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Coca-Cola: Preparing for the Next 100 Years

We're building this business for the next century, not just the next quarter.

— James Quincey, chair and CEO, The Coca-Cola Company[1]

In April 2019, Muhtar Kent stepped down as chair of The Coca-Cola Company (Coke), ending a 41-year career at the world's leading carbonated soft drink (CSD) company. He told shareholders at the company's annual meeting: "I feel very proud and fortunate to have enjoyed this long, fruitful association with the world's most-loved brand. And I have a plain and simple message for everyone connected to our business: Our best and brightest days are ahead."[2]

Taking over for Kent was James Quincey, the 14th chair at the 133-year old company, who would also continue to serve as CEO. An engineer by training, Quincey worked as a management consultant before joining Coke in 1996, where he headed operations in Latin America, Mexico, and Europe before becoming president and chief operating officer (COO) 2015 and CEO in 2017. In early 2020, Quincey shared Kent's optimism about Coke's future, but he recognized some challenges.[3] The company's flagship product, Coca-Cola, had been the world's best-selling beverage for 100 years, yet some consumers were turning away from CSDs. In the United States, the number of cases of CSDs sold industry-wide fell from a high of 10,377 million in 2004 to 8,520 million in 2018,[4] while non-CSD commercial drink options had grown significantly.

Quincey recognized that Coke needed to adapt in significant ways if it was to remain atop the worldwide beverage industry. Although Coke had made non-CSDs for years, these products had never been a central focus of the company. Shortly after being named CEO, Quincey announced that Coke would continue to grow beyond CSDs and become in word and in deed a total beverage company. In developed markets, where three-quarters of consumed beverages were commercial, the company had a strong lead in CSDs; in other beverages, its share was smaller and competition more fragmented. In developing markets, which accounted for perhaps 80% of the world's population, only one-quarter of consumed beverages were commercial, but in many countries, that percentage was steadily increasing. Quincey thought Coke was well positioned to take advantage of these opportunities given that the company already sold its products in nearly every country on earth.

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To achieve this growth, Quincey believed a cultural shift was required: "We [need to] adopt more of a tech company modus operandi rather than inventing the perfect thing and taking a long time doing it. We need to get out there faster and take more risks. . . . In short: be bold, be brave."[5]

Early Years

In 1886, John Pemberton, a pharmacist, created a syrup made from extracts from coca plants and kola nuts, added sugar, carried it to an Atlanta pharmacy, mixed it with carbonated water, and sold it as a fountain[a] tonic—a drink believed to improve health. Pemberton soon sold his interest in the drink to Asa Candler, who founded The Coca-Cola Company and established several of its distinguishing features. First, he developed a nationally branded fountain business by forming a sales force to sell the syrup to drug stores. By 1895, Coca-Cola, no longer just a tonic, was available in all U.S. states as a fountain beverage. Second, Candler sold the perpetual and exclusive rights to bottle the drink in the U.S. to investors, who formed regions and sold franchising rights to independent bottlers. The bottlers purchased syrup at a fixed price from Coke, bottled the drink at local plants, and sold and transported it to local retailers. To protect against counterfeiting, Candler kept the drink recipe secret (famously storing it in an Atlanta bank vault) and defeated over 150 imitators in court.[6]

In 1919, Ernest Woodruff acquired Coke and soon turned it over to his son Robert, who was president of the company from 1923 through 1954 and who remained on the board until 1984; he thus had significant control over much of the company's direction for more than 60 years. Upon taking over, Woodruff found strained relations with bottlers over the rising price of sugar and the requirement that bottlers use the 6.5-ounce bottle specified by Coke. Woodruff worked to improve relations with bottlers by convincing them that both Coke and bottlers would benefit by focusing on growing the size of the market. Early innovations under Woodruff included selling bottles in six-packs in the 1920s and introducing coin operated vending machines in partnership with bottlers in the 1930s—both part of Woodruff's vision to have Coke always "within an arm's reach of desire" wherever a consumer might be.[7] Woodruff also invested heavily in advertising and developing a national brand. During World War II, the company sought to make its drink available to soldiers everywhere and received U.S. government support to build bottling plants around the world, which gave it significant market share advantages in Europe and Asia in later years.[8]

Increasing Competition

In 1940, Coke had a U.S. CSD share of 53%,[9] with many local, but no truly national, competitors.[10] Pepsi-Cola, with its Pepsi drink introduced in 1898, struggled until the 1930s when it offered a larger drink size for the same price as Coke. Competition between the two picked up in 1949 when Pepsi hired a former Coke executive who defined Pepsi's new mission as "Beat Coke."[11] Over the next decade, Pepsi copied many of Coke's practices, refined its positioning away from a bargain brand to more of a lifestyle brand like Coke, and, unlike Coke, offered its drink in a range of sizes. While Coke held market share leadership in both take-home and fountain drinks, Pepsi, which had sold its fountain rights to its bottlers, focused more on the take-home segment. Coke responded in 1955 by also offering new bottle sizes and began to align its international marketing with its U.S. marketing to create a global brand.[12] By 1960, Coke's U.S. market share had fallen to 37% while Pepsi's had risen to 18%.[13]

In the 1960s, Coke and Pepsi differentiated their product lines both within and outside of CSDs. In 1960, Coke launched its Fanta product line of non-cola flavored CSDs, while Pepsi launched a similar line of its own. In 1962, Royal Crown introduced a diet cola using artificial sweeteners. Coke followed

[a] A fountain was a device that mixed water, carbon dioxide, and a flavoring syrup to create drinks at a point of retail.

with its diet cola Tab in 1963, and Pepsi with Diet Pepsi in 1964. Also in the 1960s, Coke and Pepsi introduced non-returnable glass bottles and metal cans. Outside of soft drinks, Coke purchased juice-maker Minute Maid in 1960, coffee and tea maker Duncan Foods in 1964, and Belmont Springs bottled water in 1969. Pepsi merged with snack-food maker Frito-Lay in 1965 and renamed itself PepsiCo.[14]

The long history of profit and growth in the CSD industry can best be understood by considering not just the concentrate producers such as Coke and PepsiCo, but also the interplay between them, and bottlers, suppliers, and retailers. (See **Appendix A**) (See also **Exhibits 1** and **2**.)

The Pepsi Challenge

In the early 1970s, Pepsi's overall U.S. market share was significantly below that of Coke's; but, in the grocery store segment, Pepsi was not so far behind. In Dallas, however, Pepsi was a distant third in the grocery segment, behind Coke and Dr Pepper. A Pepsi manager, believing that many consumers chose Coke for its reputation and not because it tasted better, ran blind taste tests using a hidden camera and asked consumers to taste two unmarked colas, one a Coke, the other a Pepsi. A slight majority preferred Pepsi. In 1975, Pepsi ran television commercials in Dallas that showed consumers who claimed to be Coke drinkers taking the Pepsi Challenge and discovering that they preferred Pepsi.[15] Pepsi's sales volume in Dallas grew 14% the year following the ads, compared with 6% the prior year.[16] Pepsi ran Pepsi Challenge ads in other markets where it trailed Coke and obtained volume increases.[17]

Coke, which had never run taste comparisons of its own, initially tried to refute the Pepsi Challenge by claiming it was invalid and that consumers did not just taste a Coke, they drank the whole glass.[18] Coke also responded with significant price discounting.[19] Nonetheless, Pepsi gained market share and modestly surpassed Coke in the food store segment.

In the late 1970s and early 1980s, Coke looked to grow by adding new CSD products and rethinking its brand. Previously, only the original Coke CSD carried the Coke brand. In 1982, however, Coke introduced Diet Coke and backed it with a $100 million advertising plan. By the end of 1983, Diet Coke was the third largest selling CSD, behind only regular Coke and Pepsi.[20]

In 1985, concerned over declining market share for its flagship drink following the Pepsi Challenge, Coke launched New Coke, a modified version of the original, and pulled its original Coke beverage off the market. Consumers loudly rejected the new version. Within three months, Coke brought back the original formula as Coke Classic—which quickly regained its market share—but left the new version on the market. The New Coke launch was widely seen as a failure.[21] Throughout this period, while competing strongly with each other, both Coke and Pepsi grew their market shares and the overall CSD industry, while shares of smaller rivals shrunk.[22] Looking at the long history of competition between the firms, Roger Enrico, former CEO of PepsiCo, later noted:

> The warfare must be perceived as a continuing battle without blood. . . . Without Coke, Pepsi would have a tough time being an original and lively competitor. The more successful they are, the sharper we have to be.[23]
>
> If The Coca-Cola Company didn't exist, we'd pray for someone to invent it. And on the other side of the fence, I'm sure the folks at Coke would say that nothing contributes as much to the present-day success of The Coca-Cola Company than . . . Pepsi.[24]

Changing Forces in the Industry

Industry expansion continued rapidly from 1970 to 2000 as annual consumption of CSDs in the U.S. increased from 22.7 gallons per capita to 53.0 gallons per capita.[25] Concentrate producers expanded their CSD product lines, adding new flavors and a wide variety of packaging. They made drinks in increasingly large sizes and consumers drank them on an ever-widening range of occasions from early morning to late night. After the early 2000s, however, per-capita CSD consumption began to decline.

