

**AN ANALYSIS OF
THE SOFTDRINK INDUSTRY**

focus:

BOWEN & BOWEN LTD.

AND

PEBCO BELIZE LTD.

Submitted to

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STRATEGY AND POLICY MANAGEMENT

EXECUTIVE SUMMARY

By nearly any measure, PepsiCo Inc. ranks among the world's most successful companies. Most Americans instantly recognize its brand names. In 1988, PepsiCo was the twenty-sixth largest industrial company (ranked by sales) in the United States. In that year PepsiCo's sales reached \$13 billion.

Much of PepsiCo's momentum comes from the fact that, although it is number 1 in restaurants and snacks, it has always had to run hard to keep the soft-drink market's number 1, Coca Cola's 40 percent, in sight. Although Pepsi brand outsells Coke in supermarkets, Coca-Cola's entire soft-drink family (including Diet Coke, Tab, and Sprite) runs neck and neck with PepsiCo (including diet Pepsi, Mountain Dew, and Slice). In both the fountains of vending machine markets, Coca-Cola has nearly double PepsiCo's share of sales. Coke runs far ahead of Pepsi in the international market too.

The international soft drink industry does have some resemblance of the local industry, with Coke and Pepsi in the forefront. Their arrogance as they fight for a greater market share has a ripple effect even in third world nation, as is Belize. Their market share is quite similar with Coca-Cola leading with 65% while Pepsi controls a 20% of the market share. This Strategic Plan seeks to outline and bring to the front issues of the local soft drink industry. The Strengths, Weaknesses, Opportunities, and Threats of both Coca-Cola and PepsiCo are outlined. Finally, conclusions and recommendations are presented. The ultimate goal of this Strategic Plan is to

offer a feasible understanding of the industry and let the reader create his/her own final conclusions and recommendations.

Soft Drink Industry

Industry Analysis

The beverage industry in Belize is not very large, but it has all the characteristics of any large industry. With the competitive rivalry at its peak, the organization must develop strategic plans to control the part of the market that they desire. The companies must try to gather and capitalize on as much information from the market as possible.

The major players in the local beverage industry are Bowen and Bowen Limited and Pebco Belize Limited. Bowen controls approximately 65% of the market while Pebco controls approximately 20% and the remaining 15% by other smaller competitors (such as Cuello's, natural juices, and purified producers). These companies compete, head to head, on a daily basis to try to control more of the market.

Buyers and Sellers

Wholesalers, retailers, and consumers, are important players in the Soft Drink industry. These people determine how much carbonated soft drink will sell in a given day. The profitability of any company, at the end of the day, depends on the buyers. These buyers ultimately control the market in terms of the product, quality, taste, service, and price. They are the external forces that directly influence operations.

who also produces purified water, still has the opportunity to compete for those customers. As the number of health and cost conscious consumer increase, natural drinks could prove to be some formidable threats to the industry.

Imported drinks, diet drinks and athletic drinks (Gatorade), are also substitutes. The packaging of these products is likely to attract buyers. However, the prices of these are often significantly higher. This, because of price availability, is not a significant threat to carbonated and local soft drinks.

Those consumers who are very cost conscious or who have minimal funds will naturally substitute for a cheaper drink. The majority of the market for carbonated soft drinks consists of teenagers and young students. Given most of these youth are not employed, they are likely to switch to the cheaper substitute. Ice pops (ideal), for example, are very common and are inexpensive. Given the overall economy, consumers who cannot afford the carbonated soft drinks on a daily basis may switch to ice pops or water.

With the likelihood of consumers switching to less costly substitutes, the competitor's in the carbonated soft drinks should consider, among other things, price and quality of the product. Consistency in availability is another consideration.

Current Rivalry/New Entrants

The major rivalry in the beverage industry is between Bowen and Bowen Limited and Pebco Belize Limited. They are fighting to control the entire industry and to gain as much of the market share as possible. These two companies try to implement new ideas and try to create innovative concepts to attract the consumers.

In the past the rivalry was so intense that the companies resorted to destroying each other's property in an attempt to gain financial advantage. Although this practice has been

condemned and declared settled by both firms, the possibility of it resurfacing or continuing on a smaller scale is eminent.

