

The Coca-Cola Company Morgan Stanley Global Consumer & Retail Conference Transcript

Speaker 1: Just level set us for what we should expect going forward. Is the high end still in sight as you look out over the next couple of years in this environment, particularly if we're in a period of lower pricing in CPG in general?

Speaker 2: Yes. Look, I still feel very good about being at the top end of the 5 of the 4 to 6, I. E. In the 5 to 6 range. And I think, yes, it's true that pricing or consumer inflation in general and pricing is going to moderate.

Speaker 2: But it's going to moderate back down to the sort of levels it was at before. And so let's remember that pre this whole 5 year journey on COVID and the waxing and waning of the economy, that's where we were before. I mean in 'seventeen, 'eighteen, 'nineteen, we were in that top end of the range as well and it was coming from a balance of volume and price. So I fully expect to see both volume and price contributing to getting us in a balanced way to the top end of the algorithm. And in a way it's just a return to where we were before, because it's ultimately underpinned by an industry, the beverage industry, which still has huge growth potential in front of it.

Speaker 2: At the end of the day, the world is characterized by more people not consuming commercial beverages than paying for commercial beverages. So the industry has got a long way left to grow. We're the market leader and if you do a histogram of growth rates for the industry going back 30 or 40 years, the median growth rate is 4%. So if you've got an industry supported by its leader that continues to grow and we gain share, you get into the kind of the 5 to 6 bullpocks. So I think whichever way you cut it, you come back to a relatively high level of confidence that we should stay there.

Speaker 1: Great. Well, maybe let's break that down a little bit. I know you won't want to be too specific, but if we could break it down between volume, pricing and mix. Volume, you've been pretty consistently in that plus 1% to 2% range in recent years, a little bit softer last quarter due to some dynamics. But as you look at the volume side, do you expect improvement as pricing comes off?

Speaker 1: Or is it more you haven't seen a lot of elasticity and to meet those goals, you're probably in a similar type of range? And really same questions on pricing and mix. Pricing, you've shown you have a lot of pricing power in the last few years. Does that embolden you to be a little more aggressive with pricing? Or do you have to be a little more constrained in this consumer environment?

Speaker 1: And I'm throwing 3 questions at you at once, but mix, you guys have been far ahead of the curve of other CPG companies for a long period of time. Are you still finding incremental drivers as we think about mix contribution going forward?

Speaker 2: Yes. But you know that's my favorite, the multiple question as one goes. Let me try and unpack it. I think pricing will continue to be there and be a driver because in the end it's kind of related to the input costs and we're going to continue to pass those on and we're going to continue to own with the consumer the right to the pricing through the marketing innovation, the RGM, the execution, the coolers, etcetera, etcetera. So I don't feel that that is somehow going to end up being a big trade off from a with the volume component of the piece.

Speaker 2: Obviously, you need to go country by country and work out exactly what that balance is. It all looks very kind of solomonic at an aggregate level that you get if you want 5 to 6, you get half from volume from half from price, but it's not equally the same in every country. And so there is an unpacking of the portfolio. But I don't see them in a large trade off position

because as you say, we have been driving volume growth barring the Q3 over the last number of years. And if you take a 5 year average, it's probably a 2 or something like that.

Speaker 2: So there's clearly a focus through all the levers in making sure we keep, not just keep people in the franchise, but grow the size of the franchise. And so I've been able to do all that management of price whilst delivering the volume growth, not at the cost of the volume growth. The mix component has a couple of features to it. 1 which is probably a bit more temporary, which is kind of all the weirdness of the last few years of the changes in channel mix and category mix and depending on whether we owned the vertically integrated business or didn't own the vertically integrated business. So there's kind of a bit of weirdness in mix, which will come down.

Speaker 2: Because historically speaking, mix has been kind of bounced around net neutral. We've used the advantages we gained from premiumization to then lean more heavily on affordability in certain parts of the world. So we've used it as a portfolio management tool to get us the overall results. So I think at an aggregate level, it looks relatively simple. And of course, you need to go country by country.