Decline in U.S. CSD Sales, Product Proliferation, and Competition

In 2017, for the first time, CSD sales in the U.S. fell behind bottled water. Indra Nooyi, the CEO of PepsiCo, saw the problem developing, and told investors in 2013: "We actually believe that if you let this go too long, another three or five years, the consumer will walk away from carbonated soft drinks."[26] (See **Exhibits 3** and **4** for beverage consumption data.)

Non-CSD beverage categories included bottled water, juices, ready-to-drink teas, sports drinks, energy drinks, ready-to-drink coffees, and others. Within each category there was a bewildering range of products, many of which sold only in select local markets. In the take-home segment, CSDs competed vigorously with each other and with non-CSDs for shelf space and visibility throughout the store—within their assigned locations, special end-of-aisle displays, and in some instances, in individual bottles and cans stocked in small refrigerators located near cashiers. Some retailers sold branded CSDs, merchandised by the CSD bottler, alongside private-label brands typically sold at lower prices and merchandised by the retailer through its own warehouse/distribution systems.

The diversity of options, alongside increased variety of CSDs, added complexity for manufacturers, distributors, retailers, and consumers. Beverage companies introduced new products at rapid rates—Coke introduced over 500 in 2017, up 25% from 2016—and such products often needed different marketing and advertising strategies than existing well-known CSD products.[27] Bottlers sometimes lacked the capabilities or incentives to adapt their businesses to serve these product segments.

Obesity, Sugar, and Taxes

The World Health Organization estimated that between 1975 and 2016, global adult overweight or obesity rates nearly doubled from 21% to 39%,[28] while rates for children quadrupled from 4% to 18%.[29] In the U.S., the rate for adults increased from 41% to 68%[30] and the rate for children increased from 19% to 42%.[31] Overweight and obesity led to early deaths from higher rates of cardiovascular diseases, diabetes, musculoskeletal disorders, and some cancers. By one estimate, global overweight and obesity cost $2 trillion per year, or approximately 2.8% of GDP.[32]

Evidence linking obesity to sugary drinks led consumers to reduce their CSD consumption. Between 2000 and 2018, the average calories from beverages consumed per-person per-day in the U.S. fell 23%, from approximately 255 to 197.[33] While consumer choice likely drove much of this decline, beverage manufacturers also played a role. In 2006, the Alliance for a Healthier Generation convinced Coke, Pepsi, and Dr Pepper Snapple to sell only bottled water, milk, and 100% fruit juices within U.S. elementary and middle schools, and not sell CSDs with sugar in high schools. In 2014, these three manufacturers pledged to reduce calories in the average diet a further 20% by 2025 by "promoting bottled water, low-calorie drinks, and smaller portions."[34] Beverage makers, nonetheless, received criticism for their role in obesity through the spread of sugary drinks. One observer, looking at Coke, wrote, "Real change will require that Coke work much faster than that and do much more. To be a true industry leader, the company must step up and own the problems the industry has helped create."[35]

Taxes had also become a growing challenge for CSD producers. Approximately 43 countries had implemented taxes on sugary drinks, typically to combat obesity and offset obesity costs. Of these, 33 countries, including Mexico, Chile, U.K., France, Norway, India, Philippines, Saudi Arabia, and South Africa, had implemented such a tax between 2014 and 2019.[36] The U.S. had not passed a national tax, nor had any states; however, seven cities, including Philadelphia, San Francisco, and Seattle, had imposed taxes ranging from 1 to 2 cents per ounce of sugary beverage.[37] Philadelphia implemented a 1.5 cent per ounce tax on January 1, 2017, which raised $192 million by June 30, 2019.[38] Over the first year after the tax took effect, the sale of taxed sugary beverages fell 51%; when accounting for a rise in sales just outside of the city where there was no tax, the adjusted decline was 38%.[39] The beverage industry, which spent heavily to lobby against such taxes, called the taxes unfair for consumers and businesses and claimed that the effectiveness of the taxes was overstated.[40]

Environmental Sustainability and Consumers

Environmental challenges also impacted the CSD industry as consumers grew increasingly concerned about the health of the planet. One study found that between 2013 and 2018, consumer packaged goods (which included beverages) with a sustainability claim on their labels grew more than five times faster than products that did not.[41] A 2019 survey found that nearly 80% of consumers from 28 countries valued sustainability and 70% of those indicated a willingness to pay 35% more for such products.[42] Environmental issues important to consumers included recycling, reducing packaging waste, lower carbon footprints, and veganism.[43] For CSD producers, plastic bottles—which consumers used only briefly, but which took centuries to degrade in the environment—were perhaps most important. In 2019, an environmental group organized volunteers to collect plastic litter in 37 countries. An audit of the litter found that the largest two producers were Coke and Pepsi.[44]

Concentrate Producer-Bottler Relations

CSD companies and their bottlers had long struggled to create a relationship that worked well for both the concentrate producer and the bottler as the industry evolved, though each had different business models and incentives. In 1986, in an effort to increase bottler efficiencies, Coke acquired two of its largest U.S. bottlers, combined them with some smaller bottlers, and spun them off as a single publicly traded entity: Coca-Cola Enterprises (CCE).[45] It made similar moves over the next decade in markets around the world. Pepsi also acquired bottlers during this period, including some of the largest in the U.S., and held them internally until a 1999 IPO.

In 2010, both Coke and Pepsi got back into bottling. Coke acquired the U.S. operations of CCE and Pepsi acquired some of its largest U.S. bottlers.[46] Analysts believed that by owning its bottlers, Coke and Pepsi could reduce costs, increase innovation, and have greater flexibility with new products, by, for example, choosing whether to distribute a product through the bottler to the store or through the retailer's own warehouse system. At the time, Pepsi called independent bottlers a "relic of the past" while Coke indicated that long-term it was committed to selling through independent bottlers.[47]

By 2016, Coke decided to refranchise its North American bottling operations and pursue an asset-light strategy. By then, the company had developed a vision for a 21st Century Beverage Partnership Model that could be established with new and existing partners across North America and deployed with an aligned operating model. The model was designed to drive scale and speed, and optimize costs, with the ultimate goal of partnering with local companies that were eager to invest in long-term growth. From 2015 to 2018, Coke's revenues fell from $44.3 billion to $34.3 billion, its employee headcount dropped from 123,200 to 62,600, and its operating margin increased from 19.7% to 26.7%.[48] A Coke representative noted "[Small partners make] better distributors because of their local focus."[49]

Coke completed the U.S. refranchising in 2018, although it continued to own some bottlers overseas.[50] In 2019, PepsiCo's new CEO indicated that Pepsi had no plans to refranchise.[51]

Other Events

Beginning in 2013, an activist investor, believing that Pepsi's slowing beverage business was holding back its faster growing snack food business, pressured Pepsi to split the company. Speculation of a breakup continued into 2019,[52] when the company's new CEO indicated that Pepsi was stronger by keeping snacks and beverages together.[53] In 2017, Cott, the fourth largest U.S. CSD producer, began a strategic shift away from its traditional CSD business and by 2019 had sold off its concentrate and bottling operations.[54] In January 2018, Keurig, maker of coffee pods for its home brewing machines, acquired Dr Pepper Snapple, the world's third largest CSD producer, to obtain wider distribution for its bottled coffee drinks through Dr Pepper's distribution network.[55]

A Total Beverage Company

In August 2015, shortly after Muhtar Kent named Quincey Coke's president and COO, the two held a town hall meeting for headquarters' staff that served as an opportunity to highlight coming changes. One message in particular had an outsized impact. Coke's headquarters' culture traditionally included formal attributes such as business suits and briefcases, though Coke had a casual dress policy for Fridays. When Quincey joined Kent on stage at the Wednesday meeting, to the surprise of many, he wore jeans. Quincey recalled:

> There is an importance to symbolism. Everything communicates. We had created great slide presentations for the town hall meeting and put out carefully engineered communications, but the one thing people remembered, by far, was that I wore jeans on a day other than a Friday. It was intentional. The message was that it was time to turn the page. The earlier era served its purpose. Now is the time for this new one.

