Kola Real: Giving coke competition in a global market

January 9, 2012

Kola Real sits atop the rankings for carbonated drinks in many of the 14 markets where it is sold. But can it compete with the world's leading beverage manufacturers by 2020?

The first bottles of Kola Real were produced in the courtyard of a family residence in the city of Ayacucho, Peru. This was how the Añaños managed to earn a living in an area rife with poverty and plagued by the constant threat of Shining Path violence.

The Añaños had a clear vision. Since Coca-Cola and Pepsi had largely curtailed operations as a result of Shining Path attacks on their trucks, the Ayacucho region was facing a drastic shortage of beverages. A huge gap existed in the local market that was begging to be filled by a homegrown operation.

Eduardo Añaños, Mirtha Jeri and their six children started the family business in the most rudimentary fashion, taking out a loan against their home and personal assets.

First, they went door to door, distributing beverages among their neighbors.

In 1988 they founded AJE, the bottling company and distributor of Kola Real, and opened their first production facilities.

After conquering the Lima market, they expanded throughout the Latin American and Asian markets, setting up operations in countries as far and wide as Venezuela (1999), Ecuador (2002), Mexico (2002), Costa Rica (2004), Nicaragua (2005), Guatemala (2005), Honduras (2005), El Salvador (2006), Thailand (2006), Colombia (2007), Panama (2009) and Vietnam

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(2009).

By 2010, the family business, already a powerful multinational company, was present in 14 countries worldwide, consistently ranking second or third in its sector, with $1.7 billion in sales.

But can the company continue to grow at this pace? This is the dilemma explored in a case study by IESE Prof. J. L. Nueno, research assistant Silvia Rodríguez and PAD Prof. Miguel Bazán.

Competing on fair price

Numerous factors have lifted AJE to its privileged position.

Arguably the most important factor was its decision to focus on serving the lower socioeconomic classes at the base of the pyramid, which represent the majority in Latin America.

Its competitors, by contrast, tended to target the far smaller segment of consumers with greater purchasing power.

The goal was to position its product as "the fair-price beverage" — sold at 20 percent to 30 percent below the average market price — and promote the concept of the democratization of consumption by alluding to the excessive prices of competitors' beverages.

That strategy — along with larger 2.6 liter and 3.1 liter sizes sold in recyclable PET packaging — helped to make the product accessible to all segments of the population.

Both Kola Real and its Big Cola brand in Asia adhere to a policy of "everyday low prices," with no special promotions, sales or coupons offered.

Another key distinguishing factor for AJE has been the paucity of its ad campaigns, whose budgets are far inferior to those of competing soft-drink brands.

Instead of delving into large-scale advertising, the company has opted for word of mouth, specifically targeting homemakers enticed by the low prices.

That trend, however, is starting to change. In October 2010, a sponsorship deal was struck with Barcelona football club to use the image of such star players as Messi, Iniesta and Puyol on the bottle labels.

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Another pillar of the group's success has been its ability to develop a small, flexible organizational structure at both its headquarters and the divisions operating in each country.

Nevertheless, analysts continue to raise doubts about the feasibility of maintaining such a loose, family-based structure, while trying to penetrate the global market.

Insatiable thirst of emerging middle classes

Worldwide soft-drink sales withstood the onslaught of the recession in 2009, though not without certain difficulties.

Coca-Cola continues to rule the global market. However, the extremely positive response of Big Cola consumers in highly populous Asian countries, such as India and Indonesia, could position AJE among the top tier of the rankings.

Moreover, by 2014, its expansion in Brazil should help Latin America supplant North America as the world's biggest market for soft-drink consumption.

The potential for development now resides in the young middle classes emerging in both the Latin American and Asian continents. This target customer base has an insatiable thirst for brand-name bottled beverages.

Such growth, however, requires more variety and packaging options, in order to serve increasingly sophisticated tastes and preferences.

The company must also make sure it does not sacrifice its considerable profit margins.

The AJE management team has clearly demonstrated its ability to adapt to myriad environments and difficulties, even in the worst years of the global recession.

At this stage, its goal is to become one of the world's top 20 multinationals by 2020, solidifying its position as the second- or third-ranked player in each of the countries in which it operates.

How can it achieve these targets? What steps should be taken? And can this goal be achieved without forsaking its small, family-based organizational structure?

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