer industry, you can do yourself a calculation and okay, actually like it could become a material, could become material for the Coke company. Now when I say material, if you're aiming to grow revenue of 5% to 6% Coke is going to be a piece of that. And the rest of the portfolio, each piece of the portfolio is only going to be decimals, nothing is to move the needle that much.

So you can say, yeah it could become a piece. One of the pieces of the decimals that add up to the kind of the 5% to 6% revenue growth. What do we need to see before we bet enough money to get to that point? We need to see whether we can get traction with the sorts of things that we've got in market or other innovations. We've got a hard seltzer here in the US, that looks like it's doing well. The partner is very encouraged. We got fruit flavor – largely fruit flavored alcoholic drinks just launched in the US, did well in Japan and the Philippines. And we got the pre-mixed cocktails, of which Jack-and-Coke is the most emblematic. But we've got some others in Brazil. It's those three things together and any other new thing can like demonstrate traction, momentum and there's enough competitive advantage and pull that maybe merits moving up the podium to division that we will see in time.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Okay. Great. I wanted to talk a little bit about the global marketing model. So marketing dollars are still below 2019 as a percentage of sales, but brand momentum is very, very strong. So it seems like there are signs of progress on the – not reinventing the wheel at every go across the global footprint and the regional teams. But I guess, what have you been most impressed by at this point and what does the deal with the DME spend look like from here?

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

A

Yeah, I mean, firstly, we came into this year saying we're going to lean into investing, and we've continued to take up the spent and we continue notwithstanding the headlines in certain parts of the world, we continue to have a bias to invest in for growth. And even if there were to be slowdowns, macro pressure of some short period of time, we've got to take a long-term portfolio of brand building perspective and continue investing.

So, we've kind of been rebuilding pressure, rebuilding spend, we've been judicious on it because we want to capture the efficiencies from the marketing model. We feel we absolutely have captured the benefits of consolidating the thousands of fragmented agencies, the run up through multiple operating units to the nine operating units with largely our partnership with WPP on the marketing system and with some extra creativity, and that is delivering the savings we were looking for. We have reinvested some of them. We have used some of the [indiscernible] (00:18:17). And the effectiveness, as we talked about in the earlier question, is starting to notch up, because instead of doing the same thing multiple times, there's more invested in doing it once better or several, a couple of times better, And that's starting to look good.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Great. With that investment, the brands are strong and they're healthy and you've talked a lot about earning the right to take price, and the same time, the importance of price pack architecture and maintaining affordability. I guess, how much does it seem like your ability to price up to this point and particularly in the US, because it's been really dramatic, is driven by the business being particularly well-prepared or seen the macro environment maybe earlier than some others, because I think you've really been pretty dramatically a price leader in dealing with inflation.

So, I guess how are you thinking about planning for late 2022 into 2023? Is there room to keep moving pricing up? Given what you're seeing now, not just the headlines, but what you're actually seeing on the consumer environment, is there space to keep moving up on price current state of affairs?

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

A

Yeah. I think perhaps the answer starts from kind of an inverted position. And certainly, the good news is our business system, many of the leaders at Coke, many of the bottlers have experience with markets that have been profoundly inflationary for long periods of time, Latin America, Turkey at the moment, other parts of the world. So, there is a deep experience with inflationary situations that perhaps were less common in the US and Europe.

And one of the key pieces of that is not to approach the question, is there an opportunity to take more price, but the reverse, which is how much price do I need to take in order to keep my margin structure, my business structure moving forward? Because as I said before, I think you put it in your own, like, taking price and facing the elasticity, like even though elasticities are not higher then, but taking price and facing elasticity, while the consumer still has money, maybe painful, but it's not nearly as painful as trying to take price when the consumer doesn't have money. That tends to be very elastic.

And so, if our approach as a system is keeping up to pay – is about keeping up the pace with the changing inputs to our business, whether we see opportunities to reset our relative pricing is much more of a longer term effect, not particularly linked to the cost structure and that's about, as you commented, earning our right to pricing through our marketing actions, through our innovation, through the RGM and the packaging innovation, through the execution in the marketplace by the model. That may provide opportunities to reset or evolve the premiumness relative to the competition. Over time, that's a long-term play that goes on all the time, but the immediate necessity is to keep up with the input costs and not get behind the curve.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Okay. In the discussion of revenue growth management also goes package mix. And with that, I think it's a good place to talk about broader ESG ambitions and the role that packaging can play. So, could you just remind us of some of your targets and kind of key building blocks to get there?

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

A

From an ESG point of view?

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Yeah.

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

A

Yeah. So, we've set a target for 2030, the first target for 2030, which is to basically recover a bottle or a can for every one we sell, obviously make sure they're recyclable and then to use at least 50% of that material ourselves in our own packaging, whether that's rPET or aluminum cans. We also set an intermediate objective of refill – in refillability, 25% either refillable or reused or fountain with reusable packaging. All of that in the support of a business objective, which is ultimately about making sure our packaging of our products does not generate waste into the environment, whether that be land or sea, but also actually reduces our carbon footprint. Because when you can actually generate a circular economy around the packaging, not only is it less waste, it's actually a lower carbon footprint.