The changes went far beyond casual dress. Quincey talked about clarifying and reinforcing messaging that had been growing for some time around Coke's strategy, culture, and market position. The company had been trying to revitalize its CSD business while also expanding its non-CSD offerings as it pursued a total beverage company strategy, but progress had been slow. Quincey believed that Coke needed to be more resolute if it was to truly deliver a total beverage company strategy.

Quincey's team spent much of 2016 rethinking Coke's strategy. One manager described part of the challenge, "We were looking at expanding in the stills category (non-CSD beverages), but many of these products had lower margins than sparkling (Coke's term for CSDs). Stills were also harder to make, made at lower volumes, and we had less experience with them. We needed to create the belief that we could grow the total pie of consumers drinking Coca-Cola beverages by offering more choice while growing in sparkling and stills at the same time." Quincey thought the way to do that was to find the segments of the stills categories that earned higher margins and in which Coke could be a market leader, either by growing brands internally, or in some cases, through acquisitions.

In early 2017, Coke introduced a new tagline "Beverages for Life" as part of its strategy. Imaging for the tagline depicted eight different branded beverages, all made by Coke, representing the eight 8-ounce servings of beverages that humans consumed each day while showing that most of the eight were not CSDs (see **Exhibit 5**). This marked a significant shift from the company's earlier messaging that its Coke-brand CSD was an all occasions beverage.

Strategy and Culture

To emphasize this shift, at another town hall meeting, Quincey arrived carrying a bottle of Dasani water, a brand Coke had introduced in 1999. He told the attendees, "It is okay if your favorite drink is not red Coke" (Coke's term for its main brand CSD). Several executives mentioned this event, and one recounted: "There was an audible gasp in the room! No Coke executive had ever said that before, and many of us consciously chose to carry red Coke to meetings. The moment really helped us realize that we were not a one product company anymore." Quincey explained, "If the culture is we all pretend that Coke is our favorite beverage, there is a conflict between culture and strategy. When that conflict exists, culture will win. So we had to change the culture to align it with the strategy." Moreover, Quincey believed the company needed to become more consumer-centric:

> If you think red Coke is the heart and soul of the company as it has been for over 100 years, and whatever opportunity comes along you see through the lens of what is best for red Coke, then you are not starting with the consumer. The consumer is telling us they want product diversity and that they are concerned about sugar. To make this work, we needed to be logically consistent in our messaging and simplify everything. That leads us to beverages for life.

Quincey repeatedly emphasized the need to move away from Coke's cautious culture. Sometimes referred to as "New Coke Syndrome," referring to the 1980s failed launch of New Coke, Quincey saw this caution as a fear of failure that would hold Coke back from becoming a total beverage company. With an iconic brand such as Coke, he believed some caution made sense. He said that when, "curating the world's most valuable brand, a lot of attention and care was paid to any changes that were made."[56] However, when looking at smaller and newer brands, Quincey felt Coke needed to experiment more and be willing to take risks. "If we're not making mistakes," he said, "we're not trying hard enough."[57]

In Quincey's view, the Beverages for Life strategy and consumer-centricity required Coke to introduce more new products and promote a faster-moving culture that was curious about what the consumer wanted. Since that varied by market, Quincey believed that new ideas could come from anywhere. Coke needed to grow the ones that took hold and quickly abandon those that did not.

Organizational Changes

When Quincey became CEO in May 2017, one of his first acts was to eliminate 1,200 positions from Coke's Atlanta headquarters staff of 5,500.[58] Due to bottler refranchising, fewer headquarters staff would be needed. Quincey also believed that for Coke to become more consumer centric, it had to push more decision-making into the geographies. CFO John Murphy explained, "Coke's historic recipe for success, led by our flagship brand Coca-Cola, has been to build scale around the world with a mindset of 'We have a clear plan. Let's go execute it and do it perfectly.' And it worked. But in today's world that approach does not guarantee success."

Under Quincey, Coke employed an organizational structure that consisted of four geographic operating groups—Europe, Middle East, and Africa; Latin America; North America; and Asia Pacific—plus the Bottling Investments group for the company-owned bottling and distribution operations, and the Global Ventures group focused on scaling new acquisitions and brands. Coke divided the geographic operating groups into business units and further divided the business units into key operations. Business units and key operations were locally focused profit centers, with each business unit having its own president. This organizational structure had been effective for Coke's primary products; however, it had not always been well integrated across geographies, which sometimes slowed the rollout of new products globally. Quincey stated, "There is no perfect organizing model.

You can organize by product category or by geography. We have chosen geography except in a very few instances where we chose category."

Coke needed a people plan to match the strategy. Quincey asked Jennifer Mann, a veteran Coke executive, to lead this effort. Mann explained, "As we went through the strategy, we knew it would be all about people and culture, and would require significant change." In particular, Quincey believed that a growth mindset would be necessary to drive the business in the future. Part of this was shifting from a tenure-focused culture to a performance- and team-oriented culture. Mann explained, "We had been a culture that valued tenure and the idea that people don't leave a family, but we now need to work like a team, where we all know our role, try to stay relevant, and push to get better every day." To underscore the message, Coke shifted part of its compensation system from paying people in the middle of a range to differentiating pay based on performance. Becoming a total beverage company with a portfolio of products also made it more acceptable for staff to move across brands and business units, which expanded career paths.

Sustainability

For decades, Coke had promoted sustainability in many parts of the company. In 2011, Kent asked Bea Perez to create a new structure, the Office of Sustainability, to group all of Coke's sustainability activities into a single unit. Perez, who had previously held executive positions in operations and marketing, set out to elevate the importance of these activities and tie them to the business strategies and compensation incentives of managers and executives. When Quincey became CEO, he accelerated these efforts. As Perez described, a key piece was taking Coke from what she called a social license to operate to a social license to lead: moving from simply mitigating the risks to the business to becoming part of the solution to the sustainability challenges faced by communities throughout the world by adding value on these issues.

Obesity Although Coke had set sustainability goals and measured improvement against them for years, it had also made some mistakes along the way. For example, Coke had long known that sugar and calories were concerns for some consumers, and it had responded by offering calorie-free products such as Tab (1963), Diet Coke (1982), and Coke Zero (2005). Yet, since the early 2000s, as the link between sugar and obesity grew in the public consciousness, Coke began to realize that just offering a few diet options would not be enough.

In the early 2010s, Coke funded studies to explore whether more exercise would help consumers burn calories and reduce obesity. Coke was criticized for this on two fronts: some claimed that the researchers had a conflict of interest that could bias their results because Coke provided the funding, while others argued that Coke's apparent belief that obesity could be solved by exercising showed that Coke did not understand the complexities of the issue. Quincey responded to the first concern by developing a transparency policy under which Coke publicly disclosed the studies it funded. For the second, management took time to reflect. Perez explained, "We realized the critics were right. We did not truly understand. We needed to listen more to the public health experts and figure out what we can do to credibly make a difference. We decided we needed to address our portfolio, because one thing we could control are our drinks—what we advertise, the pack size, the amount of sugar."

Over the next decade, Coke took steps to make it easier for consumers to avoid sugar. To begin, Coke emphasized the consumer experience—taste and delight—rather than volume. Perez stated, "For a long time, we, and others in the industry, had grown serving sizes. Bottles and fountain cups got bigger to drive volume. At one point, we had fountains offering our products in 64-ounce cups (1.89 liters). We have shifted to smaller package sizes, eliminating several of the larger cup sizes, and are focusing on value share, which allows balancing between volume growth and pricing, while increasing advertising of our low- and no-calorie brands." These smaller package sizes sold at lower price points but at higher margins. Coke found that many consumers, including those who purchased diet products, were willing to pay a higher price for smaller sizes not only to reduce calories, but also to avoid waste. Coke also shifted the positioning of its full-sugar CSDs more toward special occasion drinking.

