





NEAR EAST UNIVERSITY

Faculty of Economics and Administrative Sciences

Business Department

**STRATEGIC ANALYSIS OF PEPSI COLA
COMPANY**

**Graduation Project
MAN 400**

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1. INTRODUCTION

As part of the academic requirements we had the task of analyzing and reporting a firm for the MAN 400 course. The firm under the focus for this study is EKTAM, which is the producer of Pepsi and similar soft drinks in TRNC.

Ultimate aim from the study is to analyze the company and produce ideas for improvements. The study will be in three main parts. First there will be an introduction to the theory of case study and strategic management. Then this will be conclusion and recommendation.

The aim of the project is to introduce and study the nature and sources of the organization strategy capability and how this organization operates in a meaningful way in the market. The study will also examine the organization at various level of detail such as the market competitors, weakness and strong points or the organization.

Another important point is to analyze the demand for Pepsi drink all over the Island comparison with other soft drinks companies.

The study will start with theory. After a brief historical background there will be a study of the internal and external environmental situation. SWOT, PEST, Boston Matrix, and Business Life Cycle will be used as tools of investigating the company.

1.1 Theory

In order to have a complete picture of a company investigation must be made in the three main areas, that is, organizations internal resources, the external environment within which the organization operates, and the organization's ability to add value to what it does.

Corporate strategy is concerned with the organization's basic direction for the future: its purpose, its ambitions, its resources, and how it interacts with the world in which it operates. In simple terms, it can be described as an organization's sense of purpose.

It is important for managers to analyze their business strategy and map out the future directions that need to be adopted against the resources possessed by the organization. Strategic analysis is the examination of the organization's objectives, its relationship with the environment and understanding of its strategic position. The analysis lead a manager to understand the following:

- What changes are going on in the environment and how they will affect the organization and its activities?
- What is the resource strength of the organization in the context of these changes?
- What are the aspirations of the people involved – managers, shareholders or owners, unions and so on?
- How do these affect the present position and what could happen in the future?

Strategic analysis therefore forms a view of the key influences on the present and future well being of the organization and assists in establishing a choice of strategy. A wrong analysis can lead to major errors in corporate strategy and as a consequence the business survival can be at risk. On the other hand a well-developed strategy can reap benefits for the organization.

The basis of strategic analysis of an organization is consideration of the environment, the resources, the stakeholders' expectations, and the organizations objectives.

Analysis of the environment involves examining what is happening or likely to happen outside the organization. In a broader sense it considers 'everything and everyone outside the

organization.' This includes customers, competitors, suppliers, governments, and social institutions. It is important to begin an analysis of the environment with a general consideration of the nature of the environment. One has to consider the degree of turbulence in that environment. If it is high, then this will make predictions difficult and hence have an impact on the approach to strategy development. In such a case, the organization will need to structure itself in a manner that it can respond rapidly to changing events.

Environmental audit is a process of checking and analyzing information relating to the environment. It involves monitoring the changes taking place in the environment and forecasting the future position. It spots the opportunities and threats in the environment and pinpoints the opportunities that are specifically relevant to the firm. It helps the firm to formulate its corporate strategy in line with the opportunities emerging in the environment. Strategic response to environmental changes is the end purpose of environmental audit. It includes the study of political, economic, socio-cultural, and technological factors (PEST analysis) which provide a useful starting point to any survey of the general environment surrounding an organization. It assists in identifying the key environmental influences, predict the changes in environment, and understand the interconnections between influences pertaining to macro environmental factors and environmental factors specific to the industry. Most multinationals venturing into new territories would carry out a PEST analysis to establish an Opportunity-Threat profile and assess the prospects of their business and viability of their investment.

Through an environmental audit, an organization is able to analyze its strategic position, that is, how it stands in relation to those other organizations competing for the same resources or customers as itself. The main reason for analyzing competitors is to

enable the organization to develop competitive advantages against them. The real benefits will flow if such competitive advantages can be sustained over a long period and if these cannot be easily imitated by the competitors.

For a successful business growth, an organization should develop its mission and objectives bearing in mind the interests of those who have to carry them out – for example, the managers and employees; and the interests of those who will be interested in the outcomes – for example, the shareholders, government, customers, suppliers, and other interested parties. Together these groups form the stakeholders. Though an organization would like to take all stakeholders' interests into account, it is unable to do so due to conflicting interests. For example, an owner expects financial return and added value, an employee wants pay, work satisfaction and training, a customer would desire quality supply of goods and services, a creditor would seek credit worthiness and payment on time, a supplier wants his payment and to keep a long term relationship, the community would expect safety and security and contribution to community and lastly the government wants compliance and improved competitiveness. These conflicting interests need to be resolved and an organization has therefore to analyze which stakeholder has more power and thus accord him greater priority.