The beverage industry did not suffer the treat of new entrants for many years, however, a new Mexican-based company, Moctezuma, is hoping to enter the Belizean Market. Moctezuma, which has an immense capital and experience in both brewing and bottling, could prove to greatly affect both companies because of their large-scale production and technical advantage. Bowen and Pebco must now try to find faster and more economical ways to produce their products.

With the introduction of various substitute products, the demand for "soft drinks" could suffer substantially because of the many health conscious consumers. New entrants by organizations offering the substitute products are also threats to the industry.

Strengths of the Industry

The Beverage Industry in Belize is very attractive. The industry is complemented by the tropical climate, which creates a high demand. Competitors, current and prospective, have the opportunity to capitalize on this high demand by offering an attractive product to the consumers.

Another strength is the fact that there are only two major suppliers. This allows these organizations to have a big percentage of the market, with high volumes of sales. Although the industry is attractive and the suppliers are few, new entrants are uncommon because of its capital intensity.

Weaknesses of the Industry

Although there is high demand for the beverages in the industry, the population in Belize is very small. Many organizations shy away from the market because the volumes of sales cannot compete with other more populated countries.

The majority of the consumers habitually select Bowen's product. For firms to be competitive they must try to attract Bowen's regular customers. The only way this could be accomplished is by employing highly skilled employees in production and distribution. Also, these firms must try to attract the consumers by advertising immensely, informing the public of the new flavors, 'give aways', and other promotions.

Opportunities of the Industry

The majority of the consumers in the industry are young students who are influenced by fads. Because of this, the company with the most attractive and identifiable product will always succeed. The variety of products in the industry is limited, so a company offering new and innovative products can attract a major percentage of the market. These products can include canned and diet drinks. For example, Pebco can introduce clear Pepsi or Bowen can introduce Splash to compete with ^Ssquirt.

Threats of the Industry

The entry of a new firm into the industry adds to the production capacity of the industry. Given the population, the demand cannot increase much more than its present level, so the demand would have to be shared among more firms. Also, the majority of the employees of these firms must be trained at the expense of these firms. High investments in training and development must be made to fully prepare these employees for their jobs.

BOWEN AND BOWEN LTD

History

Bowen and Bowen opened business in the early 1940's with agencies for Rudge Bicycle, VAT 69 Whiskey, Salvavida Honduran Beer, and Volkswagen.

Bowen's first attempt at the beverage industry was with the bottling of various flavors of Crystal Lemonades. Their mixing plant was located at King Street, in Belize City, with the bottling done by hand. In the early 1960's Bowen acquired the Coca-Cola franchise (6 ounce bottles of soda water and tonic water were also produced). By the early 1970's Bowen had seven Volkswagen City Routes and routes for the Northern, Southern, and Western regions of Belize.

In December of 1970, Bowen started brewing Belikin and Falcon Beers. Because of the high volume of production, the plants and brewery had to be transferred to Ladyville. Bowen also expanded by establishing a bakery in Ladyville, with various distributors situated in different areas of Belize. Bowen then acquired Belize Airways Limited and James Brodie Company Ltd. to fully diversify their operations.

In the early 1980's, in an attempt to supply proper vehicles for distribution, Bowen acquired Belize Estate and Produce Company Limited, the owner of the Ford Franchise. All the company's vehicles were then acquired from and repaired by B.E.C. Included in the purchase of B.E.C. was the acquisition of Gallon Jug in the Northwestern part of Belize, where the Chan Chich Lodge is now located.

In 1995 Bowen established Crystal Water, a water treatment plant at the Belize Brewing Compound. They have also launched a new Shrimp Farm at the Atoll Blair in Placencia, and Gallon Jug Coffee is in its early stages of development.

Strengths

Innovation

One of the recent innovations of Bowen and Bowen is the introduction of their 354-ml and 1-liter plastic bottled soft drinks. Similarly, on April 15, 2000 they made the introduction of their Light House Lager Beer.

