

A Conversation with Doug Daft

Q: How would you describe the Company's performance in 2003?

A: The Company delivered solid results in 2003. We continued to work hard to re-activate the Company's considerable historical advantages: our geographic reach, our wonderful brands, our range of packages, our financial strength, our ability to make connections, our marketing and our innovation capabilities. We'll never be satisfied, but we did make solid progress.

In 2003, we grew *profitable* carbonated soft-drink volume, led by Coca-Cola branded beverages. We expanded the range of juices and juice drinks, teas, sports drinks, waters and other noncarbonated beverages we offer around the world. We improved our focus on building brands and working with customers and bottling partners worldwide. In short, the Coca-Cola system is working more effectively today—for consumers, customers, bottlers and our share owners—than it has in a very long time.

Q: What did the Company do, specifically, to improve its performance?

A: We began to do a number of things *better*. We saw solid improvements in marketing and innovation over the last year, from the "Real" marketing platform to the continued expansion of Vanilla Coke and diet Vanilla Coke into more than 50 countries. We also improved our ability to operate as a single Coca-Cola system this past year. We extended country-by-country business planning with our bottling partners around the world, and we completed the integration of our three North American business divisions into a single unit.

Q: What challenges did the Company face in 2003?

A: There are always developments that are out of your control, and 2003 was no exception. We witnessed a nationwide strike in Venezuela, a new bottle deposit law in Germany, economic and political fallout from the war in Iraq, the spread of SARS, unfavorable weather in Japan and some parts of North America, and a generally sluggish global business climate. What matters, though, is how well you respond—how quickly you're able to adjust

with your bottling partners and customers to the new circumstances. I think the Coca-Cola system acquitted itself pretty well to the challenges in Venezuela, Germany, China, Japan and throughout the world in 2003.

Of course, not everything went the way we wanted it to go. But by and large, I think the Company's performance during 2003 demonstrates a few important things. It illustrates—again—the virtues of being a truly international company. It shows that having deep roots in local communities allows us to continue to operate *reliably* when market conditions change. And it confirms that we really are making progress toward our strategic priorities.

Q: When you became CEO in 2000, you set a course to re-position the Company for long-term success. Are you satisfied with the progress the Company has made to date?

A: I would characterize the course correction—very generally—as a two-step process. The first step was to re-focus the Company on relationships. The Coca-Cola Company has always been fundamentally in the *relationship* business, and trust is at the heart of every relationship our Company has ever developed. Consumers *trust* that they'll be refreshed by the highest-quality beverage. Customers *trust* that we'll provide the highest level of service and attention to their needs. Our bottling partners *trust* that we're operating in the best interests of the Coca-Cola system. In short, when you're fundamentally in the relationship business, trust is the



essential first condition. But you can't demand trust—you have to earn it.

After re-focusing the Company on its critical relationships, the second step was to establish and execute our strategic priorities. That's what we're doing now, and it, too, has been a bit of a course correction. In the past, we occasionally lost our focus on *profitable* volume growth. This was not particularly good for our own bottom line or those of our bottling partners and customers. Now that we've firmed up those critical relationships, though, we're in a much better position to execute our volume and value strategy.

Now, I have to admit that understanding what we do at The Coca-Cola Company in terms of our individual strategic priorities is a little like trying to experience the magic of Coca-Cola by reading the ingredient label on the package. The whole vastly exceeds the sum of its parts. What it ultimately comes down to, though, is our ability to turn the billions of consumer connections we make each day into opportunities for consumption. We do this by giving consumers the brands they love, in the most convenient packages, and at the occasions and locations they want. Our shorthand for this approach is brand, price, package and channel. It's how we intend to create value for consumers and customers, and profitable volume for the entire Coca-Cola system.

Q: Where is the Company making this strategic course correction?

A: Brazil—it's one of our top volume leaders, but also a country in which we were too focused on volume growth at the expense of value creation for our system, customers and consumers. In 2002, 75 percent of our volume in Brazil was available in just two packages—single-serve cans and multi-serve 2-liter PET bottles. The absence of package choice and differentiation threatened the growth of our brands.

Over the past year or so, we've started to turn things around by focusing on *value* creation, which in Brazil has meant extending the range of packages and price points our system provides. Today we offer five single-serve and five multi-serve packages at prices across the spectrum. Revenues, retail dollar share and profits are all up as a result.

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Q: What about North America and Japan, home to two of the Company's most profitable businesses? What can you do to address slowing growth there?

A: As it is everywhere, our focus in North America and Japan is to grow our business by creating value for consumers through brand, price, package and channel strategies. If you think about it that way, there's enormous potential in both regions. In North America, 77 percent of our bottler-delivered carbonated soft-drink volume is in cans and 2-liter bottles. Some of our strategies are actually *less* developed in the United States and Canada than they are in France, Greece and Mexico. So in North America, we're going to do what we're already doing in lots of other countries around the world. We're going to focus again on the needs of individual consumers—what they're drinking, when, where, how often and so forth. To that end, we've already started testing a number of new packages targeted at different channels, and the initial feedback has been very positive.

Considering the wide variety of brands, flavors and packages we offer in Japan, our strategies have been well-developed for quite some time. And as consumer habits and preferences continue to evolve, the opportunity to grow volume through value creation is tremendous. So we plan to continue to innovate in the vending channel as new technologies allow us to offer interactive and other services. The Coca-Cola system has a great opportunity in supermarkets, too, and in 2003 we began to provide new packages and better merchandising to our customers to increase trial and purchasing frequency. Early results have been encouraging. In the fourth quarter,

our unit case volume in the supermarket channel increased 5 percent compared with the year-ago period.

