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Shaking Things Up At Coca-Cola

An Interview with Muhtar Kent by Adi Ignatius

Coca-Cola CEO Muhtar Kent

SINCE MUHTAR KENT took the helm of Coca-Cola, in July 2008, he has set a course for ambitious, long-term growth—even in a supposedly mature U.S. market—with the goal of doubling revenue by 2020. Kent has tried to rejuvenate an inward-looking, “arrogant” corporate culture and has reinvested cost-cutting dividends in brand development. In an edited interview with HBR’s editor in chief, Adi Ignatius, he talks about the company’s sustainability initiatives, the value of having 33 million Facebook fans, and why an executive should never have dinner alone.

Shaking Things Up at Coca-Cola

HBR: Since Roberto Goizueta died, in 1997, his successors as CEO at Coca-Cola have had pretty short tenures. Why is that? Is Coke a particularly challenging company to run?

Kent: Well, tenures had been very long up until Roberto’s death. But then we had two successive short-term CEOs at a time when we weren’t cracking the code for growth. And my immediate predecessor, Neville Isdell, said from the beginning that he was returning to the company from retirement just for a fixed period. He saw that the company had lost its soul. We had lost belief in ourselves and in our core business. We had become arrogant. Neville turned that around and got us out of the ditch.

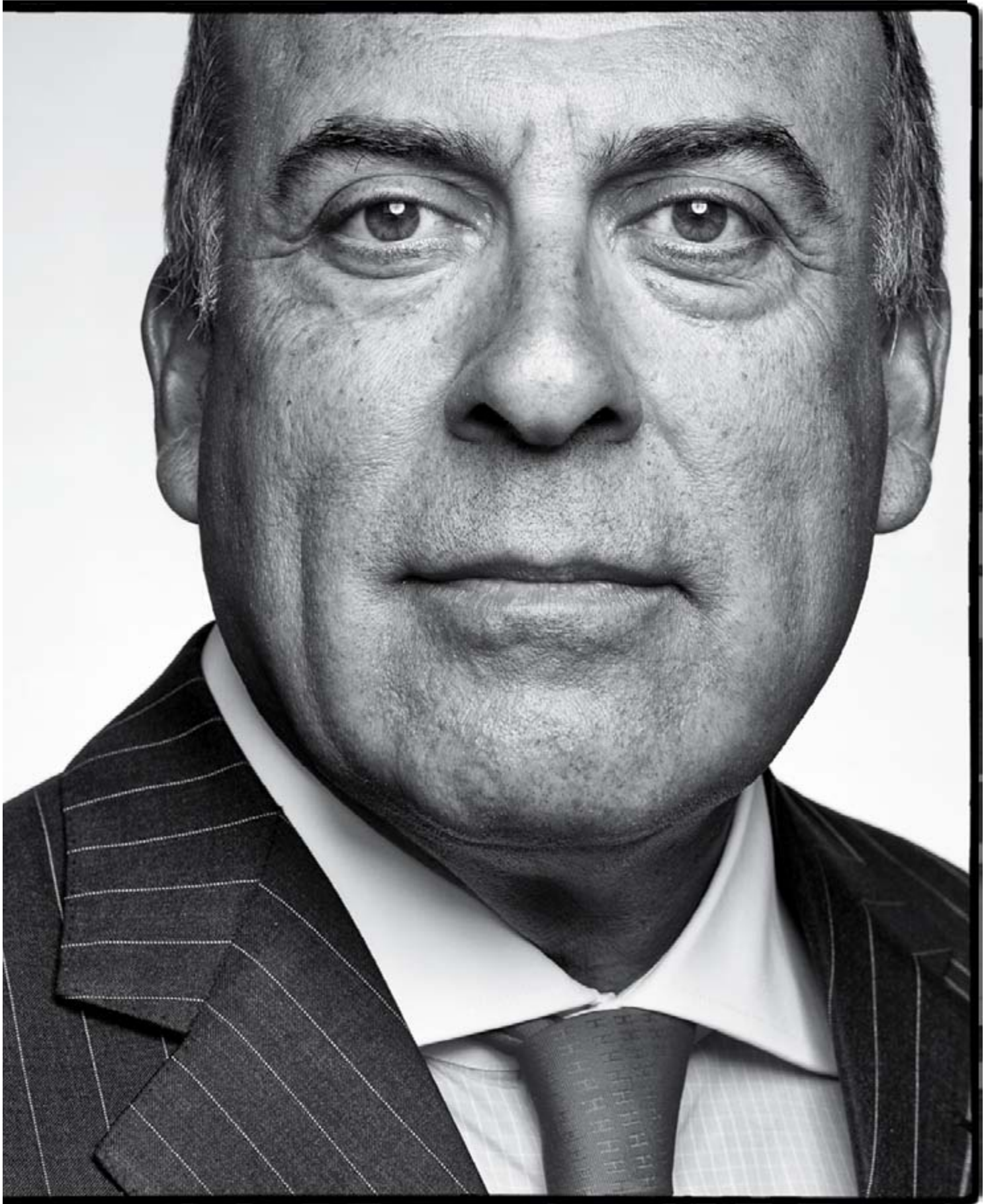
When you became CEO, in 2008, what was your top priority?

