

Kola Real - Ajegroup Case Study

The Ajegroup has been very successful since it was founded in 1988 by Eduardo and Mirtha Ananos by taking a \$30,000US second mortgage on their home. The company has grown into a multinational enterprise currently represented in 20 countries worldwide with its holding company in Spain. In order to strengthen bonds within all its market sectors, the company has gained ownership of 22 factories and 120 fulfillment centers employing over 20,000 people. Its infrastructure reaches out to more than 1,000,000 retail outlets worldwide enabling Ajegroup to sell over 3 billion liters of beverages including beer, sports drinks, energetic and isotonic drinks, water, various juices and tea (1).

According to the course case study, Ajegroup has expanded to several countries outside of Peru. The international company growth includes Venezuela, Ecuador, Mexico and Costa Rica. Ajegroup has been successful in each of these markets as well. As the company considers expansion in Chile, Brazil, and the U.S. (via Mexico), it is important to understand how and why it has been successful and if the same strategies will be applicable in these new emerging markets.

The following strategies were instrumental in leading Ajegroup to its success:

1. In order to penetrate the local Peru soft drink market, Ajegroup packed Kola Real in old 620 ml beer bottles.
2. Instead of taking loans from banks, Ajegroup financed the growth of Kola Real with funds generated from its operations.
3. Counted on suppliers and distributed Kola Real in non-returnable bottles of 1500 and 620 ml.
4. Offer big sizes of high quality drinks at lower prices—underselling the competition. Ajegroup was able to convey the message of “fair price soft drink,” which implied to its customer base that they were not getting a lower-quality product even though they were getting more (volume) for their money.

5. The Ananos family made its own drinks rather than spend their revenues on beverage concentrate—both Coke and Pepsi spent 20% of their revenues on concentrate.

6. Its distribution system. Ajegroup distributed its products via small, privately-owned trucking companies, which in turn, was responsible for distributing Kola Real via their own means. Because Ajegroup did not have to invest in its own distribution system, this “subcontracting” distribution contributed to fast sales growth. In fact, by 2006, Ajegroup had nearly 180,000 points of sale in Peru (2).

These were several key success factors that led to fast growth and profitability in Peru alone. What about markets outside of Peru? In 1999 when Ajegroup decided to enter foreign markets so that its success (or failure) would not solely be dependent upon Peru, it decided to do business in countries that had a high concentration of low socioeconomic population and where there was low soft drink consumption. These countries included Venezuela, Ecuador, Mexico and Costa Rica. Ajegroup utilized its same “blueprint for success”—sell more for less.

Its key success factors in Venezuela included the introduction of Kola Real in non-returnable plastic bottles. Up to this point (1999), soft drinks had always been packaged in glass bottles. With the plastic bottling strategy, AJEGROUP gained a 12% market share in Venezuela—an equivalence of 30% market size in Peru. Further, AJEGROUP captured 8% market share in Ecuador; by 2005 gained 8% market share in Mexico, equivalent to 70% of the Peruvian market; and penetrated the Central American soft drink market by investing \$10-15 million US to build a plant in Costa Rica. The plant was able to produce over 1,000,000 liters each month and by 2006 it was fueling sales in both Guatemala and Nicaragua (2).

After doing an online search for Ajegroup since this case was written, here’s what I discovered.

* The company has begun to produce its products in Brazil. In January 2011 the company announced that its factory in Rio would have the capacity to produce 80 thousand bottles of soda per hour. Also, the manufacturer would market its main brand there in four different versions: (cola traditional, zero caffeine and zero calorie) and Guarana. Although

prices had not yet been defined, Ajegroup would have a different pricing strategy. "But we will not be the cheapest brand in the market," says sources.

Also, the distribution in supermarket chains will be made by the company itself and other point of sale, by third-party carriers (3).

* Although AJEGROUP began operations in Nicaragua in 2005, when the beverage brand Big Cola entered the country after discovering its potential for soft drinks and with an initial investment of approximately US\$1 million, the company announced in August 2011 that it would expand its operations in Nicaragua by reinvesting approximately US\$25 million to further distribute its product in the Nicaraguan market. At the time of the announcement AJEGROUP had generated approximately 300 direct jobs and 150 indirect jobs in the country; however, this expansion plan would increase direct jobs to nearly 600 (4).

* In an effort to fund expansion into Asia and Latin America, AJEGROUP issued its first bond worth US\$200m and revealed it was also considering an IPO. "Ajegroup's size and international presence mean that it is in a strong position to resist any attempt to squeeze it out of the market, while it's privately held status means it is not vulnerable to takeover attempts. The threat of a takeover is probably the main reason why Ajegroup is thinking very carefully about raising financing through an IPO, with Pepsi and Coke likely to monitor closely the availability of shares in the firm." (5)

So what should be next for Ajegroup? AJEGROUP should consider the following growth strategies:

1. Expand into the U.S. Although the \$74.2 billion soda industry is dominated by both Coca-Cola Co. (COKE) and PepsiCo (PEP). Coca-Cola holds about 42% of the market share and Pepsi 29%. "What you have is essentially a duopoly between Coke and Pepsi. So, it's a real challenge for startups to get any sort of shelf space," says Michigan State University Assistant Professor and food retail specialist Phil Howard (6). Given the recent recession and reduction in household income in the U.S., there may definitely be market for AJEGROUP to be successful in the U.S.

2. Identify other countries that have either the appropriate climate factors (high temperature during most of the year), a high concentration of low socioeconomic population, and/or where soft drink consumption is low. This strategy has already proven to be successful in Peru, Ecuador, Venezuela, Mexico and Costa Rica.

3. Consider partnerships with local companies in these new markets in order to extend its product lines in different niches. Pepsi adopted this approach in Costa Rica and it proved to be successful.

Finally, as AJEGROUP pursues growth, it must consider the threat to the soft drink market. Declining consumption of soda due to health concerns. As the world population pursues a "healthy lifestyle," it has become more conscious about diet and intake. For example, a 2010 article in Emax Health suggests that by reducing soft drink consumption, individuals can reduce their blood pressure (7). According to Liwei Chen, MD, PhD, assistant professor of Public Health at LSU, results of a new study indicate that the sugar in soft drinks appears to have an impact on blood pressure. Lastly, there's growing concern that soft drinks are causing adverse harm. Federal regulators have identified a toxic ingredient in many popular cola brands as being a cancer-causing chemical. 4-methylimidazole (4-MI), a chemical used to make the "caramel color" added to Coca-Cola, Pepsi-Cola, Snapple Group Inc.'s Dr. Pepper, and Whole Foods' 365 cola, among others, has been found to cause cancer in mammals." As a result, there's an advocacy group looking to have sodas classified as a carcinogen. (8)

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