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Kofola Holding (Slovakia)

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KOFOLA HOLDING

Introduction

Martin Klofonda, Marketing Manager of the Slovakian company Kofola Holding, felt relaxed as he sat in his office in early December 2009. The year 2009 had been extremely successful for the beverage producer, and for Martin Klofonda it was clear that in 2010 they would have the ability to invest a substantial amount of money into their brands. As a valued and very experienced manager within the group, he was asked to provide his thoughts for the next management meeting regarding the ongoing planning for the organisation. In the opinion of the CEO, Kofola has a weak presence in the hospitality industry which they want to strengthen, while the organisation would also continue to strengthen its activity in the retail industry. The CEO had invited suggestions regarding the development of individual brands in the group as they possessed many strong brands apart from their flagship product Kofola (a cola-like carbonised soft drink) but he had asked Martin to specifically address the issues around their latest product Vinea.

Since 2008, Kofola Holding had owned the non-alcoholic wine drink Vinea, which was a very popular brand, especially in Slovakia where it was invented almost forty years previously. As Martin observed:

> "*Vinea has been a successful brand for several years, as Kofola always operates with strong brands, and Vinea belongs to the most admired brands in the Czech Republic and Slovakia, if you ask local managers*".

He remembers the statement of Marian Sefcovic (the CEO of the Slovak branch of Kofola) that according to their conclusions on the soft drinks market, Vinea had significant market potential. However, it was not easy to acquire Vinea as the company had to wait for the former owner, a Slovak billionaire, to reorganise his investment portfolio, and up until 2006 a heavy battle for the trademark rights was happening between two Slovakian companies, after which the company Vitis Pezinok turned out to be the winner. In February 2008 Kofola acquired the Vinea brand from the Slovakian company Vitis Pezinok for more than Sk 200 Million (approximately €6 million).

Despite it being a good year in sales, 2009 was also the year in which Kofola Holding was integrated with the Polish company Hoop into a common holding structure and placed on the Warsaw stock exchange. With this restructuring of the company completed, the management of Kofola Holding felt the time had come to become more aggressive in the market and intended to expand their activities in the international markets. Indeed the organisation had already started to sell their flagship brand Kofola in nearby markets such as Germany or Austria with some success. Kofola Holding also wanted Vinea to be successful in the international market, but despite the face that many Slovakians were living in the Czech Republic, the drink was still not officially being sold in the Czech Republic. Kofola Holding, therefore, needed to address what strategy it should adopt. Several ideas were on the table and Martin had to decide which strategy would be the most successful for entering Vinea into the Czech market.

Vinea – The Most Prominent Soft Drink in Slovakia

Vinea is a carbonated soft drink based on grapes. The origins of this drink go back to the year 1973 to a research institute for viticulture and wine-making, where biochemist Jan Farkas was working when he received the order from communist officials to "*produce a soft drink which is good for health and able to compete with capitalist products*". Jan Farkas found inspiration with traditional soft drinks in the Carpathian Mountains, where for several hundred years grapes were mixed with water. The final product was introduced in 1974 and was based on pressed grapes with a high percentage of fruit sugar, minerals and B vitamins that fulfilled the demand for a healthy soft drink.

From 1974, Vinea was produced in two manufacturing plants: Malokarpatský vinársky podnik, a.s., Pezinok (also known as MVP) and Víno Nitra, a.s. in a carbonised and non-carbonised version of white and red wine. The product was a huge success and in the 1980's the drink was even exported to the US and Canada (at that time a rare occurrence in Czechoslovakia). However production stopped from 1994 to 1997 as most consumers were only looking for western made products. The year 2006 was the rebirth of Vinea with a new marketing campaign, but as mentioned before, this was also the time of legal quarrels between MVP and Vino Nitra, and so the development of the product was adversely affected. By January 31st 2008, Kofola took over the Vinea brand and moved the production to Slovakian Rajecke Lesne, where, according to Martin Klofonda, they had the best water quality in their manufacturing plants. Kofola also changed the marketing and positioning strategy of the drink and the new position in the market started with the launch of a campaign for Vinea as trendy drink for young women and so they included, for instance, Swarovski jewels in their promotional campaign. By 2009 Vinea had become established in Slovakia as the number one brand in the market for soft drinks with grapes and carbonised fruit drinks.