Besides the external environment examination, strategy analysis also explores internal resources. The internal analysis of resources of an organization would cover its strengths and weaknesses, where as it's external analysis would indicate opportunities and threats. Together these are known as SWOT. The organizations strength can be analysed by consideration of the factors such as market dominance, core strengths, economies of scale, low cost position, leadership and management skills, financial and cash resource, innovation process and results,

reputation, etc. The weaknesses would be the negative aspects of above. On the external analysis the opportunities are governed by new markets and segments, new products, diversification, market growth, economic upturn, international growth, etc. Whereas the threats would be on account of new market entrants, increased competition, increased pressure from customers and suppliers, technological threat, new international barriers to trade, low market growth, etc.

1.2 BACKGROUND OF EKTAM

In 1981 the Pepsi Cola company was established under the "Ektam Kıbrıs Ltd." in a partnership with one of the biggest production companies in Turkey which is called "Tamek Holding A.Ş." with local partners Şemsi Kazım.

At the beginning the company started to produce 25 ml bottle, this bottle was called return bottle. By the year 1985 the company started to use a new technology. In the continuing two years the company has made an investment of around 20,000,000 USD for it's technology to build and improve its production.

In 1996 the company began to use new technology system called "Reverse Osmosis". In the year 2000 a PET bottles are available and appeared in the market, such as 2.5ltr, 1ltr, 600ml, 330ml, 7up, Yedigün, Pepsi Light, soda water, tonic water, Fruko.

Today the company has 26 track in Lefkoşa which is used to distribute. The products are distributed from the Lefkoşa base to the cities and villages around Lefkoşa and Girne. The company employs nearly 200 employees. In the year 2000 the "Ektam Kıbrıs Ltd." exported 1.155.649.000.000 TL. Worth of products to Turkey. The biggest share in exports was Yedigün to cover the demand in Turkey.

2. MARKETING MIX OF EKTAM

Pepsi-Cola is one of the major production unit of soft drinks in TRNC. Pepsi is bottled by the first and one of the oldest bottling company in TRNC, Ektam Ltd. They enjoyed a monopoly for many years. In addition there are many other brands which are imported. Pepsi is still well distributed all over TRNC. There are people who believe this is their nostalgic traditional drink and there are some regretting that they had to drink only this for many years, and now consumes the other brands.

2.1 PRODUCT

Products of Ektam are the soft drinks. Although the organization makes lemonade type drinks, which are concentrated, the main product is the soft drinks. These are in cola, orange and gaseous form. The products are shaped in many different ways. There are different alternatives for different consumption purposes. There are large bottles for the family and parties. There are small bottles ready for consumption and there are the canned cokes. These come in different shape and different prices.

The coke business is a seasonally effected business. There are pick seasons when the consumption is high and there are low seasons when there are hardly any consumption at all. Company has the task of producing the appropriate product in appropriate quantity in accord with the seasonal variations.

The taste and ingredients of the soft drinks hardly ever change. Specially in case of Pepsi which is well known in TRNC, the management is specially careful about the taste, since there are many consumers who are found of the taste and will not drink any other brand.

2.2 PRICING PLAN

In addition to normal pricing theory the organization has to take into consideration the seasonality problem of the product. Normally organizations have to take a few points into consideration in respect of pricing. First consideration is the market situation. Along with many other similar products there are also alternative products the consumers can choose. These are beer, fruit juice etc. The second consideration is the cost. Company has to make profit so that they can carry on with their operations. A special aspect has to be also considered in TRNC in respect of pricing, and that is the inflation and devaluation of Turkish Lira. Due to high inflation the prices must be frequently adjusted. Since there is a raw material imports involved in production the currency variations must also be closely dealt with.

Seasonality aspect of the business is also important factor in pricing. Unlike other ordinary business products of Pepsi are usually sold in summer and the sales are very low in winter. But the costs of the company still goes on. There are fixed costs to take care of and also minimum amount of labor which has to be kept to have them when they are needed.

