



<< [Back to Article View](#)

[Databases selected:](#) Multiple databases...

THE WALL STREET JOURNAL.

Latin Pop: A Low-Budget Cola Shakes Up Markets South of the Border; Peru's Kola Real Takes On Coke and Pepsi by Cutting Frills, Targeting Bodegas; How Plastic Levelled the Field

David Luhnnow and Chad Terhune. Wall Street Journal. (Eastern edition). New York, N.Y.: Oct 27, 2003. pg. A.1

Subjects: Competition, Corporate profiles, Soft drink industry

Classification Codes 9173, 8610

Locations: Latin America

Companies: Kola Real (NAICS: 312111)

Author(s): David Luhnnow and Chad Terhune

Article types: Feature

Publication title: Wall Street Journal. (Eastern edition). New York, N.Y.: Oct 27, 2003. pg. A.1

Source Type: Newspaper

ISSN/ISBN: 00999660

ProQuest document ID: 431091211

Text Word Count 1621

Article URL: http://gateway.proquest.com/openurl?ctx_ver=z39.88-2003&res_id=xri:pqd&rft_val_fmt=ori:fmt:kev:mtx:journal&genre=article&rft_id=xri:pqd:did=000000431091211&svc_dat=xri:pqil:fmt=txt&req_dat=xri:pqil:pq_clntid=9269

Abstract (Article Summary)

Now Kola Real (pronounced RAY-AL) is shaking things up in Mexico. Mexico is a crown jewel in Coke's international operations and the world's second-biggest soft-drink market after the U.S., with annual sales of roughly \$15 billion. In less than two years, the Mexican version of Kola Real, called "Big Cola," has captured roughly 4% of the market. Coke and Pepsi have cut prices in response, denting their profits. At the Sam's Club warehouse store in Mexico City's upscale Polanco neighborhood, Big Cola is the fifth-best-selling product, narrowly trailing Coke.

Jose Octavio Reyes, president of Coke's Latin American division, says accusations of bullying are "urban legends" and "simply not something that we would do." He said Coke abides by Mexico's rules and welcomes competition. Coke officials concede the price gap with Big Cola has grown too wide at times. But they plan to compete with smaller, inexpensive bottles and don't intend to match Pepsi's recent price reductions, says Xavier Tercero Quintanilla, a sales executive at Coke bottler Femsa.

As Kola Real got its start in 1988, Jorge, the eldest son, used his agricultural-engineering degree to develop the drink's formula. The family kept distribution costs low by using old beer bottles and pasted labels on by hand. The operation grew slowly, with the family reinvesting profits and looking for cost-saving ways to grow, such as buying plants abandoned by other bottlers. The company expanded to the Peruvian capital, Lima, in 1997. When Peru's economy stalled in 1998, Kola Real's low price appealed to cash-strapped consumers. By year's end, Kola Real and other B-brands more than doubled their market share to 21%.

Full Text (1621 words)

Copyright (c) 2003, Dow Jones & Company, Inc.

MEXICO CITY -- The Ananos family was in a tough spot. Shining Path guerrillas had just razed their family farm in southern Peru and were slowly strangling the nearby city of Ayacucho, where the family had retreated to its second home.

But while the rest of Peru despaired at the Shining Path's campaign of terror in the late 1980s, Eduardo and Mirtha Ananos spotted an opportunity. Rebels routinely hijacked trucks bringing Coca-Cola to the city, so the couple decided to start making cola in their backyard and sell it to locals. Together with their five sons, they took out a mortgage on their home and started the business with \$30,000.

Today, Kola Real is emerging as an unlikely threat to both Coca-Cola Co. and PepsiCo Inc. in a region where the two soft-drink giants enjoy some of their fattest global profit margins. By cutting out frills and skimping in areas such as advertising, Kola Real, officially called Industrias Ananos, offers ultralow prices that appeal to the region's poor majority. As a result, the company has captured almost one-fifth of the Peruvian market and has made inroads into Ecuador and Venezuela.