Coke also reduced sugar across its portfolio. The company began to offer low- and no-calorie options alongside most of its full-calorie beverage products, and its new products typically contained less sugar than previous generations. Coke also reformulated some existing beverages, such as Fanta, by reducing their sugar content over time in some markets. In addition, Coke began to provide transparent nutritional information on its packages, often listing calories on the front label, and instituted a responsible marketing policy to limit its marketing to children.

An added challenge for reducing sugar content related to public perceptions of the safety of some artificial sweeteners and sugar substitutes such as aspartame, sucralose, and stevia. Coke used a variety of sugar substitutes in its products and had long used aspartame in Diet Coke. While some consumers and health observers believed sugar substitutes could be harmful, Coke's position was that decades of science had shown these sweeteners to be safe.

Water sustainability Water was the main ingredient in all of Coke's products and fundamental to life in all the communities in which it operated. Coke received a wake-up call in India about water sustainability in 2002 when villagers protested that Coke's use of water had led to local water shortages. The Indian government responded by closing some bottling plants. Coke realized that, although its plants were not causing the water shortages, as a very visible water user it needed to do more to address water concerns worldwide. Subsequently, Coke set goals to improve its water stewardship. One goal was to help its bottlers improve water efficiency in their plants, which reduced the amount of water Coke needed to make one liter of beverage from 2.7 liters in 2004 to 1.85 liters in 2019. Another goal was to replenish the amount of water it used in its drinks back into the environment—for every liter of beverage manufactured, Coke put one liter back through hundreds of replenish projects around the world. Coke increased its annual replenish totals from 81 billion liters in 2012 to 273.7 billion liters in 2019 and began to encourage its suppliers to reduce the amount of water used to produce ingredients.[59]

Packaging In packaging, Coke instituted programs to reduce waste and increase recycling. For example, Coke reduced the amount of plastic in each of its bottles by making bottles thinner and reducing cap size, and it changed the color of some of its bottles from green to clear to make them easier to recycle. The company also increased the percentage of recycled materials in its packages, encouraged consumers to recycle, and began to support bottle and can collection efforts that charged consumers a deposit that was refundable when bottles were returned. Known as bottle bill legislation, Perez explained that in the past Coke had opposed bottle bills, in part because some of them were poorly designed. Under Quincey, Coke made clear that collecting used packaging was a top priority: the company set goals that it would make 100% of its packaging recyclable globally by 2025, and by 2030 it would collect and recycle one bottle for every bottled it sold. In 2019, Coke withdrew from a plastics industry association that the company felt did not align with its sustainable packaging goals.

In addition to these areas, Coke continued to work on sustainability on other fronts, including giving back to local communities, human rights, economically empowering women, agriculture, and climate. Quincey believed that progress in all these areas helped bring Coke credibility on major issues of the day and solved what he called the "barbecue challenge" some employees had faced:

> Our employees go to barbecues where they hear from family and friends that Coke is bad, has sugar, causes obesity, uses up water resources, and creates a tremendous amount of packaging waste. That doesn't make you feel good about working for Coke. We have been trying to turn that around. We need to stop talking about what we are against and start talking about what we are for. Our strategy of consumer-centric and beverages for life along with our efforts to help solve problems of obesity, water, and packaging waste, will give our employees something they can believe in and want to be a part of. If you can't solve the barbecue moment, you don't have a strategy that makes sense.

Growing the Portfolio

Coke took a multi-pronged approach to growing its portfolio of products to deliver on the beverages for life strategy. Three key parts were Innovation; Lift, Shift, and Scale; and Acquisitions.

Innovation In response to consumer demand for new beverage choices, Murphy described the focus of Coke's innovation efforts as "providing consumers with the best beverage for every occasion." These efforts included reformulations of existing products for flavor enhancement or calorie reduction, introducing functional beverages that carried health or performance benefits, new products designed to meet the specific tastes of geographic segments, and premium and smaller-sized products.

Coke extended its flagship brand by adding new varieties such as Coke Energy, Coke with Coffee (which also contained less sugar than regular Coke), Orange-Vanilla Coke, and Coca-Cola Fiber. These were in addition to its 2017 reformulation and rebranding of Coke Zero as Coke Zero Sugar, a rapidly growing brand designed to taste more like regular Coke than Diet Coke. These products enabled Coke to grow retail value for its flagship brand 6% in 2019 at a time when overall U.S. CSD sales were declining.[60] Coke's innovation efforts increased the percentage of revenues generated by new products from around 15% in 2017 to nearly 25% in 2019.[61] At the same time, Coke increased its focus on removing underperforming products, called zombies, from its portfolio. After reviewing its portfolio and finding that 30% of its products produced only 1% of its volume, Coke eliminated over 1,300 zombies in 2018 and 2019.[62]

Lift, Shift, and Scale Coke was determined to take products that were successful in one market, bring them to new markets, and grow them there (see **Exhibit 6**). Quincey explained, "We operate in 200 countries. Having a success in one country frankly almost doesn't move the needle. The needle only really moves when it's a big success in more than one of the big countries. Our ability to lift and shift the best ideas . . . around the world is absolutely critical to our ability to create more billion-dollar brands and a more diverse portfolio."[63] One example was Coke's Smartwater bottled water. Coke acquired its maker, Glaceau, in 2007, and developed the brand. In 2018, Coke introduced Smartwater in over 20 new countries.[64] In 2018, Coke executed over 500 lift and shift launches worldwide.[65]

Coke also employed a leader-challenger-explorer framework to drive resource allocation. The framework recognized that different brands were at different stages of development within each market: explorer brands were small, likely newer brands with potential; challengers were larger, but not market leaders; and leaders led their market segments. As one executive described, "Well over 90% of new brands fail, even those with money. With explorers, you don't need every problem solved; you just need to see if you can gain consumer awareness and traction."

Francisco Crespo, chief growth officer in 2019, estimated that early explorer brands needed to grow four times faster than the category overall. Later, successful explorers needed to gain two points of market share each year or they would fail. When a brand reached about a 12% share, it became a challenger. Crespo explained: "Challengers are at the mercy of the leader. The leader is superior in brand equity, cost structure, and/or execution, so you will be forced to discount on price, making profitability shallow and elusive." To become a leader required what Crespo called an "edge," something that distinguished a brand from others. In the best case, that would lead to a quality leadership position where a brand scored two to three times higher on dimensions such as consumer awareness, better taste, number of products in store, execution, or press mentions. This often led to premium prices, making the position easier to defend. Crespo concluded, "Products can fail in a week, or take much longer, but to move from explorer to challenger and from challenger to leader will often take six years or more of hard work in each market. Then, when you take a successful brand from one country and drop it into a new country, it might take another six years; yet achieving quality leadership is a certain path to the kind of profitability that can fund growth expansion."

Acquisitions To accelerate the growth of its portfolio, Coke looked to make bolt-on acquisitions. The ideal acquisition was a company that had one or more products doing well in one or a few locations that Coke could take to many more locations by leveraging its global system. Since 2018, Coke had acquired fairlife (U.S., dairy drinks), Costa Coffee (U.K., cafés), Chi (West Africa, juice, dairy, and ice tea), BodyArmor (U.S., sports drinks), Mojo (Australia, kombucha), Tropico (France, fruit beverages), Made Group (Australia, smoothies and juices), and AdeS (Argentina, soy, plant-based beverages).