Retro Brands are Making Their Way Back to the Top

After the 'Velvet Revolution', the retail landscape in Czechoslovakia (and other Eastern European countries) changed dramatically and in just a few years large retails chains such as Tesco (British), Lidl (German) and Spar (Dutch) could be found in almost every town and city across the country. Major global brands such as Mars, Pepsi and Magnum had also made their way into the mind of the customers and these trends had almost destroyed traditional brands from the communist days. On January 1st 1993, Czechoslovakia was separated into newly agreed countries as Slovakia and the Czech Republic went their separate ways. Over time as Slovakia began to enjoy its new status, many consumers turned away from their 1990's attitude that only 'Western' products contained good quality and once again they started to remember (and demand) traditional brands such as Kofola and Vinea. Among marketing experts the term 'retro brand' was coined for the second-coming of these traditional communist brands. For Kofola, the refocusing efforts began in 2002 with some smart marketing campaigns which resulted in Kofola becoming the best-selling non-alcoholic drink in Slovakia and the second in the Czech Republic after Coca Cola. The main issue regarding the repositioning of retro brands was how can a company most effectively target the generations of young people that do not remember these brands from early childhood or as young adults? Kofola had already started to tackle this issue with marketing campaigns for Kofola and Vinea that targeted young consumers (which are the majority of consumers in Slovakia) that had no prior experience with the brands by reinforcing the idea of traditional values without making any links to the Communist era. It was a delicate balance to find.

The Market for Non-Alcoholic Beverages in the Czech Republic

Martin started to read some research that he had already undertaken on the market for Non-Alcoholic Beverages in the Czech Republic. He knew that the early 1990's had seen an aggressive entry strategy from international brands such as Coca-Cola and Pepsico into the soft drinks markets in the Czech Republic. These giants became, in a very short period of time, market leaders in the soft drinks industry and had maintained that position throughout the past two decades, although it had been joined more recently by Kofola Holding which has made a comeback in the past few years to become the third strongest soft drinks maker in the Czech Republic in terms of market share. Therefore the main competitors of Kofola (besides mineral water producers) were Coca-Cola Beverages CZ and General Bottlers CZ (Pepsi Cola) which had several brands in their product portfolio apart from cola drinks. According to Euromonitor, in 2009 there were five companies dominating the majority of the market with a market share of over 70 percent (see Table One below), and these were Coca-Cola Beverages, General Bottlers, Kofola, Maspex Czech, and Fontea. However, Kofola was showing the best result with the biggest off-trade volume share growth of one percentage which was due to good marketing strategies based on smart promotions and innovations (for instance with cherry flavoured Kofola).

Table One: Company Shares of Carbonates by Trade-Off Value 2005 - 2009

% off-trade value rsp	2005	2006	2007	2008	2009
Coca-Cola Beverages CR sro	33.1	33.3	33.4	33.7	33.6
General Bottlers CR sro	26.4	26.9	27.1	27.6	27.9
Kofola as	9.7	10.6	11.5	13.1	15.0
Maspex Czech spol sro	-	4.1	4.1	4.0	3.8
Fontea as	4.1	4.2	3.6	2.5	2.3
Walmark as	4.8	0.6	0.6	0.6	0.7
Zon sro	0.3	0.3	0.3	0.3	0.3
Veseta spol sro	0.1	0.1	0.0	0.0	-
Santa Napoje Krnov as	-	-	-	-	-
Limova sro	-	-	-	-	-
Nealko Napoje as	-	-	-	-	-
Sodovkarna Merito as	-	-	-	-	-
Private Label	6.9	6.7	6.7	6.7	6.6
Others	14.6	13.2	12.5	11.3	9.9
Total	100.0	100.0	100.0	100.0	100.0

Source: Trade associations, trade press, company research, trade interviews, Euromonitor International estimates

According to the general secretary of the Association of Non-Alcoholics Drinks, consumers in the Czech Republic were amongst the highest consumers of non-alcoholic drinks in Europe. However, according to recent studies by companies such as Euromonitor, carbonated beverages were showing a decline (estimated at three percent within the next 3 years) in favour of syrup sales. One explanation for this change in trend might be the new focus on healthier drinks, but the recent economic crisis might also have created a negative effect on sales.

Another growing segment in the market for Non-Alcoholic Beverages in the Czech Republic was flavoured mineral water, a segment where Kofola was strong and saw further growth potential. Vinea makes a perfect addition to this market and therefore the team of Kofola were convinced that Vinea could be successful in the Czech market given these recent changes in trends. The Euromonitor study added to this perception by predicting an ongoing 'wellness and health' trend in the soft drinks industry in the Czech Republic where consumers would prefer soft drinks with *"added vitamins, minerals, antioxidants, herbal and low sugar content and free from artificial colorants and preservatives"*.

Table Two: Forecast Trade-Off Sales of Carbonates by Subsector, 2009 - 2014

million litres	2009	2010	2011	2012	2013	2014
Cola Carbonates	223.8	229.8	235.7	241.5	247.0	252.3
- Regular Cola Carbonates	178.4	181.6	184.8	187.8	190.6	193.2
- Low Calorie Cola Carbonates	45.4	48.2	50.9	53.6	56.4	59.1
Non-Cola Carbonates	219.2	205.6	194.5	186.4	180.4	175.6
- Lemonade/Lime	87.7	82.7	78.1	74.8	72.6	70.5
- Orange Carbonates	78.2	72.5	68.3	65.5	63.3	61.6
- Mixers	14.3	12.5	11.0	9.8	8.9	8.4
- Other Non-Cola Carbonates	39.0	38.0	37.1	36.3	35.6	35.0
Carbonates	442.9	435.4	430.2	427.8	427.3	427.8

