Photograph by Rudy Archuleta/Redux Pictures

Putting the Fizz Back in Coke

Muhtar Kent has revived overseas markets and ushered in a bevy of new brands. But can he revive North American sales? **By Dyan Machan**

THE CORNER OFFICE

Muhtar Kent

COCA-COLA

IN 1989, WHEN THE BERLIN WALL came down, Pepsi ruled the Eastern Bloc—sales of Coca-Cola were virtually nil. Muhtar Kent, a Turkish diplomat's son running Coke's East Central Europe group, traveled to the CEO's capacious corner office in Coca-Cola's Atlanta skyrise to make an audacious proposition: "Give me $500 million and I'll put Coke ahead in Russia and Eastern Europe."

Kent built 20 factories in 30 months and turned the tables on Pepsi—Coke now outsells its rival by more than 2 to 1 in Russia and Eastern Europe. "It was a blitz," says Kent, who now occupies that apartment-size office in Coke's Atlanta headquarters, complete with plush vanilla carpet and a Norman Rockwell painting on the wall.

The nation's iconic $106.2 billion giant may not require a blitz today, but Kent still has work to do—only now it's more at home than abroad. Coke isn't experiencing anything near the woes that many conglomerates are in this tough economy; profits are expected to rise 15 percent in 2008, on an estimated $32.4 billion in sales—a 12 percent increase over a year ago. But in this health-conscious era, Americans are losing their sweet tooth for soft drinks, causing lackluster sales in North America. The region makes up just 25 percent of Coke's sales, but "like it or not, Wall Street views its performance through the North American lens," says John Sicher, editor of *Beverage Digest*, an independent data collector. "Kent understands that."

There are other domestic issues on his desk too, including testy relations with its U.S. bottler, Coca-

Cola Enterprises. In the Coke universe, the bottlers are autonomous firms that buy concentrate from Coca-Cola and rely on it for marketing, but they produce and sell the fizzy drinks to retailers themselves. The relationship is heavily interdependent, and if a bottler starts to stumble, it becomes Coke's problem very quickly. Kent, who rejoined the firm in 2005 and became CEO in July 2008, has repaired troubled bottler operations in Nigeria, Great Britain, France, Japan, India, Mexico and the Philippines. Can he do it again stateside?

In an interview in sunny Atlanta, Kent talks animatedly about this latest fix-it assignment on his newly adopted home turf. The CEO, who favors "ice-cold Coke Classic from a contour bottle," spoke about dramatic changes ahead in Coke packaging, his plans for the global slowdown and what recycling means to him.

■ You've managed to get the world humming the Coke song, except for the home market. What gives?
First, I wouldn't agree the rest of the world is humming, but in the U.S., we do have opportunity.

■ The U.S. carbonated-drink market has declined three years in a row. Consumers are making healthier choices.
We don't sell unhealthy beverages. Variety is good, and we offer choice. In the U.S. we now have a stronger portfolio: Glacéau's Vitaminwater, Fuze, Honest Tea and Coke Zero. Year to date, we have five of the country's 10 fastest-growing brands, according to Nielsen.

■ What are some of the initiatives to spike growth?
New shapes and sizes. A variety of new, more interesting packaging and new price points. In the past we were like Henry Ford: "You can have any color as long as it's black."

■ Is packaging that important?
It's the single biggest driver of sales increases in the world.

■ Will you move away from carbonated drinks?
No. That's the cornerstone of the industry. I would argue that if we aren't strong with our leading brand, then we won't succeed in that market.

■ Pepsi is also planning dramatic changes to packaging and is going to make a big push to drive U.S. sales.
Great for the overall market!

■ Coke and its largest bottler, Coca-Cola Enterprises, have had some public battles. CCE raised retail prices to boost its profits, and Coke retaliated by raising prices of the concentrate.
We are having the best relationship with bottlers that we have had for the past 15 years. CCE is a very specific issue in the U.S. We work closely with CCE, and we have several major initiatives as well as a much stronger brand portfolio that is helping CCE. For example, an agreement to sell Hansen Natural's Monster will double its energy-drink volume. The conflict has been overplayed.

