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Africa: Coke's Last Frontier

Sales are flat in developed countries. For Coke to keep growing, Africa is it

By Duane Stanford

Piles of trash are burning outside the Mamakamau Shop in Uthiru, a suburb of Nairobi, Kenya. Sewage trickles by in an open trench. Across the street, a worker at a bar gets ready for the lunch rush by scraping the hair off a couple of roasted goat heads. It's about 70 degrees, the sun is beating down, it smells like decay, and it's time for Coke to move some product. Annual per capita consumption of Coca-Cola (KO) in Kenya is 39 servings. In more developed countries like Mexico, which consumes more Coca-Cola than any other country, it runs 665 servings per year. One does not need an MBA to see the possibilities.

Two, in fact, have just walked in. The pair wear short sleeves and jeans. They reach into a refrigerated cooler, grab two Cokes in glass bottles, and pull up two overturned red crates for chairs. Mamakamau Kingori, proprietor, 39, bustles up in a patchwork-quilt apron to take their money. The 500-milliliter sodas cost 30 Kenyan shillings (37 cents) each. As is often the case in Africa, the customers enjoy the drink on the premises, the deposit on the bottles being too dear.

Such a transaction happens about 72 times a day at Mamakamau's, and that has earned her the status of a "Gold" vendor, the highest level awarded by the local bottler. Kingori's sundry store—known locally as a "*duka*"—also sells plastic buckets and mattresses, and is no larger than a small bedroom. Her Gold status brings benefits, like an introduction to Coke's globally standardized selling techniques. She's urged by Coke to promote combo meals to boost profits, and so red menu signs supplied by the beverage company suggest a 300-milliliter Coke and a *ndazi*, which is a kind of greasy donut, for 25 Kenyan shillings. Coke also paid for the red refrigerated drink cooler at the entrance to the shop, which is protected by a blue cage. She's told to keep it full to draw attention, and to stock it according to a diagram inside: Coca-Cola always at the top, Fanta in the middle, large bottles on the bottom. At stores down Naivasha Road, and throughout the continent and the rest of the world, Coke fridges are stocked in similar fashion.

Chasing shillings in Nairobi is the sign of both a healthy company expanding its borders and an empire so mature that it must, for its last great push, reach into many of the most war-torn and impoverished countries on earth. Chief Executive Officer Muhtar Kent may not be weeping, like Alexander the Great, at the prospect of having no worlds left to conquer, but with Coke sales stagnant or plodding in most of its developed markets—North Americans bought $2.6 billion worth of Coke in 1989 and just $2.9 billion 20 years later—Coca-Cola will rely on some of the poorest nations to generate the 7 to 9 percent earnings growth it has promised investors. That means, from the *dukas* of Nairobi to the "tuck shops" of Johannesburg, Africa's mom-and-pop stores are a major front in Coke's growth plan, not only for the flagship soda but also for the company's huge stable of waters, juices, and other soft drinks.

Per-capita consumption of Coke is also low in India and China, relative to the U.S., Europe, and Latin America, but those two continents present less of an opportunity for the company than Africa. China's market, famously difficult for outsiders to navigate, is already crowded with competitors like Wahaha, whose founder Zong Qinghou is China's richest man. India drinks Coke, but loves Pepsi, too. In New Delhi, Pepsi (PEP) is so popular that the name is Hindi shorthand for soda of all kinds, even Coke. Coke will continue to compete in those countries, of course, but Africa, where Coke is the dominant brand, and where the middle class is just emerging, may offer a potentially greater payoff.

Coke has been in Africa since 1929 and is now in all of its countries; it is the continent's largest employer, with 65,000 employees and 160 plants. Its market share in Africa and the Middle East is 29 percent, which adds up to 9.1 billion liters of beverages a year. Pepsi's share is 15 percent. But now the small shops in the back alleys have become more important, as Coke wagers on Africa finally emerging as a viable market in the next 20 years, riding a hoped-for wave of improving governance and demographics. Coke is now in a street-by-street campaign to win drinkers, trying to increase per-capita annual consumption of its beverages in countries not yet used to guzzling Coke by the gallon. To do so, Coca-Cola is applying lessons learned in Latin America, where an aggressive courtship of small stores helped boost per-capita consumption in Mexico to the highest in the world.

"I'm not interested in owning Coke when it's got no more continents," says Ned Dewees, a principal at Douglas C. Lane & Associates in New York, which manages $2 billion and owns Coke and PepsiCo (PEP) shares now. "But that's 15 to 20 years from now." Africa offers "enormous opportunity" for Coke, agrees Philip Gorham, a senior equity analyst for Morningstar (MORN) in Chicago.