And so, I think that feeds into helping our business set itself up to be sustainable for the very long term. And, of course, government action is also taking place more clearly, for example, in places like Europe, where there are very clear European Union targets on percentage of collection that governments need to achieve, not just on our beverage packaging, but all sorts of packaging materials and also percentages on reuse of PET and new PET bottles, et cetera, et cetera. So I think there's a lot of activity coming together says it's good to do it in own right, because it will be lower carbon and lower waste. But there'll also be a fit with the regulations. So it'll become a necessity over time as well.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Okay. And I think it'd be helpful to maybe talk a little bit about returnable economics. I think if those returnables was coming up a bit more in the conversation. So and I guess maybe the economics of the role of this package can play off in terms of affordability and hasn't in many of your markets historically.

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

A

So the interesting thing about returnable packaging or refillable packaging, where you actually get the bottle back and wash it and refill it with product rather than recycling where you get the bottle, you basically chop it up, melt it and remake a new bottle. The principal difference between a refillable bottle and a recycled bottle is the refillable bottle has more – 10 times more labor cost in it because you've got to physically manually manipulate a lot more bottles, which work when you step back [indiscernible] (00:24:36) point of view, it tends to push you in using it in the emerging markets. And the second point to bear in mind when you think about a refillable versus a new packaging, the refillable packaging, the second time you sell it, you didn't have to buy the packaging. So [indiscernible] (00:25:54) terribly lower cost structure and a one-way piece of packaging. So when you come

So, when you come to your RGM strategy, particularly in emerging markets, particularly when you're talking about the kind of bottom third of the socioeconomic pyramid and purchasing power pressures, using a refillable bottle let's say 0.5 liter refillable bottle in Latin America, you can generate a lower price point because you're not – you only have to pay for the packaging once, you use 12 times and so that allows you to bring the price point down, keep the entry price point to the category lower, which keeps the consumers in and so it's a very powerful mechanic within RGM. The consumer has the aggravation of physically having to return it and all the manipulation of that, but it's very effective on the affordability point of view.

In the developed economies, the cost of labor is higher, so the cost advantage of refillable packages tends to get eroded relative to one way, because of the higher cost of the labor, which is why you don't tend to see them as much. But then the role that can be played in RGM is actually of a premium package. So if you go to Spain and you go to the away-from-home channels [indiscernible] (00:26:06) cafes, you'll find a huge amount of returnable glass bottles. And that's very effective because you're able to charge a price point that accommodates the extra labor for that and it's a great consumer experience, use of the glass bottles, of course, it has. You're going to give me another microphone because I keep putting it out.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Yeah.

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

A

And it's a great answer to the packaging circular economy because there's no waste from the returnable glass bottle, it goes back to the factory and it has a lower carbon footprint than the one-way glass bottle. So, these refillable bottles can be used in interesting ways on the economy.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Okay. Great. I'm going to shift. Sorry for near term stuff. So you raised your constant currency top line guidance in July, 12% to 13%, but reiterated the 5% to 6% all-in EPS growth with FX expected to be 9% drag to profit growth. How do you think about the various macro variables that you have to contend with as a global business, currency, supply chain, geopolitical, commodities? Like what steps can you take to help manage that currency burden in particular? I feel like Ghost of Christmas Past right now. So, curious how you sort of react to that question.

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

A

Well, firstly on managing that whole gamut of various macro problems. When macro problems come at us, of which forex is one of them, the question is not just what is it going to be next week or next year, the question is how important is it to know the answer of what scenario we're in. In other words, how does it affect the decisions that I have to make? If oil is going to be $80, $90 or [ph] $120 (00:28:03), what am I going to do differently? What decisions can I make and what can I do differently depending on the scenario? Is it going to make me change my [indiscernible] (00:28:11) ? Is it going to make me change my taxes? Do I need to know the answer or make a bet on the answer or do I just need to be agile so that when I get to the point that I know the reality I can adjust in the moment because that then allows the organization to focus on remaining agile, but also focus on the decisions that can control.

The most boring business plan presentations that come in and go, well, there's 20 scenarios for next year and we don't know which one it is and then you run out of time to say, well, what are you actually doing about it? Doesn't really matter [indiscernible] (00:28:44) scenarios actually mean I have to decide something different, or can I just roll with it until I get there and be agile at that point. So, then, the next thing on foreign exchange, I mean, firstly, I think this will end up being the first time in the last 15 years, where foreign exchange is negative high-single digits when US dollar EPS has actually grown. Maybe it's the second time. But it's like I think it's a demonstration that the momentum and the strength of the business system has got to a point where that sort of dollar strengthening is not totally destabilizing our ability to grow the US dollar EPS, which is a good place to get to.