There were two: establishing a long-term vision and restoring growth in North America. I felt that we needed a vision, a shared picture of success—both for us and for our bottling partners. We call it 2020 Vision, and it calls for us to double the business in 10 years. It’s not for the fainthearted, but it’s clearly doable.

What were some of the problems you saw?

We had become ingrown. Most of the meetings we were holding were just with ourselves. We weren’t going out to see how the world was changing.

PHOTOGRAPHY: ZACK ARIAS



How did you try to turn things around?

We brought in people from all over the world—the top 400 people in the company—to talk about how we had got into this position and how we were going to get out. We started working more closely with our bottling partners. We put a stop to all those internal meetings. We put new people in place. And we stabilized the company.

How are you doing so far?

We've still got eight years to go in 2020 Vision. So far we're on track. We have not wasted this crisis. We've saved more than half a billion dollars in unnecessary expenses and reallocated some of that to help fuel our brands. Our metrics are good, and we've been able to restore growth in our biggest market, which is the United States. When you start creating proof points like that, it's great for your credibility. When our brands are strong, our bottling partners want to invest in the business, too.

“Most of the meetings we were holding were just with ourselves. We weren't going out to see how the world was changing.”

Why is the U.S. such a challenging market?

When we first talked about achieving growth in the U.S., people thought we were trying to go to the moon in a glider. They thought it was an oxymoron: “growth in the U.S.” But we believe the U.S. is a great growth market, and we're investing roughly \$3 billion a year in it. Here's why: It's the only Western nation with a young demographic that is growing. By 2040 only a quarter of the U.S. population will be over the age of 60, compared with 30% in Europe and 40% in Japan. It's a diverse, enterprising, entrepreneurial population.

For years, Coke's advertising practically defined the times. To what extent do you feel pressure to create the next defining slogan or image?

The world of communication is evolving at a fast pace. In the past we needed premium advertising to create effective consumer impressions. Today consumers are much more empowered. You need to communicate with them. We have more than 33 mil-

lion fans on the Coca-Cola Facebook page—the largest Facebook page of any single brand—and it wasn't even created by us. You still need great advertising, but that's just part of a dialogue.

That's the challenge: To what extent do you control the message? Coke has had to deal with things like those viral videos that show people putting Mentos in Diet Cokes and creating giant fountains. Do these things cause concern? Or do you try to embrace them?

It's not just that you can't control it—when you try, it backfires. You have to understand consumers: They would like to be heard. It's a question of cocreating content. Five years ago social media was 3% of our total media spend. Today it's more than 20% and growing fast.

What's the value, exactly, of those 33 million Facebook fans?

The value is you can talk with them. They tell you things that are important for your business and brands. Today consumers are buying products not just for the quality but also because they believe in the character of the companies that produce those products.

That no doubt includes perceptions of sustainability. What's your approach to that?