2.3 DISTRIBUTION

Objective organization is to distribute their products to the remotest corner of the country. They use two channels of distribution. One is for a far place where they use 15 big lorries. these lorries visit the customers every two days they going around the distribution area and distribute the product. Another channel is the distribution to the nearer places with smaller vehicles. There are 5 small "VAN" type cars for the city center and same places which are near the city. They also visit the customers in every two days. The control of these distribution is made by sales chief and those

chief always control the sales person they go to the right place in right time or not and give good service to the customers and solve the problem face to face.

Distribution to retail outlets is made by trucks with a driver/salesman and one to three helpers. The driver/salesman has generally had experience as a helper, and is responsible for inventory on the truck and collections. The driver/salesmen are compensated by one of three methods:

- (1) straight commission,
- (2) salary plus commission, or
- (3) commission as an independent agent-an average income is 180,000,000TL per month.

The predominant method of compensation among the plants in this kind of business are salary plus commission. Some bottlers sold the driver/salesmen their trucks and dealt with them on an agency basis. The amount of compensation for driver/salesmen varied from franchise to franchise, but in most instances the driver/salesmen earned about twice as much as the helpers.

The responsibilities of the helpers included sales work. In fact, it appeared in some cases that personal contact with the retailer was most frequently made by helpers. In other words, the lowest-paid person in the sales/delivery team was responsible for the sales function. One franchise recognized this problem and had a system that required that the driver/salesmen visit each customer on the route at least once a week.

2.4 The Advertising & Sales Promotions Advertising

The company does not use any big advertising because of the small market size and the product of the company is known by every one anyway. They use advertising as (signboard) which they put it in some place in the city entry or leaving or some other places and also with some schools and clubs brochures and magazines they use

it for their advertising and also they write name of cafe, grocery, butcher, market name on the signposts.

There are some public relation activities by the organization, that they supply boxes of cokes for charitable activities.

The organization also supplies calendars and such gift items with logo of the company.

2.5 Location

Main establishment of Ektam is conveniently situated near the Nicosia Industrial Zone, on the main road of Dr. Küçük Bulvarı. This location contains the administration offices. It also contains a warehouse and a distribution spot. The place is almost in the center of TRNC and from this point they can distribute to whole island. The Ektam also have production facilities in Karpaz and a regional warehouse-distribution center in Güzelyurt.

3. Competition

In TRNC the Ektam LTD. Has two big competitors, the world famous (Bixi-Cola) and ,(Coca-Cola); but the biggest competitor for (Pepsi) is (Bixi-Cola) because it's produced also in TRNC. However the Pepsi-Cola is produced in TRNC as Pepsi but it's costly more expensive then BIXI-Cola because most of the row materials are coming from other country; of course some BIXI-Cola row materials also come by import but because of Pepsi-Cola is a foreign company when they started to produce in TRNC they hate to pay extra tax for the production under foreign name. Because of that BIXI-Cola on the other hand Coca-Cola completely and directly come by imports. Amongst all the Pepsi cost less to produce.

In respect of competition we can outline the following characteristics.

- Low costs –Pepsi finds a worldwide market due to its low cost and competitive quality. EKTAM is the largest selling coke in the country due to its cost advantage.

- Strong brand – Pepsi products are the most popular products in cola markets.

- Good distribution – Products of EKTAM are the best distributed cokes

- Quality products – The EKTAM products are under licence and quality is guaranteed.

- Good value for money

- Reputation for quality of service

- High quality and training of staff

- Well-known name –

- Customer-oriented

Pepsi aims to sell to every consumer. Their customers differ in few ways. They have two major customer types. There are big buyers, like hotels, beach bars, army, clubs supermarkets etc. and they also have smaller buyers like the small grocery shops and smaller places.

While the smaller customers pay cash the bigger customers have accounts and they have credit limits.

3. ANALYSIS

3.1 PEST ANALYSIS

Perhaps the most obvious characteristic of the majority of today's market is the degree of change that is taking place the Pepsi Cola in TRNC analyses the PEST changing Invironment, that face the production of the Pepsi drink.

Political

EKTAM has its roots in Turkey. Although the political situation of TRNC has some uncertainties the Pepsi cola still continuing to produce it's product to cover the demand of the people who live in TRNC. Since the company get it's purchasing power from Tamek Holding in Turkey, the political situation doesn't make a big effect on the product. In TRNC political environment can be considered very democratic. Also there is an era of coalition governments. We can say that there is a fair amount of political stability, political consensus on economic reforms and higher target of growth of the economy, sound legal system – a factor contributing to a large foreign direct investment.