Experience/Customer Loyalty

Bowen and Bowen introduced Coca-Cola to Belize about 30 years ago capturing a virgin market. Over the years, they established loyal customers due to monopoly and the introduction of Coke, a favored soft drink. Facing very little competition, if any, Bowen managed to get a foothold and experience long before the entrance of Pebco.

Independence/Autonomy

Being a fully Belizean-owned company, Bowen has complete autonomy to take necessary steps to satisfy the Belizean consumers.

Marketing Strategy

Bowen and Bowen are the proud producers of Coca-Cola products. This is proven by practices such as maintaining quality consistency and distribution of the product. To sell Bowen's product one must follow certain guidelines, if not, as some district franchises have experienced, Bowen takes its business elsewhere. Their product should be stacked, distributed or maintained at a given level, otherwise Bowen reclaims its franchise and set up their own distribution center.

Quality

Quality being their first concern, Bowen and Bowen Ltd. send samples of their products to their head offices in Costa Rica for several taste tests. Their products were chosen as the best quality among other franchises within the region.

In an attempt to keep the quality on a consistent level, Bowen tries to keep abreast with the latest technology to make this possible.

Services

Unsatisfied with quality alone, Bowen believes that they must offer the best service in the industry. Salesmen do not only deliver the drinks, but also stack them in strategic patterns for the retailers. They also try to illustrate to the retailers the best pattern in which to organize and display the products. This, Bowen believes, affects the buying habits of the consumers.

With steady investments in the upkeep of their trucks and coolers, service on their customers are at a steady increase. Employees are trained on a regular basis to keep up with the diversifying demands of the various customers.

Distribution

With distribution centers in most of the districts, Bowen and Bowen have about 65% to 70% of the total market. With the recent establishment of distribution centers in both Cayo and Toledo, Bowen hopes to even control greater percentage of the market. All of the distributors are self-sustainable, equipped with their own trucks, employees and workshops.

A total of 42 routes, 14 of which are located in Belize City, are running on a daily basis. Call-ins are not the only source of orders. The salesman makes frequent visits to regular customers to replenish inventory, or even to restock the product or service.

Promotion

Coca-Cola's regional head offices in Costa Rica offer financial support for advertisement and sales promotion to make their products more attractive. Bowen then invests most of this money in coolers to gain exclusivity and to improve the image of the 'kiosks' (small shops). They offer signs and sign boards to each of their retailers to further promote the sale of their products.

They also target the schools by offering sport equipment, supporting school events, and sponsoring other educational activities.

Labor Force

There is a projected adequate supply of critical labor to meet the projected industry volume. Bowen has a low rate of turnover, which is vital for the efficient running of the organization. Workers are paid at fixed rates with the exception of the sales representatives. The sales representatives, in addition to the fixed rates, receive commission based on sales.

Minimum qualification required for the sales representative, is a high school diploma. Job satisfaction is also very important because they believe that a satisfied employee is more productive.

Weaknesses

Belize presently enjoys a stable political environment. However, due to global forces and depletion of scarce resources, our economy is experiencing transitional reforms.

The implementation of the Value Added Tax on April 1st, 1996 forced Bowen and Bowen to increase the price of soft drinks by 25%, which resulted in customers switching to cheaper substitute goods.

Opportunities

Opportunity to increase sales and introduce a new line of beverage, for example 'Splash' exists for Bowen to achieve its strategic goal.

Demographic forecast serve as an important factor to make predictions about future organizational plans, decisions, and goal attainment. Surveys are done every four years to help define consumer demand for products or services. This provides a target for production level and forecast of societal characteristics to target specific age groups.

Threats

An attempt by Moctezuma to enter the market would cause Bowen and Bowen's competitive behavior to change immediately because they would be faced by rising of a new company that is larger and has more financial support than Pebco.

PEBCO BELIZE LIMITED

History

With six original shareholders from Guatemala, the biggest being Mr. Ricardo Bueso, Pepsi was introduced to Belize in 1986. The company named Pebco Belize Ltd. started out by leasing the property from the Gregg family. The location in Ladyville was previously a meat packing plant, which was remodeled to accommodate bottling equipment. By June 1986 the remodeled plant was ready for the launching of Pepsi. In October of the same year Mirinda was launched and a year after followed 7-up. The company's General Manager until 1992 was Mr. Jose Bautista. Presently, the company doesn't have a General Manager.