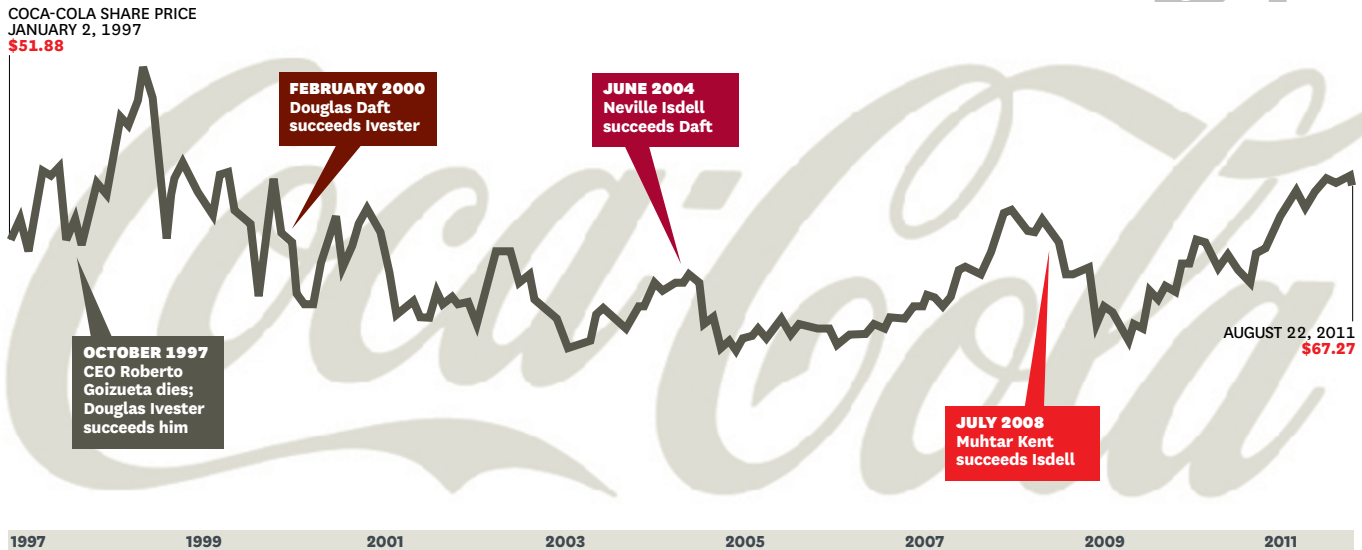
We have a simple belief inside Coca-Cola that if we can't help create sustainable communities where we operate, we won't have a sustainable business. It needs to be embedded in your business as opposed to inserted in your corporate social responsibility report.

What does that mean in concrete terms?

We were the first to declare water neutrality as a goal. We're also tackling our packaging and recycling, and trying to grow our business without enlarging our carbon footprint. We were the first beverage company to crack the code for a plant bottle. Up to 30% of our bottles now use a resin made from sugarcane, not fossil fuels.

Beyond all that, we're committed to empowering women outside the company. We have a scholars program to send kids to universities. And we try to help our communities wherever they are, by bringing in water, or hospitals, or education. After the earthquake in China's Sichuan province, we built more than 50 schools.

Trying to Keep It Real: How Coke's stock has fared under successive CEOs



I'm sure people at Coca-Cola viewed themselves as good corporate citizens before those initiatives. But the ground is shifting, and consumers expect more from corporations. How do you stay ahead of that?

You stay ahead by being absolutely truthful to yourself about the fact that you're doing these things not because they sound good but because they are part of your business philosophy. And the beauty of some of these things is that they're actually very good for business, too.

Let's talk about water. You've been criticized over the years—in India, for example—for using too much.

That's why we're committed to water neutrality by 2020. Coca-Cola uses 350 billion liters of water a year for its business. Water neutrality means that you give back a liter for every one you use. How can you do that? By reducing the amount of water you use in your factories, by recycling water that you don't need and giving it back to local cities, and by creating harvesting projects around the world. You let someone else measure that for you; in our case, it's the World Wildlife Fund. And when you reduce water use, your costs go down.

Is it even necessary, though, to bottle water when tap water will do?

You can't look at the world as if it's just the United States. There are many parts of the world where the only water you can drink, if you want to stay alive, is bottled water. As for the bottle itself, more and more we're using the bottle I mentioned that is

partly made from plants. And as oil prices go up, the blended plant bottle is actually going to give us a cost advantage.