Economic environment

The Ecumenical situation that TRNC suffer from, we all know the high rate of the inflation that hate the economical sector in TRNC, and of course it's effect on people. Although with this bad economical situation the company still produce and the promote people to buy in that situation they use a policy of reducing their prices less than the prices of the competitors.

It is hoped that the economic program implemented in Turkey under the supervision of the IMF will have positive effect on the TRNC economy. And after a very turbulent recession period it is hoped that things will cool down and there will be a Continued economic liberalization, encouragement to foreign investment, big growth in services sector, controlled inflation in recent time, reasonably stable exchange rate, scarce and costly energy, abundance of skilled low cost labor, easy availability of raw material being a major producer of steel.

Social environment

The Pepsi Cola company tried to change the demographic structure of people in TRNC by distributing the drink even to the last point of the island so that to introduce the people with it's product. On the other hand Pepsi company tried to follow the major lifestyle in the production, for example, the company started to produce Pepsi in glass bottles, but, due to the changing in the lifestyle and the technology the company had to follow all these and started to produce a plastic bottles which is more better and can be carried easily at home. The Pepsi company also tries to change the family roles in TRNC so that to demand Pepsi not Coca Cola, and therefore the follow again the policy of the price. Large middle class, major changes in life style, a major increase in urbanization, consumption, both parent working, nuclear families, leisure activities, and trend of using credit cards.

Technological environment

Once one of the most important issues about the Cola production was the quality of water. But due to new technologies such as the reverse osmosis system the brackish water can easily be turned into the best quality water.

The technology environment is also very important for the company; and we have seen the company has invested 20 million USD for their technology in order to produce a good quality that satisfy customers and consumers in TRNC and as a result the company succeeded in that. Using the new technology also improve the product life cycle.

On the basis of the above PEST analysis and environmental audit, Pepsi was able to establish an Opportunity-Threat profile indicating that:

- Increasing affluence of urban consumers would ensure a reasonable demand for Pepsi.
- The changing lifestyles indicated an increase in demand for Pepsi in the mid price segment.
- The changing buying behavior of the consumers showed that they were becoming choosy and looking for styling, comfort, etc, and to environmental standards.
- Soft drinks industry is a growth industry over the short as well as medium term. Sector opened up for foreign investment. Industry gaining export orientation.
- Technologically the industry is experiencing major changes. The technology rests with very few players in the world.
- Intense competition is indicated in the coming years.

Value Chain

Irrespective of the number of operational units involved in the process, the generation of customer value (and hence competitive advantage) can be conceptualized as comprising five stages. These are:

1. Inbound logistics-in which raw materials, components, services, etc., are supplied and input to the value generation process.
2. Operations-in which value is generated by the kinds of operational processes described in this chapter.
3. Outbound logistics-in which value is created by transportation, distribution and supply logistics; patterns of customer delivery; transaction processing; etc.
4. Marketing and sales-in which customer value is generated by the identification of customer needs; by the specification and positioning of products and services; and by their promotion, sale and supply.
5. Service-in which value is generated by the specification and offer of appropriate levels of customer service; by corporate values of customer-orientation and customer care; or by specification of business mission in terms of 'the service company'.

These five primary activities are supported, according to Porter, by:

Organization and infrastructure Human resource management
Technology development Purchasing and procurement.

Ektam's strategy in respect of the value added chain is to be active in all the loops of the chain. Their ultimate aim is to start from production and market to the consumers.

3.2 Porters Five Forces Model

New Entreprenees

EKTAM is a big business and any new entry business needs lots of investment. With the economic recession it is not likely to have new entries into this market. There can be some new imports in this sector.

Suppliers

Tamek is the big partner of the EKTAM in Turkey. This means that the EKTAM has very sound suppliers. There is no possibility of risk in the supply.

Buyers

Buyers of EKTAM products are the public in general. The buyers have great strength since there are many different brands in the market. unless they are satisfied with the products they can easily switch from one brand to the other.

Rivalry

Traditional rivals of the TAMEK products are Coca Cola and Bixi Cola.

Substitutes

There are many substitutes that are present in the market. these are unknown products but the producers shape them in such a way to look similar to the Pepsi. Some of these are Super Cola which is produced in Magusa and Senfa Drink which is produced in Nicosia.