Looking to capitalize on its position in Africa, Coca-Cola is adding beverage plants and developing packages and products to serve a growing population with rising incomes—and anticipating that stable governments will allow the Coke sales machine to work at speed. In 2000 about 59 million African households earned at least $5,000, which is the point when families begin to spend half their income on nonfood items, according to a recent McKinsey report. The study suggests that number could reach 106 million households by 2014. Coke plans to spend $12 billion in the continent during the next 10 years, more than twice as much as in the previous decade. The expansion will include new juice plants to capture a growing middle-class demand for orange, mango, and other tropical fruit beverages, as well as to allow wider distribution of plastic bottles as more consumers can afford to sip on the go or buy the two-liter family sizes that Americans take for granted.

As Kent hunts for consumers, he is shadowed by a number Coke may never see again—$87.94. That was the company's stock price on July 14, 1998, when its shares reached an all-time high following the 16-year term of former CEO Roberto

Goizueta. By 2003, the stock was less than half that as everything from a contamination scare in Belgium to a race-related class action in the U.S. flattened the company. The turmoil was coupled with high turnover at Coke headquarters in Atlanta. Goizueta died of cancer in October 1997, and Coke has had four CEOs since.

Muhtar Kent started in 2008. Now, as he travels the globe in search of growth, he keeps a green spreadsheet in his briefcase from the industry newsletter *Beverage Digest*. It lists the soft drink market shares for Coca-Cola and PepsiCo in 95 countries last year. Kent has highlighted in yellow the nine countries on the list where PepsiCo leads. None is in Africa.

"Africa is the untold story, and could be the big story, of the next decade, like India and China were this past decade," Kent says. "The presence and the significance of our business in Africa is far greater than India and China even today. The relevance is much bigger."

The 25th-floor executive suite at Coca-Cola headquarters in Atlanta, from which Kent, 57, runs the company, resembles the oversized living room of a new-South mansion. Draped in rich cream fabrics and varnished wood accents, the floor is connected to the executive offices below by a spiral staircase. Portraits of company leaders such as Robert W. Woodruff, who ran Coke from 1923 to 1954, and oil paintings used for old ads hang in wooden frames.

Kent briskly enters a small dining room connected to his office. He is famous at Coke for his energy, known to contact subordinates at all hours from far-flung time zones. Broad-shouldered and barrel-chested, with thinning hair, he is dressed as usual in a shirt and tie. He wears a tie-bar Coke gave him in the 1990s for 15 years of service, with one small ruby for each five years worked.

"You've got an incredibly young population, a dynamic population. Huge disposable incomes. I mean, $1.6 trillion of GDP, which is bigger than Russia, bigger than India," he says, leaning into the table. "It's a big economy, and so rich underground. And whether the next decade becomes the decade of Africa or not, in my opinion, will depend upon one single thing—and everything is right there to have it happen—and that is better governance. And it is improving, there's no question."

Kent's understanding of the importance of government may be as much inherited as learned. His father, the late Necdet Kent, was a Turkish diplomat. While stationed in France during World War II, the older Kent, who was Muslim, issued citizenship papers to Jewish refugees facing deportation by the Nazis. By December 1952, when Muhtar was born, Necdet Kent was serving as the Turkish Consular General in New York.

Whenever possible, Kent arranges meetings with political leaders during his travels, whether he needs something from them or not. Such relationships come in handy when, for example, he needs permission to build a new bottling plant. In July, Kent hosted Jacob Zuma, the President of South Africa, at a Special Olympics soccer match during the recent World Cup, which was heavily sponsored by Coca-Cola. "I invited him to come and join when we were together in Davos, and he kindly accepted," says Kent. "When everyone was pulling him in one direction because it was right in the middle of the World Cup, he came and spent the whole afternoon with us."

Though Kent grew up in Turkey, he studied economics at the University of Hull in the U.K., and earned a master's in administrative sciences from London City University. He started at Coca-Cola in 1978, answering a want ad. He was soon based in Italy, where he managed advertising and sports marketing for several regions including North Africa. His first assignments required regular trips to Morocco, Tunisia, and Algeria. He's been working in and with Africa ever since, and gets excited as he rattles off the countries he's visited on the continent.

"There's nowhere in Africa that we don't go," he says. "Being in a country is very easy, you can go and set up a depot in every capital city. That's not what we're about. We go to every town, every village, every community, every township."

Population growth in Africa has long been a source of concern, as food and fresh water supplies are strained, but Kent argues that Africa's plentiful young may actually be viewed as its strength. "In the old days when I used to study economics at university in England, everybody who taught macroeconomics used to say how bad population growth was, that it would condemn a country to poverty," he says. "The world has actually changed. You need a young population for a country to survive."