Speaker 2: The U. S. Has got more price and mix than volume, whereas you go to India or whatever and you're getting more volume than you're getting price. And so you have to kind of then de aggregate the portfolio.

Speaker 1: Okay. That's helpful. And you mentioned the commercial beverage opportunity. Can you just touch on in the emerging and developing markets, how that's progressed recently? It's hard for us to judge given a lot of the volatility, but your efforts around commercial development in those markets where you have lower per capita consumption and lower disposable income and what's sort of in your control versus the consumer developing at higher

income levels as you think about it?

Speaker 2: Yes. And I think the volatility increases as you de aggregate. Like views, the more you go down to the country level, the more you get more volatility for some countries as well. But as you come up again, starting at the top level, if you take the developing and emerging economies, they account for 80% of the world's population. The 20% that live in the developed economies probably pay for 7 out of 7 to 8 out of every 10 drinks they drink, they pay for in some way, shape or form tea, coffee, alcohol, non alcoholic beverage, they're paying for it.

Speaker 2: And we have a teens market share. But the 80% of people in the developing and emerging economy, they're only paying for 2 and a bit of every 10 drinks. So the vast majority of the industry is yet to be created and of commercial beverages, we're in the high single digit share. So we're gaining share. There's lots of share to gain and there's lots of industry to create.

Speaker 2: And that continues. The developing economies continue to expand in terms of volume growth. So if you de aggregate the company, the volume growth that we have been getting is more concentrated in the developing and emerging countries than it is in the developed economies and that is going to continue. Now of course, as you then go down to a country level, you get more of a roller coaster, but take in India, I mean, apart from last quarter, it's been a long term consistent grower of volume, Even places like Nigeria, which is super volatile on an intra year basis, are long term growers of volume.

Speaker 1: Okay, great. And segmenting your portfolio a bit, Sparkling has had really strong results in recent years since COVID, despite some skepticism if you go back historically. What are you doing to sustain that momentum? What's been the unlock there? Maybe you can touch on the Zero Sugar portfolio too.

Speaker 1: And then also just what role do stills play in the portfolio as part of your growth platform?

Speaker 2: So I mean the unlock for Coke is really the quality of all the different levers like it's a brand that responds to marketing that is relevant and engaging for the current consumers and the next generation of consumers that comes with the variance and the package mix that's also relevant for the consumers of today and tomorrow and works with the retailers and yes that's led to more and improved formulas of Coke 0, more and different package sizes that suit each occasion and backed up by the commercial execution of the bottling system and the cooler. So it's not been about a radically different view of Coke from the last 130 years, but a much better and much more effective execution of those key levers making it relevant for consumers and relevant for retailers. And that's driven Coke as you say over the last number of years. And then the rest of the portfolio, the other key decision in there is not to try and be deterministic in saying well okay, I think the consumers need this much of stills or whatever and they can only have this much sparkling and I'm going to they're going to have to drink whatever I want to make.

Speaker 2: That's not how the world should work or consumer business would. So the focus has been saying to the organization, we need to do justice to each brand. Yes, we need to go around the world and prioritize which country category combinations we want to focus on specifically in the next number of years as we lead towards a future destination of a total beverage company because you're not going to get there all in one go. But as you focus on those different category country combinations, do justice to each brand in its country and the consumer will decide whether you're doing a good job or not and it will work or it won't work, but we cannot expect to tell them what to drink.

Speaker 1: Great. That's helpful. And as you think about health and wellness broadly, and this

is a subject that's coming up increasingly with GLP-one, the political changes in the U. S, how do you think about your portfolio in that context? How do you adjust your strategies perhaps?

Speaker 1: And what role does 0 Sugar play in that as you think about that piece of the portfolio?