3.3 SWOT

The SWOT analysis of Pepsi indicates:

Strengths

- Market leaders with 75% market share in the organized sector, the closest competitor does not have even half of AP's share;
- Comprehensive nation wide coverage of the market – urban, semi-urban and rural areas. They have quite a number of brands, covering all segments and filling all gaps. For example, they have brands in different price slots;
- Pepsi's logo is most popular and easily recognized;
- Widest product range in terms of products, shades, pack sizes ;
- Over 90% accuracy in forecasting, far superior to competitors;
- Unlike its competitors who concentrate only in urban areas, Pepsi is found everywhere. It has a country wide distribution
- A network of dealers spread all over the country. The nearest competitor has less than half. For this, they have large network of regional offices and company depots and sales personnel to service the nationwide dealer network;
- Strong in inventory control. EKTAM's average inventory level is 28 days sales against 51 days for the industry. EKTAM has 45% edge in inventory carrying costs;
- The pricing strategy is oriented to middle/lower end consumers;
- High quality MR and MIS;
- EKTAM is quite strong in production-marketing coordination. Their policy of offering tailor-made products to suit customer need has resulted in an ever growing product range;

- In-house production, no outsourcing, high reliability in suppliers, superior in quality assurance;
- Leader in profit and operating margins, ROI of AP is 40% while ROI of the rest of the industry is 22%.
- High caliber human resource, employs maximum number of university graduates, as a proportion to total number of employees;
- Corporate reputation has been a major strength for EKTAM. The image is that of a successful and well-managed company.

Weaknesses

- Products other than the Pepsi has only a 14% market share. It is far behind the leader TAN ltd, which has a market share of 43% for their non-cola products. Since this is going to be the major growth segment in the future, a lag in this segment will end up as a major weakness;
- Widening product mix puts strain on production distribution, accounting and administration;
- Innovation in developing new products is adequate;
- Ever expanding product mix throws some strain on inventory management;
- Rural bias of logo. This is likely to contradict the new positioning for the premium brands meant for urban markets;
- Seasonal demand and hence in off seasons it can lead to cash flow problems;
- Leadership all through the past was a favorable factor, but this is no longer available, the consolidation gained over the years is getting somewhat shaky.

Opportunities

- EKTAM has always encashed on opportunities that have come its way. It has maintained a product profile keeping the market

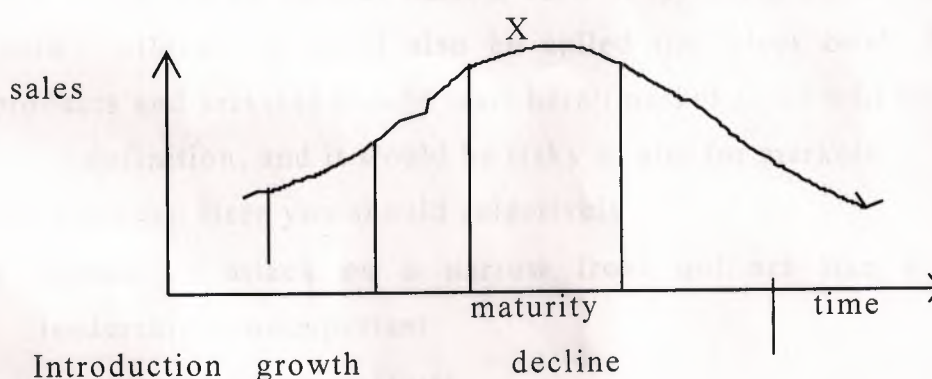
trends in picture. It shifted to a predominance in Cola drinks than Fruko than in soda as was evident from the production figures;

- The soft drinks industry accounted for 25% of the industrial market.

Threats

- Domination of few foreign companies;
- Since both Bixi and Coca Cola have high market share, it is possible that in the future, they may capture the entire market;
- Competitors have gone in for hi-tech;
- Competition is catching up fast, hi-tech facilities gives abundant choices.
- Another weakness for the Pepsi company is the difficulty in persuading the students who comes from Turkey to drink Pepsi. In Turkey we know that Coca Cola is rated as the better quality. Therefore when the students come here there demand continue to shift to Coka Cola.


3.5 PRODUCT LIFE CYCLE



Position of Pepsi is marketed by an X on the graph. The sales are in maturity region. The company is fairly new and there is room for improvement.

3.6 The Boston matrix

The title of this matrix is derived from the Boston Consulting Group, who developed and used this approach with much success. It combines ideas which have profound implications for an organization, especially in terms of cash flow. It requires users to plot their products' market share (relative to the biggest market leader's share) along the horizontal axis. On the vertical axis, the rate of growth of the market in which each product competes should be plotted.