Costa Coffee

In 2018, Coke announced the $5.1 billion acquisition of Costa Coffee, a U.K. based chain of coffee shops with $1.7 billion in revenues—the largest acquisition in Coke's history and its only retail store format.[66] Costa had 3,800 cafés in 32 countries, including the U.K. (2,467 locations), China (459), and the United Arab Emirates (150).[67] It also sold hot specialty coffees and other hot beverages through vending machines. Quincey explained why Coke acquired Costa, "In the end, we need to follow the consumer. People are spending more money on beverages in aggregate. They just want different beverages. They just want greater diversity."[68] Quincey stated, "Hot beverages is one of the few remaining segments of the total beverage landscape where Coca-Cola does not have a global brand."[69] Finally, he added, "This is a coffee strategy, not a retail strategy."[70]

Analysts generally supported the acquisition for Coke, pointing to its entry into hot beverages, its ability to bring Costa into new markets, and its matching of PepsiCo's entry into the coffee segment through a partnership with Starbucks.[71] Analysts pointed out, however, that Coke had never operated retail stores, and it might have overpaid for Costa—the acquisition price valued Costa at 16.4 times 2018 EBITDA compared with café leader Starbucks, which was trading at 13 times EBITDA.[72]

The $80 billion global coffee industry, growing at over 5% per year, had attracted significant attention among beverage producers.[73] JAB Holdings, a private investment firm, had acquired a dozen coffee makers or coffee retailers since 2012 to become one of the largest competitors in the segment by 2019. Among others, these included Peet's (acquired for $1 billion in 2012), Caribou ($340 million, 2014), D.E. Master Blenders ($9.8 billion, 2013), and Keurig ($14.9 billion, 2015). In 2018, JAB, through Keurig, acquired Dr Pepper Snapple for $18.7 billion.[74] In 2018, Nestlé, the world's largest food and beverage company, which "dominates the global coffee market" with coffee-related revenues of $17 billion, expanded its coffee position by acquiring the perpetual global rights to sell Starbucks packaged coffee for $7.15 billion.[75] Starbucks operated the largest chain of coffee cafés with 27,000 locations.[76]

Coke positioned Costa as a high-end coffee for the mass market. In 2017, in preparation for global expansion, Costa had opened a new $47 million roaster plant that increased its roasting capacity from 11,000 tons to 45,000 tons per year (over 3 billion cups of coffee).[77] At the time of the acquisition, Costa competed through two retail channels, cafés and vending. Coke planned to expand Costa to three new channels: Costa cafés located within other retail formats such as a café inside a grocery store; home solutions such as coffee pods to brew coffee at home; and bottled ready-to-drink coffee products. Costa's vending line consisted of a special Express machine that freshly ground the coffee, brewed the drink, and added fresh milk for each customer, much as a barista would in a café. The machines also made hot chocolate, teas, and flavored milk products. One manager stated, "The coffee is better because it's machine-driven, it's consistent, and it takes out the human error factor." Costa cafés could employ baristas or install Express machines. Costa had nearly 10,000 Express machines in 2019, mostly in the U.K., and Coke planned to double that number in 2020, including introducing them in the U.S. where teams from Coke bottling operations could clean and resupply each machine daily.

Organizationally, Coke placed Costa inside Global Ventures. Set up in late 2018, and headed by Mann, Global Ventures sat aside Coke's geographic structure and enabled each of its businesses to operate with one global business head who reported to Mann. The aim of the group was to enable high-potential businesses to flourish by maintaining their uniqueness and independence while empowering them to draw on the full set of resources and capabilities of Coke's global network. Mann described the goal of the new group, "For 133 years, the fundamentals of our business have been to do big things en masse. We had one product everywhere. As we put smaller brands into our system, we have sometimes killed them. Global Ventures takes smaller businesses with potential, focuses on them, nurtures them, and works to accelerate their growth without having them overwhelmed by the larger company." Coke envisioned that a business would stay within Global Ventures while it developed and would eventually merge into the geographic structure. While Global Ventures pulled some products away from the geographic structure, Coke introduced incentives for the geographies to support the businesses, for example, by rewarding a team that helped Costa reach its growth goals in a region. If Costa did not reach some of its regional goals, however, there would be no penalty for the regions.

Gaining Traction and Confronting New Challenges

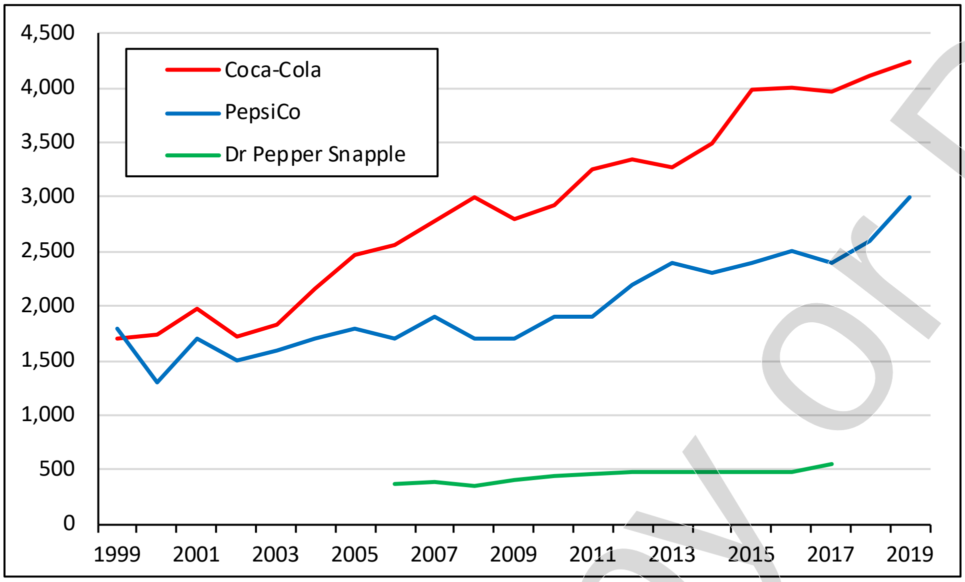
Coke's consolidated revenues were $37.3 billion in 2019. For 10 consecutive quarters, the company had met its long-term organic revenue growth target—growth excluding currency fluctuations and acquisitions—of 4% to 6% and had been among the top performing consumer packaged goods companies. (See **Exhibits 7**, **8**, and **9** for Coke financial and other data and **Exhibit 10** for PepsiCo's financial data.) In 2019, however, Coke's stock price increased 17% for the year compared with 24% for PepsiCo and 28% for the S&P 500 index, while for the five years 2015 to 2019, Coke stock increased 31% compared with 44% for PepsiCo and 58% for the S&P 500 index.[78] Murphy noted that, "Investors have been frustrated not seeing Coke's top line growth translate into earnings growth." A key factor in that had been foreign exchange. Murphy continued, "Eighty percent of our volume is sold outside the U.S., and almost half of our business is in the emerging and developing world where markets are more volatile and currencies relative to the dollar have been challenging." Coke's dividend for 2019, $1.60 per share, or $6.8 billion in total, marked the 57th consecutive year that Coke grew its annual dividend.[79]

Quincey reviewed the progress Coke had made towards becoming a consumer-centric total beverage company. As he did so, he thought about Coke's success in Mexico: more products in more categories selling with higher margins and profit growth (see **Exhibit 11**), a model he hoped to replicate in many countries. Globally, Coke's flagship brand continued to grow in a difficult CSD environment, and Coke was bringing many more non-CSD products to market, as well. By 2019, the company held the largest global market share by value in each of its product categories except energy drinks: CSDs (more than 50% market share); juice, dairy, and plant-based beverages (10% share); water and hydration (15% share); and coffees and teas (15% share); and held the number two market share position in energy drinks (15% market share).[80] Coke was also listening to its customers and consumers and doing so with an eye to the sustainability and values that the public increasingly demanded.

Then, as Quincey observed, “everything changed.”[81] After starting 2020 with good momentum outside of China, and net income up 65% over 2019,[82] the COVID-19 pandemic profoundly impacted Coke’s business worldwide. The company’s stock price declined by over 35% from late-February to late-March,[83] followed by a 25% decline in product volume in April.[84] Coke had seen some growth in grocery and e-commerce sales, but greater declines in restaurant and fountain sales, areas of traditional strength for the company that were especially hard hit by the pandemic.[85]

Quincey vowed that the company would not wait for perfect clarity about the timing or shape of the recovery before taking action. “What we have to focus on,” he said, “is this alphabet soup of (economic recovery) scenarios, the U, the V and L. . . . And we want to be ahead of the curve.”[86] Reflecting on the challenge, Quincey recalled that Robert Woodruff, the creator of the Coke system, said “’The future belongs to the discontented.’ And that’s as true today as it was then. You’ve always got to be thinking about where the consumer is going.”[87] Quincey believed these attributes would carry Coke through the unknowns of its latest crisis, and noted: “Every previous crisis—military, economic or pandemic—in the last 134 years, The Coca-Cola Company has come out stronger.”[88]

Exhibit 1 Advertising Expenditures by Leading CSD Producers 1999-2019 ($ millions)



Source: Casewriter, from company 10-Ks from: The Coca-Cola Company, PepsiCo, and Dr Pepper Snapple.