Now Kola Real (pronounced RAY-AL) is shaking things up in Mexico. Mexico is a crown jewel in Coke's international operations and the world's second-biggest soft-drink market after the U.S., with annual sales of roughly \$15 billion. In less than two years, the Mexican version of Kola Real, called "Big Cola," has captured roughly 4% of the market. Coke and Pepsi have cut prices in response, denting their profits. At the Sam's Club warehouse store in Mexico City's upscale Polanco neighborhood, Big Cola is the fifth-best-selling product, narrowly trailing Coke.

Kola Real has put a new twist on globalization. As trade barriers have dropped in much of the developing world, foreign-owned behemoths such as Wal-Mart Stores Inc. have squeezed local incumbents unaccustomed to competition and raised local people's price sensitivity. The Ananos family has turned the tables on two U.S. giants by undercutting their prices and adapting their aggressive marketing tactics to local conditions.

"Not bad for having started out in the backyard, don't you agree?" says Carlos Ananos, 37 years old, one of the family's two sons who moved to Mexico last year to direct the upstart's expansion. The family-owned company doesn't release sales or profit figures. Analysts estimate the company's revenue is more than \$300 million a year and growing fast.

Kola Real's success also illustrates how the cola wars are changing in many markets around the globe. Coke and Pepsi once vied primarily with each other. Today both are fending off downmarket alternatives -- either so-called B-brands such as Kola Real or private-label drinks sold by Wal-Mart and other big retail chains. These cheaper rivals can cut into Coke and Pepsi's profits and make it harder for them to raise prices to offset slowing sales. The trend goes beyond Latin America. Big retailers in Germany, Great Britain and other European markets are selling more private-label cola, and B-brands are aggressive in Poland and Hungary.

One big reason this is happening: the switch to plastic. In the 1990s, plastic bottles largely replaced glass, offering a cheaper alternative that lowered newcomers' cost of entry in the soft-drink industry. Plastic also allowed larger bottles that could be sold cheaply in supermarkets. Supermarkets provide an important outlet for new competitors since Coke and Pepsi often dominate smaller stores.

Kola Real's strategy is simple: offer big sizes at low prices. In a Carrefour supermarket in Mexico City, a large display of Big Cola beckons shoppers with a price of about 75 cents for a 2.6-liter bottle. Nearby, bottles of Coke go for about \$1.30 for a slightly smaller 2.5-liter bottle. On a recent day, housewife Lourdes Avila put four of the Big Cola bottles in her cart and said: "For that price, I'll try it."

To keep prices low, the Ananos family runs a lean operation. While Coke and Pepsi bottlers spend nearly 20% of their revenue on beverage concentrate from Atlanta-based Coke and PepsiCo, Purchase, N.Y., the Ananoses make their own. Instead of maintaining a fleet of trucks as most Coke and Pepsi bottlers do, Kola Real hires third parties for deliveries -- even individuals with dented pick-up trucks. The company also does little advertising beyond an occasional radio spot, relying on word-of-mouth from penny-pinching housewives.

So far, Kola Real has hurt Pepsi more than Coke, in part because the upstart competes more directly with Pepsi as a lower-cost alternative. Coke has more than 70% of the Mexican market, based on volume; Pepsi has about 21%; Kola Real, 4%. Pepsi's biggest bottler, Pepsi Bottling Group Inc., Somers, N.Y., said its Mexico volume fell 5% in the third quarter and it warned that full-year profits from Mexico would be more than 40% lower than expected due to the escalating price war and a weak economy. That's a disappointing result after Pepsi Bottling spent more than \$1 billion last year to buy Mexico's biggest Pepsi bottler, Grupo Gemex SA.

But Coke has much more at stake in Mexico than Pepsi. Ever since Coke arrived south of the border in 1926,

Mexico has been Coke country. Mexicans drink more Coke per capita than anyone on Earth, and countless small restaurants and mom-and-pop shops are awash in the company's red-and-white colors. Mexico's current president, Vicente Fox, is a former head of Coke's Mexican operations.

Coke gets about 11% of both its global profits and sales volume in Mexico. Fomento Economico Mexicano SA, or Femsa, the biggest bottler in Mexico and the No. 2 Coke bottler in the world, has recorded an average annual return on invested capital -- a broad measure of profitability -- of about 20% during the past decade, two to three times what Coke's other big bottlers earn.