Speaker 2: Well, I think it starts from the essential idea you need to be relevant for consumers. And what's relevant for you or me or someone else out there is not always the same thing, even within health and wellness in verticals. And so what we have learned to do over the last number of years is in part make sure we have the options available for whatever choice you want to make, whether that's because it's got low calorie or no calories in it versus the original formula, maybe it's got more protein in it like the Fairlife drinks, maybe it's got other ingredients in it, vitamins or whatever. In the end, like what the consumer wants, you need to be able to offer them the variety of choices and by the way, the variety of packages. And I think that has allowed us over the years to adapt to different trends from consumers or from regulators and manage our way through.

Speaker 2: So really having the portfolio, having the choices of product and package being adaptable and staying relevant to consumers, and that is going to help us. I mean, I know all the GLP-one data that you made, it's quite anecdotal as to its total impact on food and beverages, but certainly the initial stuff you see is, yes, they consume less of some categories, but they consume more of other categories. So if you have a portfolio, you can adapt from those sorts of consumers as they change their consumption mix in the same way you can adapt to other things. I think if you've got the portfolio, you've got the choices and you're willing to be adaptable, you can manage all these things.

Speaker 1: Great. That's helpful. Yesterday, you updated your sustainability goals. So, it's

fortunate timing here today. Can you just talk about the role that sustainability plays in your strategy?

Speaker 1: Why it's important and why the revised targets and just confidence around ability to achieve those targets?

Speaker 2: Yes. There's 2 headline points before getting into some of the specifics of those goals. One is in the long run to have a successful sustainable business, it needs to be in a sustainable ecosystem and you can't use up all the finite ingredients of X and then business length. So it needs to be seen in the context of we want a long term business that's run for the long run with access to the things we need for the long run. Secondly, the core elements of the sustainability strategy are not some in parallel hobby or nice to have, they're central elements to the business.

Speaker 2: The 3 we updated in particular was on water, on packaging and on climate or carbon. But interpret carbon as energy, I mean, because that's what's driving it. So water, there's no way we can have a beverage industry without water. And when any part of the world, the equivor gets into trouble, even though industrial users tend to be a tiny percentage of the water usage relative to other uses like agriculture, the problems concentrate on the big brands like us. I mean you can see those, that's happened around the world.

Speaker 2: So it's very important for us that we have access to water, which is why we set a goal to be water neutral. Actually, we're now we're water positive. We return to the environment more water than we use because we need access to that water. And the reality is we have plants in countries that are very dry. Sometimes we close the factories and move them or we work with the government to do reforestation to water systems so that we can replenish the aquifer.

Speaker 2: So we can access the water. It's done, it may be a societal good, but it's also critical to business we have access to the water. So that's one. And we reaffirmed our commitment to being water positive. The second one was on packaging.

Speaker 2: The packaging material we use, these materials all have economic value if they're collected. The idea of a circular economy around packaging materials, particularly these ones, because not all packaging will have intrinsic economic value, but these ones do because you can chop up these bottles and make new bottles with them. And so if we can collect them, not only do you not have waste, but I can collect the bottle and over the long run, I can just reuse them and I don't have to buy virgin resin, I can use recycled resin. So there's a whole intrinsic logic to doing it. And of course, part of the packaging strategy is, can I make them thinner?

Speaker 2: Like if you take a can today and compare it to a can 50 years ago, like 50 years ago, you needed to go to the gym to crush those cans. Now they're the thickness of a hair. You can crush them with your hand if you want it. That's great. Uses less material.

Speaker 2: It's sustainable. It's also much cheaper. So again, it's a business strategy. And the same is true in a way with climate. Climate, the biggest factor in climate is ultimately energy.

Speaker 2: To the extent that we can buy green energy, great, if it's competitive, To the extent that we can use less energy because we have thinner packaging or more efficient plants or more efficient trucks, the better off we'd be. So it is an intersection of what's important societally, but also what's necessary for the business.

Speaker 1: Great. That's helpful. I wanted to spend some time on Fairlife. It's been such a big success story for you guys. A, just at an aggregate level, can you help us understand how important this could be to your growth potential as you look out over the next few years versus the level of size of the business today?

Speaker 1: The different products in the portfolio, maybe talk a little bit about the strategy from a product perspective as you look to grow this business over the next few years and the big unlock is sort of capacity or your strategies for growing the business in general?