In both North America and Japan, a critical initiative has been working with our bottling system to address the challenges in both regions. Over the past year, our system has established supply chain management companies to help increase procurement efficiencies and coordinate production and logistics operations. Lowering supply chain costs is just one way we're improving system economics and freeing up capital to invest in our brands and advance our strategy.

I want to emphasize, though, that not every country requires multiple packages for every brand. In China and India, for example, value has much more to do with affordability, so we offer mostly low-cost, returnable packages. Our glass affordability strategy in both of these countries has helped us expand our consumer base by 90 million. But fundamentally, the approach is the same in China and India as it is in Japan: growing volume by creating value. And again, you create value by focusing on the needs of individual consumers.

Q: Does this approach work in the noncarbonated beverage category, too?

A: Absolutely. When you get the right packages in the right channels, noncarbonated beverages can be just as profitable as carbonated soft drinks. In Europe, for example, POWERADE is the number-one sports drink on the continent. More than 80 percent of POWERADE sales in Europe are immediate consumption, and profits are comparable with those of carbonated soft drinks. And we continue to grow noncarbonated beverages in North America, with solid gains from brands such as POWERADE, Dasani and Simply Orange.

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Q: What is the bottler's role in all of this?

A: Our business simply does not work without our bottling partners. We cannot do it without them. Segmenting markets by brand, price, package and channel—delivering all that innovation to consumers—takes superior execution. That means we need to be aligned with our bottling partners at every stage of the business. One way we're doing that, as I mentioned a minute ago, is by jointly developing business plans with our bottlers on a country-by-country basis.

Robert Woodruff, the man who led our Company for more than 60 years, used to say that everyone connected with the Coca-Cola business should profit. We still have work to do to help improve some of our bottling partners' return on capital versus their cost of capital, but I think we've made major progress over the last few years. We recognize that the Company must work together with its bottling partners to improve economics throughout the Coca-Cola system. As we do so, I think you're seeing the results in how we operate, how we go to market and how we serve our customers and consumers.

Q: How concerned are you about the obesity issue?

A: I'm very concerned about it. First, however, let me make this point. Every product we sell is refreshing, enjoyable and of the highest quality. Whether it's Coca-Cola or one of our waters or juices, any one of our brands can be enjoyed, any time, as part of a healthy and active lifestyle.

Obesity is one of the world's leading public health problems. It's also one of the most complicated, and it will take a broad range of stakeholders—including government, industry, academia and individuals—to address it. There is no magic bullet, everyone must play a part.

So here's what we're doing. In addition to offering individuals around the world a range of beverages, we also support active lifestyles for young people through our sponsorship of youth development and educational programs. We respect the rights of parents, teachers and school officials to make nutritional choices for children. And we're working with governments, nongovernmental organizations and the public health community to ensure that the

discussion about obesity remains grounded in fact and scientific evidence.

If consumers aren't healthy, we won't be either. So helping consumers make the choices that are right for them—by offering them the broadest range of beverage options—is a business imperative. And that's exactly what we're doing.

Q: What is the Company doing to address the crisis of trust that pervades the business climate today?

A: Trust has to start at the top, and on that score, we CEOs have a lot of work to do. The way to build trust, I think, is by paying attention to details and making sure they reflect your values. At The Coca-Cola Company, ours are integrity, quality, accountability, diversity and relationships based on respect for the individual, for the communities where we do business and for the environment. We demonstrate our core values in the way we operate every day.

So in 2003, for example, our Board approved an amendment to the Company's By-Laws requiring every Director to stand for election annually. We hired our first Chief Compliance Officer and rolled out online training on our Code of Business Conduct and ethical and legal compliance issues. We upgraded the recycling program at our headquarters in Atlanta, making it easier for employees to recycle everything from batteries to magazines. I don't mean to overstate the importance of any of these things—but I do know that building ethical management, contributing to the health of communities and using natural resources responsibly takes attention to detail.

Q: Do you believe the stock market has sufficiently rewarded the Company for its accomplishments?

A: I've long since given up trying to predict what the stock market will do. My job, and the job of my fellow employees, is to build our brands, grow our business together with our bottling partners and our customers, and make meaningful connections with our consumers. By focusing on all of these things, I am confident we will continue to strengthen our financial position, generating value for our share owners.



Q: Where do you see The Coca-Cola Company in 10 years?

A: I believe that there is another The Coca-Cola Company out there. Think about it. If you had asked that question 10 years ago, I wonder how many people would have imagined that, despite a few bumps along the way, our market value would more than double and that total unit case volume would increase by more than 75 percent? I am confident that we will continue to grow, in both carbonated and noncarbonated beverages, and that we will continue to be leaders in this growth industry. Given the talent I see in our system—the quality and diversity of our people—I believe we will realize our potential.

And that's why I have never been more excited about the future than I am today. The potential everywhere is enormous. We serve consumers in more than 200 countries, but we've been in half the world for only 25 years. And throughout the world, consumers tell us they want more—more brands, more flavors, more packages—every day.

Our challenge over the next 10 years is to take advantage of all the opportunities before us—to more effectively leverage the Company's historical advantages and to more fully realize the potential of employee and community diversity. I am confident we can do this, and that we'll look back on 2003 as a year in which we made critical progress on that journey. ■