Earlier this year, Femsa, one of Coke's most assertive and best-run bottlers, bought Miami-based Panamerican Beverages Inc. for \$2.7 billion, the biggest purchase of a foreign entity by a Mexican company. The purchase put Coke's two biggest Latin American bottlers under the same management team. Still, the increased competition in Mexico could threaten Coke's high returns there. Last week, Femsa said its cola sales in Mexico were flat for the first nine months of the year.

"Coke cannot afford to see the Mexico system unravel," says Carlos Laboy, a Bear Stearns beverage industry analyst.

Kola Real's foray into Mexico has put the two beverage giants on the defensive. Jose Bustamante, owner of the small Santa Cecilia store in Mexico City's middle-class Roma neighborhood, says his local Coca-Cola salesman recently threatened to stop delivering Coke unless Mr. Bustamante removed Big Cola from his shelves. Mr. Bustamante says the salesman also offered two free cases of Coke a month. "I agreed," Mr. Bustamante says. "I can't afford to stop selling Coke."

Earlier this year, two Mexico City stores lodged a complaint with Mexico's antitrust commission, alleging similar tactics by Coke. Authorities are investigating the allegations. Last year, the antitrust commission ruled Coke was abusing its dominance of Mexican retailers and ordered it to stop certain sales practices designed to keep out competitors, such as exclusive contracts. Several Coke bottlers in Mexico have challenged the government decision in court.

Jose Octavio Reyes, president of Coke's Latin American division, says accusations of bullying are "urban legends" and "simply not something that we would do." He said Coke abides by Mexico's rules and welcomes competition. Coke officials concede the price gap with Big Cola has grown too wide at times. But they plan to compete with smaller, inexpensive bottles and don't intend to match Pepsi's recent price reductions, says Xavier Tercero Quintanilla, a sales executive at Coke bottler Femsa.

Pepsi Bottling this month instituted its second price cut of the year.

Others have joined Kola Real's march into Mexico. This year, an Ecuadorian company, Fiemex SA, launched a cut-price cola called El Gallito, or Little Rooster. Mexico's popular Guadalajara soccer club has its own Chiva Cola. Toronto-based Cott Corp., which supplies the private-label drinks for Wal-Mart in North America, expanded to Mexico last year.

One risk for Coke and Pepsi is that Mexico will go the way of Brazil, the world's third-largest soft-drink market. There, B-brands went from 3% of the market in the early 1990s to about 30% of soft-drink sales. Soft-drink sales in Brazil are also less profitable than in Mexico, because more than half go through supermarkets. Supermarket chains use their buying clout to squeeze suppliers. In Mexico, supermarkets account for less than 5% of soft-drink sales, but they are the fastest-growing sales channel in Mexico.

As Kola Real got its start in 1988, Jorge, the eldest son, used his agricultural-engineering degree to develop the drink's formula. The family kept distribution costs low by using old beer bottles and pasted labels on by hand. The operation grew slowly, with the family reinvesting profits and looking for cost-saving ways to grow, such as buying plants abandoned by other bottlers. The company expanded to the Peruvian capital, Lima, in 1997. When Peru's economy stalled in 1998, Kola Real's low price appealed to cash-strapped consumers. By year's end, Kola Real and other B-brands more than doubled their market share to 21%.

The Ananos family next targeted Coke and Pepsi bottlers in Ecuador and then Venezuela. Within a year after entering Venezuela, Kola Real had nearly 10% of the market. Coke's biggest bottler there at the time, Panamerican

Beverages, was forced to cut prices.

The Ananos sons, who now largely run the business, saw the promise of Mexico. Last year both Carlos and Arturo moved to Mexico to oversee the company's \$7 million investment -- its biggest yet -- for a state-of-the-art plant near the central city of Puebla.

(MORE)

Copyright © 2003 ProQuest Information and Learning Company. All rights reserved. [Terms and Conditions](#)

[Text-only interface](#)

From:  **ProQuest**
COMPANY