Exhibit 2 U.S. Soft Drink Market Share, selected years, 1985 - 2018 (percent, except case sales in millions of 192-ounce cases)

	1985	1990	1995	2000	2005	2010	2015	2018
Coca-Cola Company	39.5	41.1	42.3	43.7	43.4	42.0	42.4	43.2
PepsiCo	30.3	32.4	30.9	31.2	31.3	29.3	27.1	24.9
Dr Pepper Snapple	4.7	3.2	15.1	15.5	14.5	16.7	17.3	17.9
Cott Corporation	--	--	2.7	3.3	5.4	4.8	4.0	3.6
National Beverage	2.4	2.2	1.9	2.1	2.4	2.8	3.0	2.9
Monster Beverage	--	--	0.0	0.1	0.3	1.0	1.9	2.6
Red Bull	--	--	--	0.0	0.4	0.8	1.5	1.7
Private Label and others	23.1	21.2	6.9	4.1	2.3	2.5	2.9	3.1
Case Sales (millions)	6,385	7,780	8,970	10,041	10,322	9,369	8,705	8,520

Source: Beverage-Digest Fact Book, Twenty-Fourth Edition, May 2019, Appendix A, Table A1.

Note: Dr Pepper Snapple formed in 2008, but its components had previously been paired with Schweppes, Seven-Up, and Royal Crown. In 2018, Dr Pepper Snapple was acquired by Keurig Green Mountain and became Keurig Dr Pepper. That same year, Cott Corporation exited its CSD businesses to focus on coffee, tea, and water products and services for home delivery and commercial foodservice companies. Cott's CSD business became part of Refresco.

Exhibit 3 U.S. Beverage Industry Consumption, selected years, 1970 - 2018

	1970	1975	1981	1985	1990	1995	2000	2005	2010	2015	2017	2018
Historical Carbonated Soft Drink Consumption												
Cases (millions)	3,090	3,780	5,180	6,500	7,780	9,000	9,950	10,220	9,365	8,705	8,526	8,520
Gallons/capita	22.7	26.3	34.2	40.3	46.9	50.9	53.0	51.9	45.5	40.6	39.3	38.9
As share of total beverage consumption	12.4%	14.4%	18.7%	22.1%	25.7%	27.9%	29.0%	28.3%	24.9%	22.1%	21.5%	21.3
U.S. Liquid Consumption Trends (annual consumption gallons per capita)												
Carbonated soft drinks	22.7	26.3	34.2	40.3	46.9	50.9	53.0	51.7	45.5	40.6	39.3	38.9
Beer	22.8	21.8	20.6	24.0	24.0	21.9	21.8	21.4	20.7	19.9	20.4	20.4
Milk	18.5	21.6	24.3	25.0	24.2	22.8	21.3	20.3	19.4	17.2	16.6	15.0
Bottled water	-	1.2	2.7	4.5	8.1	10.1	13.2	19.5	20.9	24.9	41.1	40.3
Coffee	35.7	33.0	27.2	26.9	26.2	21.3	16.8	16.4	15.8	16.2	16.6	16.8
Juices	6.5	6.8	6.9	8.1	8.5	8.9	9.5	8.2	7.2	6.6	5.8	5.8
Tea	5.2	7.3	7.3	7.3	7.0	6.8	7.0	7.0	7.5	7.9	7.8	7.8
Sports drinks	-	-	-	-	-	1.3	2.2	4.2	4.3	4.9	5.1	5.1
Powdered drinks	-	4.8	6.0	6.2	5.4	4.5	3.0	2.6	2.5	1.8	1.5	1.5
Wine	1.3	1.7	2.1	2.4	2.0	1.8	1.9	2.2	2.6	2.7	2.7	2.7
Distilled spirits	1.8	2.0	2.0	1.8	1.5	1.2	1.2	1.4	1.5	1.6	1.6	1.6
Subtotal	114.5	126.5	133.3	146.5	153.8	151.5	150.9	155.2	147.9	144.4	158.6	156.0
Tap water/hybrids/all others	68.0	56.0	49.2	36.0	28.7	31.0	31.6	27.6	34.7	38.1	23.7	26.5
Total per-capita consumption	182.5	182.5	182.5	182.5	182.5	182.5	182.5	182.5	182.5	182.5	182.5	182.5

Source: Beverage-Digest Fact Book from year indicated.

Exhibit 4 Global CSD and Coffee Consumption (2018, population in millions, consumption in annual gallons per capita)

Per Capita CSD Consumption in the World's Most Populous Countries

Rank	Country	Population	CSD
1	China	1,428	3.3
2	India	1,353	1.0
3	U.S.A.	327	39.1
4	Indonesia	268	1.0
5	Pakistan	212	2.6
6	Brazil	209	17.8
7	Nigeria	196	2.9
8	Bangladesh	161	na
9	Russian Federation	146	6.4
10	Japan	127	6.3
11	Mexico	126	39.5

Countries with Largest Per Capita Coffee Consumption

Rank	Country	Population	Coffee
68	The Netherlands	17.1	68.8
116	Finland	5.5	48.8
39	Canada	37.1	40.2
89	Sweden	10	37.5
17	Germany	83.1	34.1
149	Slovenia	2.1	33.4
86	Dominican Republic	10.6	31.6
118	Norway	5.3	30.6
3	United States	327.1	30.4
117	Slovakia	5.5	29.3

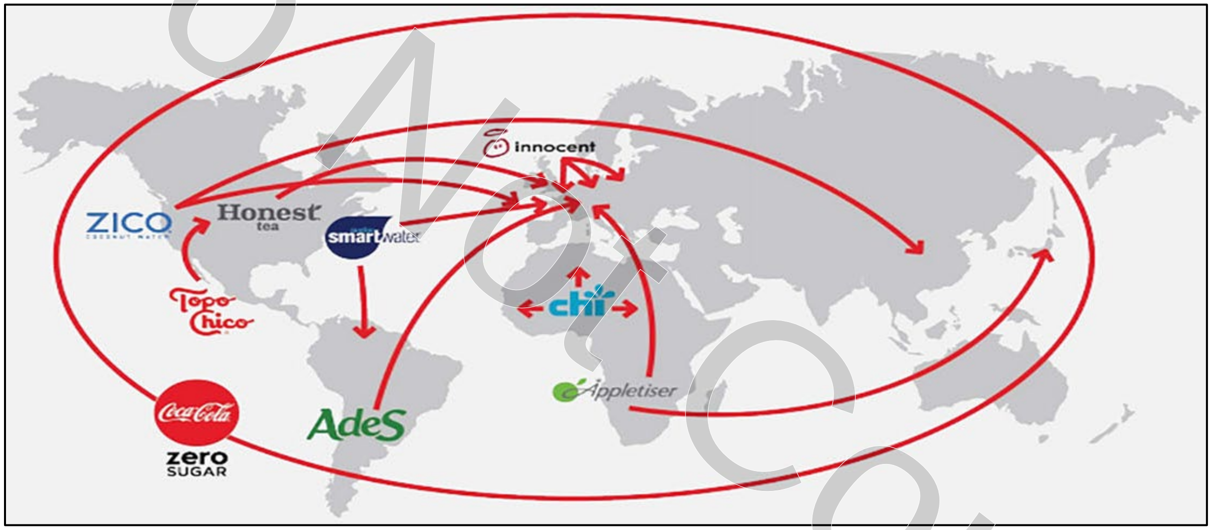
Source: Casewriter, Country population from: "List of countries ordered by their population size Population," Pyramid.net, https://www.populationpyramid.net/population-size-per-country/2018/. CSD consumption from: "Per capita consumption of carbonated soft drinks in 2018 in the ten most populated countries worldwide," via Statista. Coffee consumption from: "Global leading coffee consuming countries in 2015 (in liters per capita)," via Statista. All accessed March 2020.

Note: Rank refers to the population size of the country compared with all countries.

Exhibit 5 Beverages for Life

Source: Company document.

Exhibit 6 Lift, Shift, and Scale



Source: "Lift and Shift, Have Brands, Will Travel," The Coca-Cola Company, April 4, 2018, https://www.coca-colacompany.com/news/lift-and-shift, accessed March 2020.

