## ATLANTA BUSINESS CHRONICLE

## **VIEWPOINT**

## Firing workers won't restore growth at Coca-Cola

David J. Winters, CEO of Wintergreen Advisers LLC. Wintergreen's clients are long-term shareholders in Coke, owning over 2.5 million shares.

The Coca-Cola Co. earlier today began notifying about 1,800 employees that they were being fired. That's a harsh way to start the New Year. But it's simply the latest in what we view as a series of terrible actions by a management team that has lost its way.

Although Coke (NYSE: KO) isn't saying much about its plans, it seems likely many of the people losing their jobs are rank-and-file employees, people who have worked hard and devotedly for the company, in some cases for many years.

Who caused the current problems at Coca-Cola – was it the employees who received pink slips today? That doesn't seem at all likely to us. We believe the blame for Coke's stumbles falls squarely on the shoulders of upper management. We believe their lack of vision and failure to focus on the consumer, compounded by their preoccupation with lining their own pockets with what we view as excessive pay packages, have conspired to land Coke in its current predicament.

We think there has been a dearth of innovation at Coke and a failure to recognize and meaningfully participate in the biggest changes in people's drinking patterns around the world. It didn't take a genius to recognize the revolution in coffee, enhanced



David Winters of Wintergreen Advisers LLC

water, teas, and energy drinks, yet it seems to us that Coke management failed to foresee or adapt to evolving consumer tastes in all of these areas.

If members of management couldn't internally develop products to meet the consumer's evolving preferences, shouldn't they have at least met their own objectives as announced in 2010 to refranchise their North American bottling network? What was then touted as a high priority and a four year plan has, in our view, resulted in virtually no tangible progress over the last four years. We think Coca-Cola management has fallen well short of even their own

modest goals, costing shareholders billions of dollars and leading to job losses for Coke employees.

Protecting a secret formula from the 19th century doesn't seem to be enough to justify massive paychecks and bonuses for senior executives. Developing new products to win over consumer taste buds and grow profits for shareholders and employees now that would be a bonus-worthy corporate objective. Unfortunately, we have not seen this from the current management team.

We think management's recent pattern of increasing Coke's debt to pay dividends and bump up the bonuses of the company's top five percent of highly compensated executives is imprudent and nothing to be proud of. These are the very people who have had their equity awards grow year after year while the company has faltered. Firing lower- and mid-level employees appears to be the wrong answer to Coke's ongoing problems.

We believe Coke needs significant cost cutting and changes in highlevel management to rescue the company - start at the top, not the bottom. Top management and the board of directors are responsible for the decisions, actions and inactions that have most rewarded the top five percent of executives while the company has faltered. Unfortunately, as we can see with these layoffs, it's just more of the same at Coke – executives win, and shareholders and employees pay the price.