Bangkok Post

Bangkok Post
Circulation: 70,000
Ad Rate: 1,500

Section: ASIA FOCUS/First Page
Date: Monday 21 October 2013
Volume: - No: - Page: 1(Left)
Col.Inch: 133.23 Ad Value: 199,845 PRValue (x3): 599,535 Clip: Full Color
Headline: Thirst for success

Thirst for success

New contenders enter the regional cola war, with Thai Beverage a potential leader, but all players will need more beverage product variety to succeed.

By **Nalin Viboonchart**

PHOTO © GETTY IMAGES/THINKSTOCK

●Mention cola to most people and two names will come immediately to mind. At least, that used to be the case. But as new fronts open in the global cola wars, Coke and Pepsi have plenty of company. Even cola itself is increasingly under threat from other carbonated beverages, energy drinks and juices.

To succeed in the business of quenching consumers' thirsts, these days a company needs not only a full range of drink products — even bottled water — but also a superior distribution network. In Southeast Asia, the main contender for the crown is now Thai Beverage Plc, controlled by billionaire liquor tycoon Charoen Sirivadhanabhakdi.

Thai Beverage, which has been on an acquisition spree both at home and abroad, last year won a hotly contested bidding war for Singapore-based Fraser & Neave (F&N), giving it access to an array of beverage products all across the region. Control of F&N also provides a new regional distribution platform for Serm Suk Plc, the local soft drink flagship of ThaiBev.

Partnering with local companies can help a company gain brand recognition and sales faster with less risk, but operational security can be a concern as it must let local partners do the marketing and distribution

Serm Suk, which ended a 58-year relationship as the local bottler for Pepsi Cola in November last year and promptly launched its own 'est' cola brand, has announced plans to invest billions of baht on expansion beyond Thailand.

But spending big money alone is no guarantee of success in penetrating beverage markets, in which consumer tastes, purchasing power and marketing and distribution strategy vary considerably from one country to the next.

This is evident from the fact that even the global cola players, with decades of expertise and brand recognition, must constantly strive to adapt to the changing environment.

Asean has become one of the more interesting markets for the beverage industry, with healthy growth in established markets such as Thailand and Indonesia, and high potential in new markets such as Myanmar.

In Indonesia, a government survey estimated the beverage industry would grow by 8.15% in 2013. In Malaysia, a compound annual growth rate (CAGR) of 4.6% from 2011 to 2016 would drive the market value to US$1.8 billion by the end of 2016, according to the research firm Euromonitor. Consumption volume in Malaysia rose by an average of 4.1% annually between 2008 and 2012 to reach 1.5 billion litres last year, it said.

In Vietnam, the online provider Fast Market Research forecasts that alcoholic beverage sales will grow by 14.3% this year and soft drink sales by 15.1%.

F&N EXPANSION

For Thai Beverage, the acquisition of Fraser & Neave gives it a big advantage as it seeks a bigger presence in Asean. It can use the well-established F&N network in markets such as Malaysia and Singapore to introduce new products, including Serm Suk soft drinks, and also to penetrate the new destinations such as Myanmar and Indochina .

Serm Suk president Dhitivute Bulsook has said that the company planned to introduce its beverages inclusing 'est' in Asean.

One potential solution is to partner with leading local companies in markets such as Singapore, Malaysia, Myanmar, Laos and Cambodia to distribute the products. Appointing dealers and setting up joint ventures are other possible options. Oishi Group, another ThaiBev subsidiary, has already started to work with F&N in distributing ready-to-drink green tea in Malaysia.

ThaiBev was a newcomer in carbonated drinks when Serm Suk launched 'est' less than a year ago in the Thai market. F&N also has a carbonated drink brand, My Cola, launched recently in Sabah and Sarawak states of Malaysia. The challenge for Thai Beverage now might be deciding which drinks should be marketed in which countries.