Exhibit 7 The Coca-Cola Company Selected Financial Data, selected years 1990 - 2019 ($ millions)

	1990	1995	2000	2005	2010	2015	2016	2017	2018	2019
Net Revenue	10,236	18,018	20,458	23,104	35,119	44,294	41,863	36,212	34,300	37,266
Cost Of Goods Sold	4,209	6,940	6,204	8,195	12,693	17,482	16,465	13,721	13,067	14,619
Gross Profit	6,028	11,078	14,254	14,909	22,426	26,812	25,398	22,491	21,233	22,647
Selling Gen & Admin Exp.	4,076	6,986	9,120	8,739	13,158	16,427	15,262	12,834	11,002	12,103
Operating Income	1,952	4,092	3,691	6,085	8,449	8,728	8,626	7,755	9,152	10,086
Net Income	1,382	2,986	2,177	4,872	11,809	7,366	6,550	1,283	6,476	8,985
Total Assets	9,278	15,041	20,834	29,427	72,921	90,093	87,270	87,896	83,216	86,381
Total Liabilities	5,429	9,649	11,518	13,072	41,604	64,329	64,050	68,919	64,158	65,283
Total Equity	3,849	5,392	9,316	16,355	31,317	25,764	23,220	18,977	19,058	21,098

Source: The Coca-Cola Company annual reports from each year indicated.

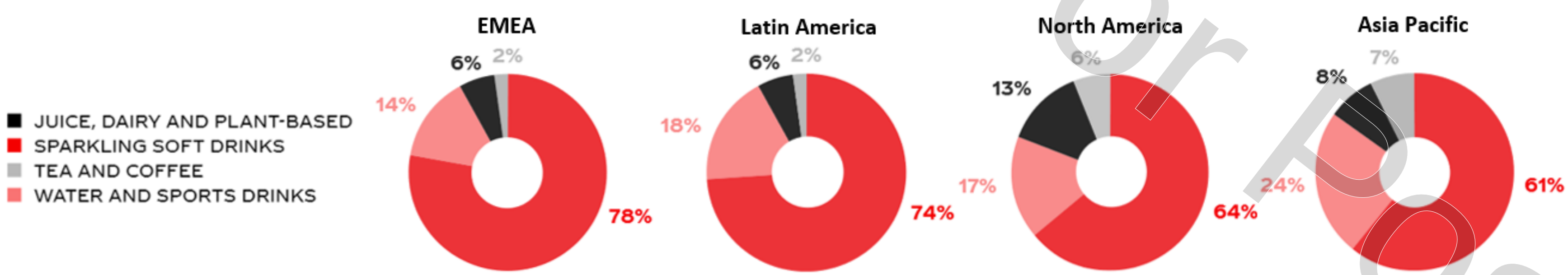
Exhibit 8a The Coca-Cola Company Geographic Segment Data, 2017 - 2019 ($ millions)

	EMEA[a]	Latin America	North America	Asia Pacific	Global Ventures[b]	Bottling Investments	Corporate	Consolidated
2019								
Total net operating revenues	7,058	4,118	11,915	5,327	2,562	7,440[d]	(1,154)[c]	37,266
Operating income (loss)	3,551	2,375	2,594	2,282	334	358	(1,408)	10,086
2018								
Total net operating revenues	7,099	4,010	11,630	5,185	770	6,787	(1,181)[c]	34,300
Operating income (loss)	3,693	2,318	2,318	2,271	152	(197)	(1,403)	9,152
2017								
Total net operating revenues	6,822	4,026	10,629	5,162	715	11,306	(2,448)[c]	36,212
Operating income (loss)	3,585	2,215	2,472	2,136	159	(806)	(2,006)	7,755

Source: The Coca-Cola Company 2019 10-K, p. 134.

[a] Europe, Middle East & Africa. [b] Global Ventures became a reportable segment at the start of fiscal 2019. [c] Includes eliminations of (1,248) in 2019, (1,273) in 2018, and (2,561) in 2017.
[d] By 2019, Bottling Investments revenues were all from international operations, refranchising in international markets remained part of the company's strategy—when a bottler was ready and a partner was available, Coke would refranchise the bottler. Coke acquired its Philippines bottler in late 2018 as required by a previous contract. This impacted 2019 financials.

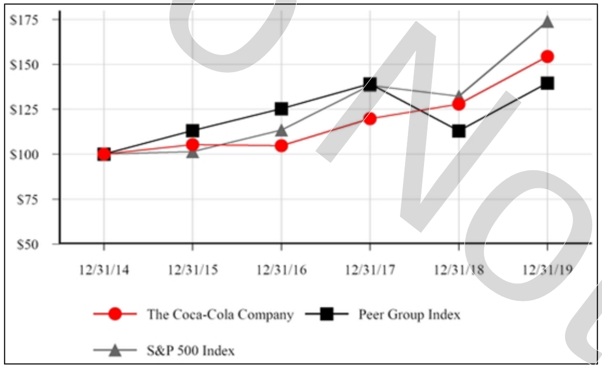
Exhibit 8b Coca-Cola Beverage Category Clusters by Geographic Segment, 2019 (percent of unit case volume)



Source: Coca-Cola Company, 2019 Business & Sustainability Report, pp. 48-51, https://d1io3yog0oux5.cloudfront.net/cocacolacompany/files/pages/cocacolacompany/db/761/description/coca-cola-business-and-sustainability-report-2019+%281%29.pdf, accessed November 2020.

Note: EMEA accounted for 29% of Coke's global unit case volume, Latin America 27%, North America 18%, Asia Pacific 24%, and Global Ventures 2%.

Exhibit 9 Coca-Cola Total Return Versus Peer Group and S&P 500 Index (total return = stock price plus reinvested dividends)



Source: The Coca-Cola Company 2019 10-K, p. 30.

Note: The Coca-Cola self-constructed Peer Group Index consists of the following companies: Altria Group, Inc., Archer Daniels Midland Company, Beyond Meat, Inc., The Boston Beer Company, Inc., Brown-Forman Corporation, Bunge Limited, Campbell Soup Company, Conagra Brands, Inc., Constellation Brands, Inc., Darling Ingredients Inc., Flowers Foods, Inc., General Mills, Inc., The Hain Celestial Group, Inc., Herbalife Nutrition Ltd., The Hershey Company, Hormel Foods Corporation, Ingredion Incorporated, Jefferies Financial Group Inc., Kellogg Company, The Kraft Heinz Company, Keurig Dr Pepper Inc., Lamb Weston Holdings, Inc., Lancaster Colony Corporation, McCormick & Company, Incorporated, Molson Coors Brewing Company, Mondelēz International, Inc., Monster Beverage Corporation, National Beverage Corp., PepsiCo, Inc., Performance Food Group Company, Philip Morris International Inc., Pilgrim's Pride Corporation, Post Holdings, Inc., Seaboard Corporation, The J.M. Smucker Company, TreeHouse Foods, Inc., Tyson Foods, Inc. and US Foods Holding Corp.

Exhibit 10 PepsiCo Financial Data by Business Segment and Net Revenue by Country, 2019 ($ millions)

Business Segment Descriptions	Net Revenue	Operating Profit
Snack in U.S. and Canada	17,078	5,258
Food, cereal, rice, and pasta in U.S. and Canada	2,482	544
Beverages in U.S. and Canada	21,730	2,179
Beverage, food, and snack in Latin America	7,573	1,141
Beverage, food, and snack in Europe	11,728	1,327
Beverage, food, and snack in Africa, Middle East, and South Asia	3,651	671
Beverage, food, and snack in Asia Pacific, Australia, New Zealand, and China	2,919	477
Total	67,161	11,597

Net Revenue by Country	
United States	38,644
Mexico	4,190
Russia	3,263
Canada	2,831
United Kingdom	1,723
China	1,300
Brazil	1,295
Other	13,915
Total	67,161

Source: PepsiCo annual report 2019.

Note: Selected major brands included: Snack (Cheetos, Doritos, Fritos, Lay's, Ruffles, Tostitos), Foods (Aunt Jemima, Cap'n Crunch cereal, Life cereal, Pasta Roni, Quaker oats), and Beverages (Aquafina, Gatorade, Mountain Dew, Pepsi, Propel, Sierra Mist, Tropicana).

Exhibit 11 Progress in Mexico

The space between the cases depicts arrows pointing from 2006 to 2018 labeled Create a Vision, Adjust Operating Model, and Build or Acquire Capabilities.

Source: The Coca-Cola Company presentation at the Consumer Analyst Group of New York (CAGNY) 2019: CAGNY 2019, The Coca-Cola Company, James Quincey and John Murphy, February 22, 2019, https://d1io3yog0oux5.cloudfront.net/_485861f291c990fca4fbcb8da4774fc8/cocacolacompany/db/701/6165/presentation/COCA-COLA-CAGNY-Presentation-02.21.19-FINAL.pdf, accessed March 2020.