Relative market share		High	Low
Market growth	High	2 	1
	Low	3	4

Box 1: Known by several names, such as 'problem child', 'question mark', 'wildcat', it could also be called the 'ulcer box!' All new products and services should start here (market share will be low by definition, and it would be risky to aim for markets with low growth). Here you should selectively

- launch an attack on a narrow front not act like a leader, leadership is unimportant
- co-ordinate all your efforts
- keep it simple

Guerilla tactics are called for here.

BOX 2: If they are successful, products or services from box 1 will eventually make it to box 2. They are now market leaders in a growing market.

This is popularly known as the 'star' box, but could equally be called the 'glory' box. Here you should

- develop the product or service
- invest in R&D
- extend credit (if necessary)
- keep competitors off balance
- promote aggressively

Above all, aggression is the watchword. There are no medals for going to sea with the biggest fleet and losing the battle!

BOX 3: All good things eventually come to an end and the star product or service is exception. In time, the market for it starts to fall, even though the product maintains its high market share.

This box is generally called the 'cash cow', but it would be equally appropriate to call it the 'banker'. Continuing the sea battle analogy, you have seen the opposing forces. Furthermore, the relatively low market growth is not a ; efficient prize to attract new battle fleets out of port. In such circumstances, you should

- prune the product/service range
- segment and target more appropriately
- reduce costs (but not unreasonably)
- tighten credit
- reduce accounts receivable
- increase inventory turnover

Don't milk products or services in this box, but do defend and maintain. mobile defense force.

Box 4 Popularly called the 'dog' box, although 'lost cause' would be equally descriptor Any investment into products or services in this box is likely to be a case of throwing good money after bad.

We can consider Pepsi in box 2.

4. CONCLUSION AND RECOMMENDATIONS

It follows from what has been said that series of changes need to be introduced to Pepsi drink: especially because the Pepsi Cola company in TRNC cannot persuade the student who comes from Turkey and its the only weakness point for the company to drink it's product, this is because most of them prefer to drink the Coca Cola that has special and test flavor, so when they come to Cyprus they continue to drink the Coca Cola which is of course imported from Turkey. And as we know the number of the student who comes from Turkey is not few, it's nearly 65%. For that case I recommend Pepsi Cola to produce a new product which include or contain the same contents of Coca Cola. So that to push this number of student to move towards drinking Pepsi. Since the company is large and powerful it should invest move money in different investment, for example buildings, petrol station, tourism organizations, reverse the sea water into mineral water to help in the finding solution for the water problem in TRNC. The Pepsi company should do a SWOT analysis to identify the key of it's weakness and strengths.

1995-2000 AMOUNT OF PRODUCT SOLD

<u>YEAR</u>	<u>AMOUNT (liters)</u>
1995	154272
1996	1162396
1997	1278656
1998	1484193
1999	1396719
2000	1235782

It is very important for business managers today to be both inwardly and outwardly focused. A major challenge for a strategic manager is to build an organization that, simultaneously, is able to match stakeholders expectations and resource capability and efficiency with responsiveness to changes in the environment. The organization must be flexible so as to be able to cope with the change and modify its strategy with ease. The formulation of strategy is concerned with matching the capabilities of an organization to its environment. My above study has shown that a capable business manager would assess the nature of the environment, conduct an audit of environmental influences, identify key competitive forces, carry out an internal resource analysis, and identify opportunities and threats. This analysis would lead the business manager to understand the strategic position of his organization and would assist him in devising the future strategies. There are many examples in the industry where businesses have remained inwardly focused but lost out due to absence of broad environmental vision.

In the fast changing business environment, business entrepreneurs and managers have to make the best of opportunities that come their way. Corporate strategy has gained greater importance now as business environments are fast changing. The development of telecommunications and computers have transformed the scope of business environment. Free market,

competition has encouraged growth in many developing nations. Corporate strategy has therefore become more international in scope. Higher levels of training and deeper levels of skills are required for effective contribution to corporate strategy. It is true that:

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Theory

APPENDIX

Sales By Regions

Year/Region	Lefkoşa	Girne	Magusa	Güzelyurt
1995	62669	22722	42748	1566
1996	399491	165494	345481	171200
1997	450684	168943	371021	207842
1998	502713	194233	454486	232076
1999	473256	182987	423499	218468
2000	419910	160973	394338	169611

Sales
Regions

by