Maturing economies are of particular concern to Kent. Since taking over as chief executive, Kent has struggled to find growth in countries such as the U.S. and Europe, two of Coke's largest and most profitable markets. The U.S. soda market has declined for five consecutive years, prompting both Coca-Cola and PepsiCo to buy back bottlers to retain more of a shrinking profit pie. In this, they are reversing a decision made years ago when the lower-margin business of manufacturing and distribution was shed from the higher-margin business of licensing, keeping returns on capital high. The benefit no longer outweighs the loss of control in markets where profit growth comes not from new demand but through measures such as shaving millimeters off plastic caps, as both Coke and Pepsi have done.

So Kent looks overseas, increasing investments in developing countries as part of a plan to double, by 2020, the $100 billion in global system revenue last year. Kent is fond of pointing out that 1 billion consumers will come into the middle class during the coming decade, mostly in Africa, China, and India.

Ahmet Bozer, president of Coca-Cola's Eurasia & Africa Group, notes Africa's minuscule debt and positive trade balance. Governments like Zambia are collaborating more with institutions such as the World Bank and the International Monetary Fund. Regional trade agreements are being signed. "There are lights coming on in the continent," says Bozer, minutes after stepping out of an August meeting with Coke's Zambian bottler and local company executives in Lusaka. A day earlier, Bozer had visited a bottler in the Democratic Republic of Congo who was elated over a new 200-kilometer road built near the country's troubled northern region. The access helped the bottler triple his business in the area.

Africa, of course, is not Atlanta, and Coke is, in a sense, sticking its hand into a bees' nest to get some honey. Poverty, war, and shortages of fresh water plague the region and make commerce extremely difficult, especially for a company whose chief product is discretionary and offers no nutritional value aside from calories. Political instability complicates the building and supplying of factories, and transportation is notoriously unreliable. In the Sudan, Coke supplies syrup to an independent distributor but is barred by the U.S. government from providing any marketing or sales support. Somalia is in the midst of a decades-long civil war, and though soda gets in via boat, the bottling plant is closed. In Zimbabwe, Coke supplies "dried up" for the first time in 40 years in 2006, during the economic crisis there under Robert Mugabe.

"It's a hugely undeveloped continent, but in order to become the next China it will have to have some growth driver," says analyst Gorham. "In China's case that was exports. In Africa it will have to be exports as well."

In the U.S., health advocates who say Coca-Cola contributes to an epidemic of obesity have put the company on the defensive. Last year, Kent attacked a congressional proposal to tax soft drinks to pay for health care, calling it "outrageous" and comparing it to actions the Soviet Union might have taken. Still, Coca-Cola and PepsiCo have relented on calls for clearer calorie information on packages and a ban on soft drink sales in schools. In Africa, though, arguments over empty calories are mostly drowned out by concerns of too few available calories of any kind. That is not to say that Africa offers some kind of health-concern-free marketing Shangri-la. The World Health Organization has called a rise in overweight children in countries including Nigeria "disturbing" and warned of the same for adults in Northern Africa. The U.S.-based Center for Science in the Public Interest—famous for its 1998 anti-soft drink report, "Liquid Candy"—has turned its attention to obesity in countries like South Africa, already joining with international activists for a Global Dump Soft Drinks Campaign.

Coca-Cola, however, remains undaunted, at least in the person of Nathan Kalumbu, president of the company's East & Central Africa Business Unit. Kalumbu keeps a photo of a pride of lions above his desk in Nairobi. When it comes to selling, Kalumbu says the animals remind him to "go kill something," whether it be a corner store or an entire continent. "You gotta get hungry," he says.

In Africa, most soft drinks are sold in returnable glass bottles. In Coke's plants they are refilled as many as 70 times each before they're recycled, depending how far the bottler chooses to stretch the glass. Returnable bottles help keep prices down so the company can reach more of what it calls "economically diverse" customers. Consumers, in effect, pay only for the liquid in the bottle.

As any good Coke man will tell you, the first rule is to get the product "cold and close." In Alexandra, a dense township of 500,000 in Johannesburg, South Africa, with 65 percent unemployment, Coca-Cola is sidling right up. Last year the local bottler blanketed streets with drink coolers and Coke signage. To keep the coolers full, the bottler extended credit to merchants who didn't have the capital to take on inventory, giving them seven days to pay. "That's one of the challenges in this market," says Billy Tom, a district manager for bottler South African Breweries. "You want the pipeline to be full all the time." Sales on one test street rose from 5,000 to 14,000 cases in the first six months of the year.