What that is going to turn into next year, I mean, it's back to my first bit of the answer, which is it's anyone's guess, but we're very focused on continuing to grow the US dollar EPS. We're not going to sacrifice the long term just to make that happen in the short term, we're going to remain focused on leaning into growth, we're going to remain focused on long-term development, but we would be unhappy if the US dollar didn't grow. That's not a commitment to make it grow for those that are paying attention, but it certainly is a sharp focus for us going into the year. And we'll have to see, we'll have to see – we spent so long with the dollar strengthening without creating international inflation, that finally we got inflation and the dollar strengthening, I don't know what it's going to look like next year. I don't know whether we're going to have more inflation without the dollar strengthening or both, inflation and dollar strengthening, or less inflation and the dollar- I mean, it could be anything. We will have to cross that bridge when we get to it.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Okay. Just on the topic of your global presence, you probably know I did a bunch of work earlier this year and speaking to a wide range of your bottling network, public and private companies across the globe. And generally speaking, Coke world seems to be a pretty happy place, but what did kind of come out of that work was the identification and discussion of the structural complexities in the US market that leave room and you said there's no perfect model, but that leaves room for further tweaks the way the US is structured. I'm just curious how you would characterize the domestic operating landscape today and where you do see opportunities to explore further adjustment to the model.

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

A

Yeah, I think the first starting point is it's an adolescent, the US. I mean it may be the longest-running bottling operation in the world, but the new form of it is relatively new. It was – it came in the last – ultimately, the last 5 to 10 years, whereas the international operations have been operating in their current form for much longer. And so, there's a well – logically speaking, it's a better and more well-oiled machine.

And so, yeah, the new way of operating in the US is relatively new. And, of course, there are tweaks, some of which we have made recently in the last couple of years, because – sorry, back up. When the US system was refranchised, it was largely around bottle, can, it was largely around sparkling. And that left the company with a lot of the hot fill infrastructure, some of the water infrastructure. And so, we have taken the decision in the last few years to get out of some of the water manufacturing businesses to use some top packers. Actually, the bottlers have used some top packers as well, which was great because then it freed up their lines to make more sparkling as demand came back for bottle or can of sparkling. So, it's a total win for everyone.

We have also looked at doing some of the same thing with hot fill. We still have some facilities. And so there's no questioning of exactly [indiscernible] (00:32:43). And so, there are tweaks. And I think the bottling system is very engaged in, like, how can we continue to make this better. They've had a good success run the last five years. So, it's not broken, but everyone is focused on how can we continue to optimize that, so we can really continue to see the US bottling system both continue to grow, win and be profitable.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Okay. Great. We only have few minutes left. So, I just wanted to ask one kind of final bigger picture question. You first spoke to us at this conference just after you were named COO in 2015 and just – which is now a very – some time ago. But reflecting back on the experience you've had leading the company since that time, knowing what you know now, what's been maybe the most meaningful change that's improved Coke's value proposition, very dynamic operating environment and maybe anything you would have done differently, if you could go back and talk to yourself seven years ago?

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

A

Well, that's a tough – yeah, that's a different question.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

We could reset the clock.

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

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No [indiscernible] (00:33:49). I think the most important decision was to get completely focused on growth. If you wind the clock back to that conference seven years ago, there were all sorts of – actually not people in this room, because many of them have changed. And people in that conference like, why are you bothering, Coke's not going to – like it's dead, like give up, go and do something else. And I came out of that conference with a very clear view that the CPG was segmenting into three buckets. There was the bottom bucket where the people, like, didn't have a clue. Then there was the third bucket where people had either concluded that that category was not going to be a growth category or some variant of that, and had decided essentially to bring forward the terminal value in the MPV by jacking up the margins. And that was producing a lot of good results in those years in the short term and a lot of share price growth. And then there was the third bucket, which was the harder bucket, but it was like, no, no, I'm not going to bring forward the terminal value, but I am going to focus on driving growth in the category for the very long term. And I think, for me, that was always the gold medal idea.

That category is not going to grow, but I'm going to crank up margins with the silver medal category, even though at the time people were trying to convince me it was the gold medal category, and then there was the bronze. And so, the decision to say no, The Coke system, firstly, they couldn't execute the silver medal strategy, but we're going to go for the gold medal strategy. We're going to focus on growth, we're going to sort out all the business system, the refranchising, the cost structure, etcetera, etcetera, etcetera, so that we can get laser focused on driving the system to grow at a growth rate with tweaks on the operating margin, but basically grow fast enough to drive the value of the company and the system to where it should be principally driven from revenue growth.

And that, I think, was the most kind of decisive thing that was happening, it was to set growth in the center of everything. And then, following on from that was to back that up with the organizational and system culture work to support that growth approach. You had organizational structure pieces but really was the culture around it's all about the growth. Everything else is extraneous. And then what would I say to my past self or actually you say to whoever comes up, which is, of course, I've never met a CEO who said I wish I'd gotten slower. But, of course, knowing what I know now, I'd done everything earlier but that's just what it is.

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Okay. Great. Well, thank you so much for the time today. Everyone, please join me in thanking James and the company for being here and all the beverages, too.