Speaker 2: Sure. I mean it's been an overnight success 12 years in the making. And it's been compounding steadily over the last decade. And it's already here. If you look at the U.

Speaker 2: S. Year to date, the 2 brands that have added most retail sales in the U. S. Are Coca Cola and Fairlife, like the number 1 and the number 2. So you've got the like one of the oldest brands and one of the youngest brands driving the retail sales growth.

Speaker 2: And it's because the product is fantastic, the marketing work has been done, the innovation work is done, the capacity is coming online, more capacity needs to come online somewhere north of here. They're building a huge facility to bring online more capacity. So it has already arrived at scale. I think that's the first thing. This is not something that is yet to come.

Speaker 2: It's already here at scale, witnessed the sales growth. It's got good profitability. It's got tremendous growth prospects in the core products, in the core Fairlife milk, which is a very low lactose milk, proteins, it has the core power, which is dialed up, protein that has a nutrition plan, which is kind of the same idea. These are very on trend products. I think there's a long way to go with those.

Speaker 2: Implicit in your question of kind of is there other innovations, it's like am I going to go into more solid forms of milk? We have a long way to go in beverages before worrying about other types of milk.

Speaker 1: Great. And part of the strength of the brand is the unique supply chain that the cows

themselves and the way they're raised. Is international something that's a priority as you look out over the next few years or is that something that takes a longer period of time to develop for the brand?

Speaker 2: The number one priority is to do the right thing in the U. S. They've got to bring online the capacity, which is then will continue to support the long term sales growth. I'm sure that in other developed economies, this need state remains important and to a large extent underserved, but the organization of the dairy industry is very local and there is a component of this, which is connecting back into the dairy landscape and the rest of the world, it's not as easy to export as a coke or a boneyard or a water. And so I don't think we're going to focus on it as intensely as quickly as some might think because we really want to continue to explore and expand in the U.

Speaker 2: S. Opportunity.

Speaker 1: Great. So maybe that's a good time to talk a little bit about capital allocation. We've talked about the significant growth opportunity internally. As you think about M and A from a longer term perspective, there are a few key product segments where Coke is underexposed as you think about the global NAV category. So how do you sort of juxtapose the focus on M and A versus organic growth?

Speaker 1: And how do you think strategically about some of those product categories maybe where you're underexposed and what might be interesting for the company over time and fit into the strategy and also categories where you can extend your competitive advantage and have success?

Speaker 2: Yes. M and A, particularly bolt on M and A has had a big role in what we've done. I mean, if you just take a retrospective long term view, we have in the last 20 plus years, I think

added something like \$15,000,000,000 brands. 7 of those were ones we invented and created ourselves. Of the 8, they had some component of M and A.

Speaker 2: 5 of the 8 were small brands we bought that we turned into \$1,000,000,000 brands and 3 were brands that were already \$1,000,000,000 brands from the start. So if you look at what has it taken to expand our portfolio of \$1,000,000,000 brands, the vast majority of it or half of it is stuff we invented ourselves. The next quarter plus is small stuff we bought that we turned into big and the smallest contributor is actually medium sized brands that we bought. And I think that's a strategy that seems sensible for the future going forward. So I think the likelihood is we will to the extent that we see gaps, we're likely to pick up smaller things that we can turn into bigger things.

Speaker 2: Otherwise, it's very hard for us to create value if they're too big when we buy them. And we're not in a rush. I think there's a degree of uncertainty going into 2025, and I don't think there's anything wrong with the strategy of accumulating cash and then seeing if there are opportunities, and if not, then return it to shareholders.

Speaker 1: Great. You mentioned on the Q3 call the dynamic external landscape, it's become more dynamic since then even. So maybe we can just talk a little bit about the consumer and some of the regions around the world. Perhaps let's start on North America and Western Europe, just what you're seeing there. There's been some channel shifts in both geographies.

Speaker 1: So it'd be helpful to have an update on what you're seeing from a consumer standpoint in those regions.

