Austerity Is the New Flavor at Coca-Cola

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Coca-Cola Co. ads starring Santa Claus have been playing on TV, but the mood inside the world's biggest beverage company is far from merry.

Atlanta-based Coke plans to ax at least 1,000 to 2,000 jobs globally in the coming weeks, the biggest thinning of its ranks in 15 years. It is also introducing stricter budgeting, telling executives to swap limousines for taxis, and dropped its lavish Christmas party for Wall Street analysts.

The moves are part of a $3 billion cost-cutting plan Coke announced in October after warning it would miss profit targets this year and next as consumers drink less soda, for decades its cash cow. The austerity push is a culture shock for a company that traditionally has grown, not shrunk, its way to prosperity.

Investors aren't convinced Coke can pull it off and question if the cuts are sufficient. The company says the restructuring won't be finished until 2019. Since Coke announced the plan Oct. 21, its share price has fallen 2.2%, closing Tuesday at $42.97.

"Their track record in cutting costs has not been very strong, so there's a reluctance among investors to believe in them," said Ali Dibadj, an analyst at Sanford Bernstein. He estimates Coke needs to cut $3 billion to $4 billion in costs to be as efficient as other major consumer packaged-goods companies.

Former executives describe Coke as structurally bloated and often slow. The company has about 20 job grade levels and decisions like purchasing ingredients can require several rungs for approval. Marketing and legal teams function in silos, making it hard for managers to collaborate. Often it is unclear who has the authority to make decisions.

"It's the puzzle palace," where managers often are "spinning their wheels," said a former executive.

Analysts at Nomura International estimate the proposed cost cuts would lower operating expenses to about 38% of revenue at Coke and its bottling partners. That compares with a 31% average at half a dozen other big consumer companies, including Nestle SA and Procter

&Gamble Co. Meanwhile, Morgan Stanley estimates Coke's annual savings will top out at 6% of prior-year profit, half the peer average.

Coke disputes such math. It says its plan is aggressive and that comparisons should factor in differences including geographical mix and distribution. But it agrees it needs to become leaner and faster.

"We certainly can do things more efficiently," said Brent Hastie, vice president of strategy and planning, in an interview at headquarters, where construction crews are replacing some offices with open-floor layouts.

Mr. Hastie, who is heading the cost-cutting efforts, has spent most of the past decade at Coke but also worked for 11 years as a consultant at McKinsey &Co. The 41-year-old has tapped outsiders for advice, including former executives at brewer Anheuser-Busch InBev NV, famous for its lean operations.

Coke says it will adopt zero-based budgeting, which requires managers to reset spending plans each year to justify all expenditures, rather than roll over some items from year to year. It recently tested the practice in some corporate functions and in its North America division, ahead of a broader rollout.

This month, the company eliminated voice mail at its headquarters, pushing callers to use email or cellphone numbers if the employee doesn't pick up. Coke says the savings will be less than $100,000 a year, but that the change will simplify and speed up work.

Analysts had been told there would be job cuts by November, but Coke says it is still determining how many people will be affected. Job-cut notices will go out to North American staffers Jan. 8 and international employees will be given a timeline for cuts by Jan. 15, according to people familiar with the matter.

Some insiders estimate job losses will range from 1,000 to 2,000, but one person involved in the review said more than 2,000 jobs could be eliminated. That isn't a lot for a company that had 130,600 employees at the end of 2013. It also pales with the more than 5,000 jobs Coke cut in 2000 in response to sagging earnings and sluggish sales. Rival PepsiCo Inc. said in 2012 it would cut 8,700 jobs, about 3% of its workforce.

Still, the impact is expected to be significant at Coke's headquarters in Atlanta and global regional offices, where more than 10% of corporate staff could lose their jobs. Bottling and distribution, which employs more than 85% of personnel, are largely out of the firing line for now.

Coke plans to eliminate the bureaucratic layer of regional groups based in Hong Kong, Istanbul, London, Mexico City and Atlanta so that country business units directly work with corporate headquarters, while also standardizing operations across business units. The overhaul is designed to "rewire our organization for faster and more effective decision making," Chief Executive

Muhtar Kent told employees in an internal November memorandum.

Ideas, decisions and practices until now have been slow to move through the company, which sells its namesake cola in every country except Cuba and North Korea. Sales rose in the U.S. this summer with a successful "Share a Coke" marketing campaign in which bottles of Coke, Diet Coke and Coke Zero were relabeled with 250 popular first names, ranging from Aaron to Sarah and Zach.

But that was nearly three years after the campaign was launched in Australia. People close to the company say the campaign's spread was slowed by turf wars and other hurdles, including concerns by some U.S.-based lawyers about diluting Coke's trademark.

Many business units have their own information-technology systems for travel booking and other functions. When headquarters recommended a few years ago marketing teams do more regimented pretesting of TV ads, several country units, including the U.S., ignored it.

Coke said in October it will accelerate the refranchising of its U.S. distribution, a low-margin and capital-intensive business, shedding more than half by 2017. The company also is upgrading plants that don't currently manufacture the plastic bottles they fill with soda. Right now, "we're shipping empty bottles of air around the country," said Mr. Hastie.

Critics say Coke has moved too slowly since 2010, when it bought the North American manufacturing and distribution assets of Coca-Cola Enterprises Inc., its biggest local bottler. Outside consultants recommended a few years ago that Coke outsource hundreds of trucks that travel between bottling plants and warehouses to save money, according to a former executive. Coke decided against it, fearing labor strife, the former executive added.

Former executives say Coke maintained two large North American commercial teams after the acquisition, creating overlap and confusion in implementing sales plans with retailers.

Mr. Hastie says Coke has taken steps to integrate its North American commercial operations and that it is progressing in making the company more efficient. But "we're really focused on doing the work right," he added, and sensitive to the human impact of restructurings.

"Self-surgery is hard," said Mr. Hastie.