Have we reached a point where shareholders can essentially require that sustainability initiatives pay for themselves? Or can you do things that don't show bottom-line results?

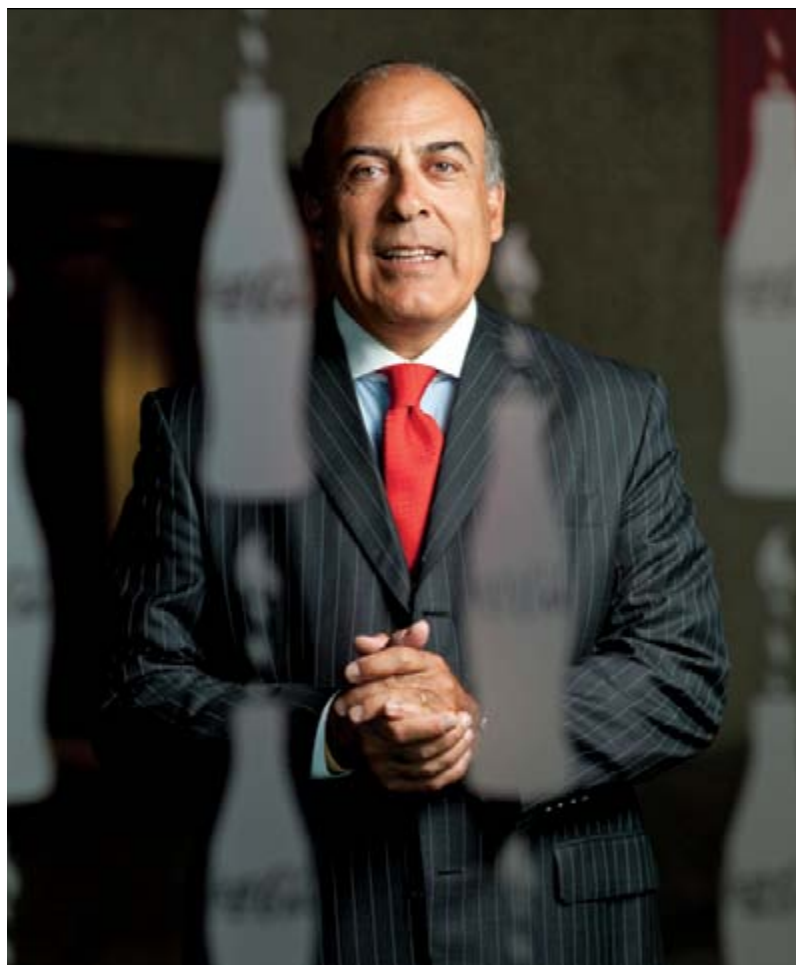
It's not about the shareholders. You cannot preserve and promote any sustainability efforts in the world today if they don't have an economic benefit also.

But what's the bottom-line benefit from building schools and hospitals?

The schools help you create sustainable communities. So does the water you bring to villages that didn't have it. And for a company like Coca-Cola, which operates in 206 markets around the world, creating sustainable communities will help us have a business for another 125 years.

You've said that criticizing soft-drink makers for the obesity epidemic is unfair, because they're responsible for only a small percentage of the calories people consume. But why make sugary drinks at all, since they do contribute to the problem?

We, as a business, cannot solve a big, complex issue like obesity. We've reduced the calories in our beverages significantly over the past 20 years. Yet U.S. obesity rates have risen sharply. We provide choice: products with no calories, products with some calories, products with more calories. And we communicate with the consumer through our labeling about calories. We are working diligently to be part of the



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ture bottle—you can touch it in the dark and immediately know it’s a Coca-Cola. Therefore the company name won’t work as an umbrella for all our other brands. We have 15 separate billion-dollar brands.

Would Coke ever make alcoholic beverages?

No, and here’s why. It gets back to our 2020 Vision. In the next 10 years some 800 million to 1 billion people around the world will move into the middle class—the biggest urbanization the world has known. That translates into on-the-go lifestyles, which means significant demand for nonalcoholic, ready-to-drink beverages. This is such a beautiful business. Why would I want to lose focus?