Thai Beverage said recently that making a marketing push in Myanmar had become more feasible now that it has many brands to offer under the Thai Beverage and F&N umbrella.

Best known in Thailand for its market-leading Chang beer, which also gets lots of international exposure through its Premier League football sponsorship deals, ThaiBev certainly appears to be in a strong position. But it still faces formidable rivals in the likes of Pepsi and Coke, as well as well-established local beers and other drinks with strong brand loyalty.

Some companies see China, with 1.3 billion potential consumers, as the greatest prize of all. But in a vast market with wide variations in tastes and traditions among different regions, even the most deep-pocketed global drinks player needs to take a very long-term perspective. "Brand translation" will be very important, and a company might have to face losses before it can gain a solid foothold in the market in the longer term, according to a report on the Chinese food and beverage industry by PricewaterhouseCoopers last year.

In Southeast Asia, according to Euromonitor, Indonesia is one of many sophisticated markets for the beverage industry with both multinational and local players. Fierce competition spurs active marketing campaigns in a country where Coca-Cola remains the market leader.

Singapore and Malaysia are also strong bases for F&N, which could make it difficult for new players to gain share.

LOCAL PARTNERS

What global players have learned from the past is that having local partners can help them a lot in entering new markets.

Coca-Cola in India is an example. The US company left the market in the late 1970s because it refused to tie up with a local partner in a deal that would have required it to share its secret ingredients. It returned to the market in 1993 by purchasing four leading soft drink brands — Thums Up, Limca, Gold Spot and Maaza — from Parle Agro, giving it roughly a 60% share.

With a strong bottling and marketing network, Coca-Cola later began marketing its own brand, and its products still have nearly a 60% share of the carbonated soft drink sector in India.

Jagrut Kotecha, general manager for the beverage business of Pepsi-Cola (Thai) Trading, acknowledged that even the very well-known Pepsi brand did not guarantee that the company would be successful in every market.

Similar to other beverage companies, Pepsi studies new markets for years before entering them. In Thailand, for example, the presence of hot and spicy foods means that carbonated soft drinks have always sold very well. The supporting reasons for other markets may not be the same as in Thailand.

Since market environments and consumer behaviour differ so much, he said, Pepsi believes in the power of local partners in helping it grow.

"Local partners know the markets better than us, so we cannot overlook them. Most of the markets outside the US have been operated with local partners. But there are also some where Pepsi markets by itself," said Mr Kotecha.

But partnering with local companies has both benefits and shortfalls. Pepsi may be able to gain brand recognition and sales faster with less risk, but operational security can be a concern since the company has to let local partners mainly do the marketing and distribution, he added.

Again, Thailand is a prime case study. Pepsi, which has been in the Thai market for nearly six decades, recently invested 5 billion baht to build its first manufacturing facility in order to revive its sales in Thailand after its breakup with Serm Suk.

For years Thailand was one of a handful of markets worldwide where Pepsi outsold Coke. But the loss of Serm Suk's formidable distribution network hit Pepsi hard. While the US company estimated it still had a 40% share of the modern trade retail market, it has suffered in traditional outlets including small shops and restaurants that make up the biggest market segment in Thailand.

Before the breakup with Serm Suk, Pepsi estimated it was present in 167,000 restaurants but that figure has fallen to about 120,000. Stop at a roadside noodle stand anywhere in Thailand these days and you're just as likely to see signs and awnings promoting 'est' as Pepsi or Coke.

The message in the Pepsi story for any soft drink maker is that no matter how big a name or how much brand recognition you have, getting those drinks into the hands of consumers is a never-ending battle.

(Additional reporting by Jen Rita in Kuala Lumpur and Sudipt Arora in New Delhi)

In less than a year 'est' cola has become a fixture in tens of thousands of Thai shops and restaurants because of Serm Suk's strong distribution network built up over nearly six decades serving Pepsi.

INSIDE: PAGE 3
- Big fizz in India