In 1991, the Corporation of Mariposa of Guatemala bought the company. In 1993 Mr. Gustavo Perrera became General Manager and in 1996 Mr. Alejandro Habet took over as

General Manager. To date Pebco has managed to introduce Squirt and Pepsi Max to the market. Pebco is a major competitor in the Carbonated Soft Drink Industry.

Strengths

Innovations

The management of Pebco believes that their biggest advantage in the Belize market is innovation in bringing new products to the market, as in the case of the introduction of the ½ liter. Also, Pebco continually introduces promotional packages such as the granting of coolers, carts and the like to regular customers.

Association with PepsiCo

Association with PEBSICO, which is the largest beverage producer in North America, helps PEBCO Belize Ltd. in advertising both internationally and domestically. International advertisements, featuring sports and movie stars, increase sales and helps in brand recognition.

Weaknesses

New in the Industry

By the time Pebco came into existence, most consumers in Belize had become accustomed to drinking Coca-Cola and other affiliated products; this has caused Pebco's market share to be approximately 20%.

Lack of Independence and Autonomy

Pebco is a foreign-owned Company. Being controlled by its owners in Guatemala seems to result in dependency. Pebco needs to consult with its parent company before decision making, may cause possible delays in promotional or advertising plans. The lack of independence may

cause ineffective marketing practice, as Pebco's management needs to deal with this environment rather than adopting strategies used in another environment such as Guatemala's.

Cash Flow

Inadequate working capital inevitably leads to slowing down of operations. Pebco has experienced closing down of operation due to cash flow problems, which definitely has affected their consistency of supply. Cash flow problems are a formidable weakness for any business.

Management/Planning

Pebco has an abnormally high turnover rate. Also, considering 10 years of operations, one suspects that there may be other reasons for not increasing market share.

An example is the case when Pebco introduced the ½ liter. This was very innovative and possibly Pebco's strongest promotion and its best opportunity to have gained market share. They fell short of supply, which possibly could have defeated the purpose as Bowen soon introduced the ½ liter. Obviously proper planning was lacking before the launching of the product.

Marketing Strategy

Pebco also practice its salesmen by commission only. Pebco believes that this should serve as motivation and will result in the salesmen pushing the product and ultimately increasing sales. This can result in high turnover since workers do not have an obligation to come to work. Pebco believes that their sales men are dispensable and replaceable. While this is true, this practice is not the best strategy. Physically replacing employees is not difficult, but replacing knowledge and experience is. Salesmen are key to this type of business therefore proper training and compensation is a must.

Inconsistency in Quality and Supply

Pebco's product quality and supply are not consistent. The survey shows that Pebco's products suffer from poor quality either resulting in a watered down sweet taste or consumers identifying white substance floating inside.

Inadequate or shortage in supply leads to customer dissatisfaction. Both inconsistencies can be attributed to inadequate cash flow, the use of old machines or technology in production, and the needed ingredients for the formulas are not always readily available.

Minimal training for workers

Pebco trains its salespeople every six months. Bowen trains its employees every three months. Bowen also supplies its employees with proper uniform and name-tags for easy identification. Pleasant appearance and good public relations is extremely important. The result may be increased efficiency and motivation of its salespeople.

Distribution

Pebco serves only six routes in the city. They have a total of six trucks that need to travel to the city and back to Ladyville. This limits distribution capacities. For the district sales and distribution, Pebco relies on distributors or agents in these locations. The dependency on these outlets limits its ability to effectively market its products due to backward integration. The practice of sending out sales representatives to the district is not enough. Forward integration or reaching out to your customer gives better control over the market.

Opportunities

Market/Funding Availability

Belize has an attractive market, and their parent company in Guatemala is willing to invest. The owners are financially stable to invest substantially in the Belizean market and to take the necessary steps to better control the factors affecting the market.

Pebco's association with PEBSICO grants them an opportunity to introduce new products such as Clear Pepsi.