Speaker 2: Yes. Look, I think in aggregate, the U. S. Consumer remains very resilient. And as we've talked about on previous calls, yes, the lower income portion of the population has been under more purchasing power pressure, exhausting the savings.

Speaker 2: You can see that in some of the footfall traffic to certain channels or basket incidents in other channels and looking for more affordable price points, which of course we've been responding to as we go forward. But also there's plenty of money in the economy that's driving the more premium segments witness the continued growth of Fairlife. So I think you've got both things happening at once in the U. S. I see that as an ongoing feature of the U.

Speaker 2: S. Economic environment, consumer environment. But in aggregate that makes it pretty resilient and you can still see lots of growth in the U. S. I would you mentioned Western Europe.

Speaker 2: Western Europe is a slightly more subdued version of the same dynamic. You have people on the purchasing power pressure for sure and responses to do with affordability. Yes, there are premiumization opportunities, but the aggregate is a lower level of growth than what we've been seeing in the U. S. Through this year.

Speaker 1: Okay, great. And then in developing markets, maybe you could touch on Latin America, obviously tough comps last quarter, Mexico was a bit softer. Is that more of just a temporary comparison dynamic? You've had very strong growth in recent years. How do you think about that region going forward?

Speaker 1: And also maybe focus a bit on volume versus pricing, given pricing has been so strong and confidence around driving volume growth, given some of the volatility we've seen Argentina, Mexico recently, etcetera?

Speaker 2: Yes. I mean, look, Latin America has been a long term success story for the Coke company over a long period of time, including recently. And I think that's going to continue to be true. In the more immediate short term, there was a little softer in Q3 partly due to the comps. I think also worth remembering an election cycle in Mexico is likely to see more money

go into the economy pre the election than the few months right after it, which is not too surprising, very common pattern in a lot of countries around the world.

Speaker 2: So I think you're seeing some of that work through. None of that makes me think that there's a sort of structural issue, and I'm confident in the growth patterns in Mexico, and Brazil has also been contributing. I think we're going to continue to see volume growth in Latin America. Pricing is going to moderate a lot of the Latin American pricing is coming out of the hyperinflation in Argentina, which thankfully seems to be moderating or at least moderating in Argentinian terms. I don't think anyone knows what that number is going to be in 2025 except for less than 2024.

Speaker 2: So yes, you'll see that come down, but that's a very specific situation around Argentina rather than generalized high inflation in all the other countries. So I think Latin America has proven to be a strong resilient business over a long period of time, And I feel good about the business even if there's the odd bump compared due to comparisons and election cycling and all that sort of stuff.

Speaker 1: Okay, great. And maybe 2 other markets, China and the Middle East. Obviously, China has come under macro pressure in recent quarters and we've seen broadly across CPGs and pressure. Maybe just talk about how you're responding to that as an organization and any strategy changes as you think about the long term given the operating environment has changed there? And in the Middle East, maybe just give us a bit of an update there, sort of cycling through some easier comps and some of the turbulence that emerged last year.

Speaker 1: What's sort of the impact from that or level of contagion as you see it? Or do you feel like you have a pretty good handle around that right now in terms of what's already happened there?

Speaker 2: Yes. China, I mean clearly there's been slightly more subdued macros. I see it as kind of part of a multiyear property correction that then obviously bleeds into the broader economy, not unlike other parts of the world have gone through, which kind of gives you a slightly more subdued consumer outlook. It certainly seems to be the case that if it starts inclining to the slightly more negative, the government puts some stimulus in to kind of bring it back to the okay level. And so I think that's the kind of environment we've been working through.

Speaker 2: Within that context, we've also refocused our business on more on the soft drinks, more on the juice drinks and less on what in the U. S. We'd call case pack water, and that has made the overall numbers much more negative than the soft drink numbers, which are more kind of the flat to slightly positive. But that's been a choice that we've been focused on using kind of less of that as part of the portfolio. The long term opportunity remains to have a bigger and better business in China.