Two years ago you tried to buy Huiyuan Juice Group, China’s largest pure juice brand, but the Chinese government nixed it. What lesson did you draw from that?

The lesson was that China was not ready to approve the sale of a national brand to a foreign company. There’s an evolution in the history of nations. As China has embarked on the road of enterprise and capitalism, parts of the country are still not yet fully in that evolution. When will that change? Well, today there’s about \$100 billion of U.S. investment in China and about \$5 billion of Chinese direct investment in the United States. That’s a ratio of 20 to 1. When it becomes, maybe, 4 to 1, restrictions like this will probably be lifted.

solution, but we reject the notion that we created the problem. We all have a responsibility to raise awareness about the benefit of active lifestyle programs.

You have described Coca-Cola as “an idea, a vision, a feeling.” What does that mean?

Coca-Cola is much more than just the product. It’s about universal refreshment, about moments of happiness. Last year I was in Hohhot, in Inner Mongolia, inaugurating a plant. It was like a carnival: Coca-Cola was coming, and it was part of a belief in a better tomorrow for everyone. It’s not that Coca-Cola represents the American flag. It’s a unique representation of optimism.

With that kind of brand power, why not apply the company’s name more prominently on everything—on all the juices and waters and other beverages you own?

Because branding doesn’t work like that. Coca-Cola was started 125 years ago by an enterprising pharmacist, John Pemberton, who created a unique-tasting product in a unique package. Think about the signa-

Let’s talk about leadership. Going back to Goizueta—he was a philosopher CEO. What kind of CEO are you?

I love to get down into the details, the engine room, but also to operate at a high level in terms of setting the strategy, vision, and direction for the company. At the end of the day, when you’re the chief executive of a company that employs 140,000 people

in 206 markets around the world, you can only influence.

How do you influence effectively?

I prefer to be low-key, to carry my own bag, to try to be inclusive. I use “I” as little as possible and treasure the team in the largest sense—not just of employees but of partners, customers, stakeholders. I love to visit supermarkets, to be with customers. When consumers are inviting your products into their lives 1.7 billion times a day, you need to see that happening.

OK, but is it really a good use of a CEO’s time to go to stores that sell Coke?

Yes, because you learn. And it’s important to be seen, because we are a people business. We’re one of the largest private employers in the world, and it’s important that all our people who touch customers be motivated and feel good about what they’re doing. It’s about being proud of what you’re doing.

Do you read management theory and apply best practices? Or are you more instinctive as a boss?

I’m much more instinctive. And although I do read *Harvard Business Review*, in today’s world “seeing” is critical to success. You can’t just sit inside your home or inside your office and read. You have to see, and be seen.

What was the big break that guided your career?

Early on, after spending a couple of years with Coca-Cola in the United States, I was given an opportunity to go to Rome, to head advertising and sales promotion. But two and a half years after I got there, the office shut down in a reorganization, and I found myself with no job. I was about to pack it up and return to the States when someone inside the company whom I’d met just once—I guess I made an impression on him—phoned me and set up a meeting. He gave me a break and a job based in Amsterdam. The lesson is: Always create and nurture. Never eat alone.

What are your thoughts on succession planning? What’s the best way to handle it?

To do succession right, you’ve got to identify the top talent in the company at least two layers down, and talk about those people with your senior operating leadership. You need programs for the talent to work on stretch assignments and present them to the top leadership. And you need to make sure your board of directors gets to know the talent.

Here’s something I ask every CEO: Your total compensation last year was \$24 million. Are you worth \$24 million?

Well, first, I don’t pay myself. And the way our compensation is structured is very much skewed to the long term. Last year we returned more than \$7 billion in dividends and share buybacks to our shareholders. The shareholder value we created was 26%, while the Dow Jones index was significantly less. There is of course a link: When the stock goes up, our compensation goes up. But when you evaluate the tenure of a CEO, you need to look at two things: the value of the company compared with when that CEO took over and—much more important—the value two or three years after the CEO leaves.

To what extent do you feel you’re in a rivalry with PepsiCo and its CEO, Indra Nooyi?

I welcome competition from our principal international competitor, but also from local competitors around the world. It keeps us better, more honest, and healthier as a business. Is it a rivalry? It’s up to you to decide. ♥

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