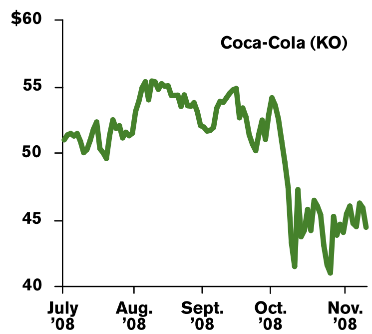
■ You've been a healer in the bottling system, able to fix markets that weren't performing. How?
The key is to act fast. You can't wait for tomorrow. For instance, I didn't sense a commitment with our main bottling partner in China. We were able buy him out in months, if not weeks. That business is now growing in double digits and will continue to do so. In the Philippines, we had a similar situation: They were distracted, and our business tanked over three years. We bought them out, and now they're growing. Glacéau, our single biggest acquisition, was also consummated quickly.

■ You also shaped Japan, once a lackluster market, into a profit center.
Japan is a great story with application to the U.S. market. In 2005 sparkling beverages had been declining there for 10 years. I said to our partners, "You need to believe again." We made major changes in packaging and established a great advertising campaign. We have had six quarters of steady growth. We have 100 brands just in Japan.

■ And one is a gel-based beverage?

THE REAL RETURNS

EST. 2009 SALES: $34.1 billion
EST. 2009 NET INCOME: $7.6 billion
EST. 2009 EPS: $3.31
2009 P/E: 13
MARKET VALUE: $106.2 billion
COMMENTS: Kent juiced up sales and repaired strained relations with many of Coke's independent-minded international bottlers. Now that he's in charge, can he do the same for the U.S., his adopted home?



SOURCE: SUNGARD POWERDATA

THE CORNER OFFICE

Yes, a Fanta drink with pieces of jelly—mostly sold in vending machines. When you shake it, it thickens. Kids love it.

■ Will the gel drink be among new products rolling out?
I doubt it. We'll have more products that work around functionality—like those with antioxidants, vitamins and metabolism boosters. We are working on using the stevia plant, a natural sweetener, for diet drinks. We are developing equipment for food-service companies that allow 100 beverage choices instead of six.

■ Where have you been able to make your mark on the company?
We are much more outwardly focused. When I arrived, I noticed that 70 to 80 percent of our meetings were with each other. We have to touch the consumer, the bottler, the NGOs [nonprofit, nongovernmental organizations] and the governments. Our team will continue to leverage the winning culture. In 2004 there were lots of things to fix. We didn't have a winning portfolio. Everyone had given up on Coke and sparkling beverages. All that has changed. Growth is back.

■ It is. But your shares have performed worse than the market for 10 years.
We don't manage the stock. We manage the company and have met or exceeded all of our short- and long-term goals. In the end, the markets will give us credit.

■ How are you dealing with slowing global growth?
We have to be more productive. We are busy taking $400 million to $500 million of costs out. But even in today's environment, we still have a great business. We sell moments of pleasure for cents—billions of times a day. We are not selling refrigerators or autos.

■ So you're not worried?
I worry every day. The emerging markets will slow, but there will still be growth. We are the most geographically diverse company in the world. We produce in 200 countries; our products are not exported. It makes us different.

■ What's important to you personally?
Sustainable living. Living positively. The bottom line is that more consumers will vote for brands not just on taste but on character. We are opening the largest recycling plant of its kind in South Carolina that can make bottles out of bottles—we can recapture 50 to 60 percent of them. We want to be up front in lowering our carbon footprint. Ⓢ

Pay Day

Which CEOs are earning their pay and which, well, aren't? We weigh in on pay packages that stand out—for better or worse.

OVERPAID

RICHARD FAIRBANK
CEO, CAPITAL ONE FINANCIAL
PAY: $17 MILLION

$ **It's all in stock options. He takes no salary or bonus.**

Capital One's stock fell more than 50 percent in the past year, but CEO Richard Fairbank won't be late on his credit card payments. Granted, his 2008 options won't be worth much if the stock continues to fall, but he exercised $54.8 million worth of older options last year. Fairbank's compensation "best aligns his financial rewards to the value he delivers to stockholders," says a Capital One spokesperson.

UNDERPAID

ROBERT SHILLMAN
CEO AND FOUNDER, COGNEX
PAY: $0

$ **His $350,000 salary and $52,500 bonus are donated by the company to charity.**

When technology sales collapsed in 2001, this maker of robotic vision equipment cut costs and laid off employees. To save jobs, Shillman worked for free. When business recovered, Shillman decided he didn't miss his salary and began donating it to charity, mainly to education causes. While faring better than competitors, Cognex shares are down, and Shillman's 2007 options currently have no value. **—D. M.**

Illustrations by Chris Lyons