Its current plans for expansion and better technology give them an opportunity to increase product quality and output. This is the opportunity for Pebco to mend their image by providing high quality and adequate supply. With this expansion Pebco stands to increase distribution outlets by possibly establishing its own distribution in the major districts, especially in Toledo and Cayo considering the late movement of Bowen's distribution.

Threats

Bowen and Bowen Ltd., being independent, are financially capable to invest as necessary to meet competition.

The possible new entrance of Moctezuma, the Mexican bottling company can be a do or die situation for Pebco, because it is a bigger company that is able to produce at lower costs.

The ice pop (ideal) market is rapidly increasing and it is cheaper than Pebco's and Bowen's soft drinks. Also, fruit juices are on the rise considering the increase in the health conscious population.

Recommendations

Based on the survey done and the interviews conducted with representatives from Bowen and Pebco, group consensus (with other professors) was that the following steps should be taken by each company to maintain a vibrant industry:

PEBCO Belize Limited

Total Quality Management

There are numerous reasons for Pebco's small market share. A survey showed that customers are dissatisfied with Pebco's product because of inconsistency in taste. The implementation of Total Quality Management should be one of the primary control responsibilities of everyone from top management. For this to be achieved, targets must be set for employee involvement; they should be trained to think in terms of prevention and not only detection. They must also be able to correct their own errors and expose any quality problems they discover.

Investment

Both time and financial investments must be made for further market research. This investment can be minimal since the company already knows about the problems with their quality and inconsistent supply. A survey is necessary for further confirmation on what aspects of the production they are failing and can gain.

Major investment to improve technology, machinery, raw material and human resources is also necessary. This will ensure improved quality and increase plant production output. Adequate personnel and salespeople must be in place for the proper managing of functions and sale of product.

Increased spending in marketing is necessary. Advertisements and promotional packages should be developed to gain public recognition and familiarity.

Management/Planning

The effective and efficient running of business is dependent on available human resources. Owners of Pebco should have confidence in its selected staff and ensure that their management team has the necessary tools and autonomy to make decisions as it applies to the environment they operate in.

Pebco's management should adopt a proactive attitude in making marketing decisions, viewing its human resources as the key principle of its products. Proper accounts or collection agents ensure necessary funds for cash flow is collected. Salespeople should be aware of the market need and customers. They are important people and management should treat them as a means and not an end.

Proper planning includes proper forecasting and projections. Raw materials such as formula ingredients should always be readily available. The launching of new products should be well planned and supply always be readily available, as it the launching of the great ½ liter.

Seek Local Investors

Considering selling shares to Belizeans is an option. Local investors would be a source of income and local interest in the products. Local shareholders may encourage or stimulate more market participation

BOWEN & BOWEN LIMITED

Consistency

The management of Bowen and Bowen should continue producing high quality products in the future for them to keep their market share. It is imperative that their quality control and production standards do not plummet.

Strategic Management

Bowen's management merely reacts on their competitor's innovation. This could prove to be harmful if one of its competitors creates a new idea that is not be easily duplicated. Bowen's management must try to create new innovative strategies to keep the interest of the consumer.

Conclusion

As well started in the Executive Summary, the focus on the analysis of the soft drink industry was primarily to evaluate the status of the two major competitors, Bowen and Pebco. It was confirmed that Bowen has about 65% to 70% of the market while Pebco has about 20%. The focus of the analysis is to recommend possible strategic measures for the increased competitiveness of both companies.

There are many reasons for Pebco's small market share. A survey shows that 80% of the population sampled preferred Bowen's products as compared to Pebco's. Surveys shows customers often found substances floating in Pebco's products and the taste was not to their expectations. On the other hand, Bowen has maintained a high level of product quality, distribution and service.

Availability seems to be one of Pebco's more immense problems. Availability does not mean only meeting demand, but also necessary steps should be taken so Pebco could increase its outlets and distributorship.

Pebco Belize Limited must try their best to improve quality, increase demand, increase service, and increase marketing for them to be competitive. With their plans for massive investment in a new plant in Ladyville and new equipment for marketing and distribution, Bowen's management should prepare for some heated competition.

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