Not everyone on the local level appreciates Coca-Cola's aggressive tactics. Patricia Ndlovu, 45, saw her business dip after the Coke bottler decked out her general store-like tuck shop and tavern in red tablecloths and Coke signs. The bottler even installed a remote opener on the door of Ndlovu's drink cooler so the attendant, behind a small window, could open it when a customer rang a small chime. Some of the locals became jealous and stayed away, thinking she was being paid for tarting up the neighborhood. Things got worse when the Coke bottler painted a nearby wall red and the owner demanded payment from Coke. Coke repainted the wall white.

Mostly, though, Coke's plans work. In Kabira, a Nairobi slum the size of New York's Central Park, shop after shop along the densely populated main roads are Coke-red, like colored links in a chain. The local bottler hires an artist to paint the makeshift stores with logos and enticements like "*Burudika na Coke Baridi*," Swahili for "enjoy Coke cold."

Outside one of those shops, Ann Kimeu, 34, sips Sprite through a straw from a green glass bottle. A few blocks away, residents of the slum, which has no public water or sewer system, pay 3 shillings to fill used 20-liter cooking oil jugs with fresh water from a Coke-sponsored well. At a new bathroom Coke is helping to build in the poorest section of the slum, it will cost 2 shillings to use the toilet or the shower. Kimeu buys soft drinks as many as four times a week. It's not a treat. She's mostly just thirsty. A seamstress, Kimeu earns about 1,000 Kenya shillings ($12) a week when business is good. At 35 shillings a bottle, the soft drinks consume 14 percent or more of her income.

Morning breaks in Nairobi's Central Business District, and men in red Coca-Cola lab coats arrive at Rosinje Distributors as red trucks pull up from a local bottling plant. Rosinje is one of 3,000 Manual Distribution Centers that are the backbone of Coca-Cola's delivery system in places such as Kenya and a big part of the plan to get Coke into every alley. Ayub Onyango, 28, helps unload red plastic crates of soft drinks into three shipping containers, which serve as a warehouse. Slender, with a runner's physique, Onyango will stack up to 22 crates, about 40 pounds each when full, onto a two-wheeled trolley. He and 10 others then fan out on the broken and congested streets of Nairobi to deliver Coke, Fanta, and Stoney Ginger Beer to about 345 small shops and beverage kiosks. With no room for inventory, many shopkeepers order as little as a case a day, and, with the crowds and the poor roads, it's easier to deliver by hand.

Onyango's boss, Rosemary Njeri, herself peddled clanking crates of soda shop-to-shop as a stockist 12 years ago. The mother of three worked her way up to eventually own one of Nairobi Bottlers' largest Manual Distribution Centers, moving 20,000 to 25,000 cases a month.

The program helps the company beat Pepsi to remote customers as they develop the taste and the income for soda. Coke is also establishing Manual Distribution Centers like these in countries such as Vietnam and Thailand, where poor roads are also a challenge. In 2010, Kent is adding more than 1,200 such distribution centers in Africa. They currently employ more than 12,000 Africans and generate $500 million in annual revenue.

Coca-Cola teaches these mini-distributors everything about how to run a business—from things as simple as waiting until the midday rush before icing down the Cokes to save resources to how to buy a house with their newfound wealth.

Coke is working to bring Njeri's business into the 21st century. In August a small team from Nairobi Bottlers studied maps of Njeri's territory and evaluated hand-tabulated data to help construct new delivery routes. Up until now, Onyango and his fellow salesmen visited a handful of accounts in the morning before going back to the distribution center to load up and deliver. They repeated this several times a day until their route was done.

Now a specialized sales team has been walking accounts, sending orders in the afternoon by cell phone to laptop computers. That lets Onyango and his colleagues concentrate on deliveries, while the sales crew helps shop owners with marketing and inventory management. Njeri and the bottler also get more precise sales data, which are easier to mine for trends and places to cut costs. "My business is all about volume," says Njeri. "When I do volume, I get money in my pocket."

Back in Atlanta, not far from where Coke's phenomenal run began, it's lunchtime at Lenox Square, a shopping mall a short drive from Coca-Cola headquarters. Shoppers park their BMWs below glass office towers and a rooftop hotel pool. They buy perfume, silk ties, and Apple laptops. In the food court, they eat pita wraps and Japanese noodles. Here, the Coke system operates with peak efficiency. When customers ask for a soft drink with their combo meal, chosen from a red menu board, the clerk reaches into a red cooler and hands them a Coke. But the new money in Coke's pocket will be earned by Njeri.

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