Speaker 2: So we're not super concerned about the short term corrections, because we see that actually within the overall result, the restaging and the regrowth of the sparkling is going to be good. And of course, we're gearing up for Chinese New Year at the beginning of the year. So that should be good. Right. Middle East.

Speaker 1: Yes, the Middle East situation, how you sort of manage through that volatility? Have you seen some of that spread to other regions or give us a bit of an update there?

Speaker 2: Yes. I mean, look, obviously the impact from the war has been devastating. People from the system have been killed on both sides in collateral damage. So it's been a very difficult time for the system in the Middle East. And the impact, clearly there's been kind of a combination of spillover of consumer reaction to some of the events plus economic impacts in

some of the countries.

Speaker 2: So you've got both things going on at the same time. Clearly, there's some consumer pullback from international brands in a set of countries affecting the Coke or some of the other brands that are more obviously associated with the U. S. And that's not just a Middle Eastern thing, it's affected Turkey, it's slowed over to some of the Muslim countries in Southeast Asia. But as you say, some of that is now in the base, so to speak.

Speaker 2: We obviously are very focused on doing the right thing for the people in our system, very focused on saying in those countries, look, actually the Cokes in Country X are largely all made in Country X by local employees. And so it is a profoundly local business that we're focused on. And that then kind of takes some of the edge off what's going on. It's not an import business, so to speak. And we manage through it as best we can.

Speaker 2: It's not in aggregate going to kind of topple the tower.

Speaker 1: Great. During the Q3 call, you gave us a bit of perspective on 2025, and you talked about leveraging productivity levers to drive efficiency in the organization. Can you give us a bit more detail on what levers you anticipate will be most important in 2025? Obviously, top line growth is moderating sequentially as some of that hyperinflation and some of the excess pricing comes off even in non hyperinflation markets. So is margin improvement an outsized focus in 2025?

Speaker 1: Is productivity a focus, particularly given you've done so much good work on there already over the last few years? How should we think about that?

Speaker 2: I think there's no silver bullet out there. There's no one big unpulled lever that's going to kind of make a huge difference in 2025. It's going to be more a question of we're going

to start the year leaning into growth. Just because pricing is moderating does not mean there will not be growth. We're going to lean into growth.

Speaker 2: We're going to go for volume growth and we're going to go for the price mix growth and be top line led. I mean that is the starting point and that will always be the number one objective going into any year. Yes, we will look for efficiencies through the chain, making sure the input costs, looking to have the gross margin do well, being judicious on the use of marketing. But again, we're leaning into the growth. Obviously, we want that market to be effective and efficient.

Speaker 2: I think we've done a good job over the years of kind of keeping operating expenses contained, but there's no big step change sitting out there. It's going to be a question of judicious management of each key line item to make sure we get the result we want.

Speaker 1: Great. And as I think back over the past few years, you've had a really impressive track record of growing earnings and overcoming external headwinds. You've delivered pretty steady earnings growth versus if you go back years ago when FX and some of the bottling divestitures were a pretty big headwind. We are seeing some of those headwinds come up for 2025, right? Currency where we are today is certainly a substantial headwind.

Speaker 1: Interest expense in theory is a headwind also. So just putting all of that together, how confident are you that 2025 is an earnings growth year? And how do you think about potentially offsetting some of those headwinds strategically versus reinvesting in the business? You've talked about how historically you have to overcome FX to some extent if it's continuous from a multi year standpoint. So I'm just trying to understand how that all comes together in 2025.

Speaker 2: Yes. And we're yet to finalize everything for 2025 and probably even if we do it will

change somewhere in 2025 because there's so many uncertainties and variables out there that I think it's going to be a fluid year, let's say. Look, but the point you set up the question is perhaps the key thing. If you went to the period like late since the financial crisis to about 2017, that kind of 10 year period when the EPS was stuck at \$2 every time FX was high single digits negative, EPS declined, US dollar EPS declined. I mean, so once it got over 6%, EPS was negative.