Appendix A: Industry Forces in the Carbonated Soft Drink Industry[89]

The CSD industry saw the development of four major types of players that characterized the industry structure into the twenty-first century.

Concentrate producers Concentrate producers such as Coke, Pepsi, and later, Dr Pepper Snapple manufactured concentrates (an unsweetened flavor base) and syrups (concentrate with added sweetener) and sold them to bottlers, much as Coke had done since its early years. Concentrate producers spent heavily on advertising to build brand awareness and preferences over long periods and conducted extensive market and consumer research to develop marketing strategies and new products. They also worked closely with bottlers on integrated marketing programs to align their national advertising and bottlers' local advertising, and they often provided bottlers with promotional support. Concentrate producers also provided funding to large national retailers to ensure bottler access to shelf space and negotiated on behalf of their bottlers to secure high quality, low cost, reliable inputs from suppliers. In 2019, Coke spent $4 billion on print, radio, television, online, and other advertising, and paid $4.4 billion to bottlers and other customers for promotional and marketing programs (see **Exhibit 1**).[90]

Concentrate and syrup manufacturing required little capital, machinery, labor, or overhead, and a single plant costing between $50 million and $100 million had enough capacity to serve a market as large as the U.S.[91] For example, in 2017, PepsiCo opened a $93 million concentrate plant that employed 90 workers and supplied most of its Asia Pacific markets.[92] In 2019, Coke had 32 such plants globally.[93] A few large companies had led the CSD concentrate industry for decades. Coke and Pepsi's combined U.S. market share had exceeded 55% since 1940,[94] and 65% since 1985 (see **Exhibit 2**).[95]

Bottlers Bottlers purchased concentrate and syrup from concentrate producers, added carbonated water and sweeteners, packaged the finished drinks, and then sold and distributed them to retailers. Bottlers for some concentrate producers also sold fountain syrup. Leading brand bottlers employed large numbers of route driver-salespeople to visit retailer store sites, sell and deliver product, and merchandise products by stocking and maintaining shelves and setting up special displays within the stores. Bottlers might also purchase finished non-CSD beverage products from concentrate producers and then sell and distribute those as if they bottled them internally. Additionally, bottlers often paid retailers for promotional activities and discounted products. Concentrate producers reimbursed bottlers for some of these costs.

Concentrate and syrup accounted for a significant portion of a bottler's costs (see **Table 1**). An analysis of the U.S. CSD industry from 1988 to 2009 showed that when the U.S. Consumer Price Index rose at an average annual rate of 2.9%, retail price per case (adjusted for inflation) went down 1.4% and concentrate price per case increased 3.6%.[96] Bottlers also purchased sweeteners, typically high fructose corn syrup and sugar, carbon dioxide for making carbonated water, and packaging materials such as plastic, metal, and glass. For diet drinks, concentrate producers typically included artificial sweeteners in the syrup. Bottlers also had significant investments in trucks and distribution equipment.

Bottlers worked under contracts with their concentrate producer. In the Coke system, bottlers had exclusive perpetual rights to manufacture, distribute, market, and sell specified Coke products within a defined territory. Bottlers in other systems had similar contracts, and these typically gave bottlers significant control within their territories, including control over retail pricing. Bottlers typically had the right to refuse new products offered by the concentrate producer and the right to distribute products of others so long as the flavors did not conflict with those offered by the concentrate producer.[97] Disagreements and legal actions between concentrate producers and bottlers over the course of a century were legendary, however, and led to periodic contract renegotiations.[98] Updated contracts were sometimes thought necessary in order to provide bottlers with continued incentives to invest significant capital in bottling and distribution systems.[99]

Table 1 Concentrate Producers and Bottlers: Example of Historic Comparative Costs, 2009

192-ounce case	Concentrate Producer		Bottler	
	Dollars per case	Percent of net sales	Dollars per case	Percent of net sales
Net sales	$0.98	100%	$4.63	100%
Cost of goods sold	$0.22	22%	$2.67	58%
Gross profit	$0.76	78%	$1.97	42%
Direct marketing expense	$0.21	21%	$0.45	10%
Selling & delivery expense	$0.00	0%	$0.85	18%
General & admin expense	$0.24	25%	$0.31	6%
Operating income	$0.30	32%	$0.36	8%

Source: Compiled from estimates provided by a beverage industry source, October 2010, as appearing in: David B. Yoffie and Renee Kim, "Cola Wars Continue: Coke and Pepsi in 2010," HBS No. 711-462 (Boston: Harvard Business School Publishing, 2011), p. 17.

Note: Based on standard case of 192 ounces.

For much of the twentieth century, CSD producers charged bottlers a set price for concentrate regardless of what product the bottler made or the retail channel through which the product sold. However, the prices and margins a bottler received varied by packaging and channel. In the 1990s, Coke began introducing a new concentrate pricing formula known as *incidence pricing* to better align the economics of Coke with those of its bottlers. Under incidence pricing, the price a bottler paid Coke for concentrate was indexed to the wholesale price the bottler received when it sold the finished product. Coke first introduced incidence pricing in international markets; by 2003, it was using it in the U.S., and by 2009 it sold approximately 90% of its CSD volume through the formula.[100]

U.S. bottling plants had been consolidating for decades, going from a peak of 6,600 in 1950 to 500 in 1998, driven by economies of scale.[101] In 2016, Coke and its bottlers had 72 bottling plants in the U.S.[102] These ever-larger plants were increasingly complex—a single high-speed bottling line might work on only a few products and require warehouse space for raw materials and finished goods. In 2018, Coke's bottler in Texas began constructing a $250 million, one million square foot plant.[103] Overall, the bottler had 9,000 employees, 10 plants, 40 distribution facilities, and served 31 million consumers.[104]

Retailers CSDs sold through multiple retail channels. In 2017, U.S. take home sales accounted for 73% of total retail CSD sales, with the remainder coming from fountains. Of the total, 44% came from supermarkets and mass merchandizers, 12% from vending, and 10% from convenience stores. In take home, Coke held a 38% market share while Pepsi held 30%;[105] in fountain, Coke held a 70% share and Pepsi 19%.[106] In fountain sales, Coke had held a large share lead since the 1970s, when Pepsi acquired, but later sold, several restaurant chains, which led competing chains to switch to Coke. In 2017, McDonald's, Subway, and Dunkin Donuts all carried Coke products. Pizza Hut, Taco Bell, and KFC, formerly owned by Pepsi, carried Pepsi products.[107] Competition was significant and retailers occasionally switched CSD vendors.[108]

For vending sales, bottlers typically owned and serviced the machines and paid property owners a commission, while CSD producers developed vending technologies. In 2018, overall U.S. vending sales were $23.5 billion from 2.1 million machines, of which cold beverages accounted for 31.2% of sales.[109] Retail prices, supply chain costs, and margins varied by channel: typically, fountain, vending, and convenience channels carried higher prices than other channels, while fountain and vending channels had higher margins.[110] By 2018, competition for shelf space and the attention of consumers was growing increasingly intense, both between CSDs, and between CSDs and non-CSDs.[111]

Industry suppliers Concentrate producers purchased mostly commodity ingredients such as phosphoric acid, natural flavorings, colorings, and caffeine, and for some products, natural and artificial sweeteners, while bottlers purchased natural and artificial sweeteners, carbonated water, and packaging. Natural sweeteners included sugar, high fructose corn syrup, and various fruit extracts. Artificial sweeteners included aspartame, sucralose, and saccharin. CSD producers occasionally adjusted their sweetener ingredients in response to consumer health concerns and consumer demand.[112]

Package selection options had changed over time and varied by channel. By 2014, in supermarkets, cans accounted for 53%, with plastic nearly all of the remainder; in the convenience store channel, cans held a 21% share while plastic had 73%. Cans were typically 12-ounces for CSD, but were sold as singles or boxed into 6-, 12-, and 24-can cases. Plastic bottles were mostly two-liter in supermarkets and 20-ounce in convenience stores.[113] The four leading can manufacturers in the U.S. had a combined market share of 96%,[114] while the three leading plastic bottle manufacturers had a combined share of 29%.[115] Both products were commodities.

Source: Casewriter.

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