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Coca-Cola Enterprises Q3 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Bill Pecoriello at Morgan Stanley.

Bill Pecoriello - Morgan Stanley

Good morning, everybody. My question is how can you realize improved take-home profitability if Coke raises concentrate 8% and cuts your funding at the same time you are implementing price increases? And if Coke isn't on the same page as you on the pricing, how can we assume that Coke is on the same page with these cost-cutting initiatives as part of the 120-day review that you are undergoing?

John F. Brock

That's a good question. Let me start by saying that the background of the whole situation was simply that we had a plan going into 2008 with the Coca-Cola Company which we were very up-front with you and others about, which called for the benefits, volume and profit wise of Glaceau being in our system. And we agreed to take a fairly modest price increase on our sparkling brands in 2008 with a mutual desire to see if we could get those brands growing again after several years of decline. And we did that knowingly. We went into the year actually not planning to cover cost increases in the commodity world, and then what actually happened is obviously we had an economic downturn, the pressure on our 20-ounce business was substantially greater than we expected, and the need for pricing on our -- particularly on our future consumption business became very obvious and was needed in an amount substantially greater than we had agreed as part of our plan with Coca-Cola.

By the time we got to September, we thought it was absolutely the right thing to do, strategically important to take a price increase and we chose to do so. And that was different, of course, then the plan that we had agreed at the beginning of the year. The Coca-Cola Company similarly chose to go outside the plan and do some things differently and to raise concentrate prices and to spend some \$35 million of funding which we would have gotten in other ways. So that was simply what happened.

I think in terms of all of the other activities we are engaged in with Coca-Cola, we remain positive and convinced that we are making excellent progress on the 120-day study. We will share results about that with you in December, as we've said before. We and KO are engaged on a variety of projects inside that study, and beyond that we have I think at this stage of the game a set of 2009 plans, both for Europe and North America, which are more in alignment with each other than we've had in years past. So we continue to work with them effectively and positively and we will continue to do so as we go forward.

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