Speaker 2: Since the 2017 period, even in years of high single digit FX headwinds, we've grown US dollar EPS. So the first thing is like, in part is a question of aiming to achieve it. Now having said that, nothing we're going to do in 2025 is going to be at the cost of sacrificing the long run. If we need to invest for the long run, we're going to do it, even if that has short term cost. I don't I'm not trying to say like we need to do something crazy.

Speaker 2: That's not the point I'm making. But we're not going to be short term is to kind of achieve some sort of artificial objective. But over the last number of years, every time there's been an FX headwind of this kind of magnitude, we've grown U. S. Dollar EPS, maybe not as much as we would have loved, but we've grown it.

Speaker 2: And so we're going to apply ourselves to all levers and do justice to the investment in the local every single local business in every single category and pull the corporate levers such that we can achieve our overall objective because you can't have the dividend growing every year in dollars without the EPS growing in dollars. Otherwise, the wheels will start coming off. So it needs to all hang together, and that's the challenge that we've set ourselves that we have to achieve.

Speaker 1: Great. That's helpful. And over the under your tenure, you focused on digitizing Coke and the system in general. Maybe give us a bit of an update here today with AI, with

greater technology coming into play. What areas are you most excited about in terms of a tangible payoff?

Speaker 1: Is it marketing? Is it innovation? Is it productivity? How do you think through that conceptually for the broader organization?

Speaker 2: Look, I think historically there's been a use of analytical AI models by the supply chains and R and D, which I think have been in the field for some period of time and delivering results. I think more recently you've got two things for the layering in, which are more which are encouraging for long term value. One that's coming in through the selling system. As the selling system has moved from sort of analog, the person has to turn up at the store so that you can make an order all the way through a platform so that the retailer can order for themselves because it's an EDI or they can order on a website and add so they can order 20 fourseven to suggested selling. So the system now has all the data.

Speaker 2: It can now complement the salesperson and the retailer because those are the 2 people deciding what goes in the store and complement and they're saying stores like you should have this or do that or do the other and that is generating uplifts in sales through the bottling system. So AI systems that can complement and accelerate the effectiveness of what the salesperson and the retailer decide to do in the store is proving that it can drive results. The second area that's starting to now come online is all the kind of output of the generative AI. I mean, I say that by entering and saying like what we don't know about where this stuff is going is more than what we do know. But having said that, like just some of the early uses by the system are starting to demonstrate value.

Speaker 2: So we spend 100 of 1,000,000 every year on point of sale material in the store that says, you know, it has some sort of marketing picture or it's a straight offer. You think of how

many photos are taken of people or meals or bottles, you know, the people who design it don't follow the design rules we send them. It's a cottage industry of 100 of 1,000,000. We have an AI app now. You just type in what you want the point of sale material to be and it spits it out.

Speaker 2: And if it's James and Dara having a pizza and you get it and you don't like the fact the machine put olives on, you go take the olives off. It takes the olives off and then it just prints it. And so it's much more effective and it's cheaper. So there's already generative AI that's improving efficiency and delivering on effectiveness. And then you go to the kind of the really central bit of marketing which is making the ads.

Speaker 2: This year's Christmas ad that's being used in most places is all done through generative AI prompts. So it's not CGI after effect on a human ad. It's a fully generative AI ad, which has been 1, been much more effective with consumers 2, it was much quicker to make and 3, it was cheaper to make. So clearly, you've got some use cases that are starting to look pretty attractive. Now, why am I not sounding more encouraged and euphoric than I am sounding apart from being British and it not being general nature, it's because actually there's uncertainty like what are the long term economics of these things going to be?

Speaker 2: I mean There's a lot of money being spent on servers. It's not clear to me what the price of using these services is going to be in 5 years' time. Plus, it has to be clear to me what is a competitive advantage for me versus what's the price of entry. If generative AI is just the new operating system on your computer, everyone has it, everyone uses it, fine. We just adapt and move on just like we adapted to smartphones.

Speaker 2: Or does it somehow confer a competitive advantage on me because of the way I use it or my access to it or whatever. So that is all yet to play out.

Speaker 1: Great. Well, that was a great discussion. Thank you so much for being here. We're

going to end things there.