Source: Official statistics, trade associations, trade press, company research, trade interviews, Euromonitor International estimates

The Kofola Holding

Despite of being listed on the Warsaw Stock Exchange, Kofola was still a family business which was 57 percent owned by the Samara family who were of Greek origin. The company was originally registered under Santa Napoje a.s. and then in 2002 they bought the registered trademark and 'secret' recipe for the Kofo syrup (which is the base for Kofola) from Ivax, a pharmaceutical company. According to Jannis Samara, the CEO of Kofola, it was *"the best decision the company ever made"*. The Kofo syrup was a Czech cola substitute with a lower sugar and caffeine content than classical cola drinks and it also had a wide range of herbs in it. The name of the company changed in 2002 to Kofola a.s. so as to have a clear connection with the brand. Several sister companies in Poland, Hungary and Slovakia followed, as well as a number of acquisitions such as Klimo, one of the leading domestic producers of private label soft drinks. This resulted in Kofola having four production facilities in several countries with the company headquarters in east-Moravian Ostrava. In late 2007, Kofola merged with Polish company Hoop in order to utilise the synergies in both companies but also to become eligible to be listed on Warsaw stock exchange, and as a result Kofola became one of the most significant players in Central and Eastern Europe. One of the last acquisitions had been Vinea, in 2008. The company is still managed by Sammara family, together with professional managers whom they have employed to undertake specific responsibilities within the organisation. By 2009, a third of the entire company's sales came from Poland, the Czech Republic and Russia contributed a quarter each, while Slovakia generated 15 percent of sales. By December 2009, Kofola had 2,715 employees, with 899 in Poland, 839 in the Czech Republic, 550 in Russia and 426 in Slovakia.

Product Portfolio

Given the breadth of company activities that had taken place in recent years, Martin needed to remind himself of the nature of the current product portfolio:

1. Cola carbonised drinks:
    a. Kofola Original and Kofola Citrus (launched in 2004);
    b. RC Cola (launched in 2002, manufactured under licence for Cadbury Schweppes Plc).
2. Non-cola carbonates, fruit/vegetable juice, concentrates:
    a. Chito Tonic;
    b. Vinea and Top Topic (wine grape lemonade);
    c. Jupi (nectars and juice drinks);
    d. Jupik and Capri-Sonne (juice drinks).
3. Bottled water
    a. Rajec, launched in 2004.

For the carbonised cola drinks, Kofola was quite satisfied as they had products for several different consumers groups with Kofola as the premium brand and RC Cola as a rather low cost product, and in addition to these they are also producing private labels. In the non-cola carbonates, they had several brands such as Jupik, which was very popular among children. Their own wine grape lemonade, Top Topic, although a classical drink, had not been as successful as other brands, but the company was considering flavour added variants of Top

Topic called Ego. In bottled water market, their brand Rajec had been extended with new flavours such as a tree theme or herbal flavours which had proven to be quite successful. With an annual turnover (the Russian market excluded) of nearly PLN 1.2 billion (approximately €360 million), Kofola was the third largest company in its sector on the Polish and Czech markets, and second in Slovakia. In Slovakia, where Kofola was the locally preferred cola-type beverage, the company was the leader on the carbonated soft drinks market.

Table Three: Kofola Holding Competitive Position in CZ (2009)

Product type	Off-trade volume share	Rank
Cola carbonates	22.0%	3
Fruit/vegetable juice	8.5%	4
Bottled water	4.0%	7
Liquid concentrates	27.2%	1

Source: Euromonitor International

Proposed Possibilities

As he examined the information strewn across his desk, Martin Klofonda felt that the overall strategic aim for Kofola was quite clear:

> *"to become one of the top three soft drinks producers in Central Europe, which also means geographical expansion"*.

To achieve that ambition he believed that the company needed to support an in-depth penetration of the retail channels, not only with Kofola but also with their other strong brands such as Rajec or Vinea. However, although Kofola was known to be a highly innovative company and whose employees had been encouraged to come up with good ideas on how to bring Vinea back on the shopping list of Czech consumers, the 'how to do it' was still very much a work-in-progress. The result of the lastest brain storming session by the employees had been developed into a series of proposals and Martin Klofonda was now examining the advantages and disadvantages to each of the propositions:

1. <u>Keep the same marketing strategy as in Slovakia</u>
   Kofola had started to market Vinea in Slovakia as a premium, highly fashionable drink for young women, supported by marketing campaigns with Swarovski jewels which seemed to work quite well. This premium positioning offered an opportunity to attract young customers that had not been exposed to Vinea before, and one could hope that those who knew about Vinea would buy it anyway because of its history.

2. <u>Keep the same marketing strategy as in Slovakia but change the positioning of Top Topic</u>

   This strategic direction would be the same as before but would require a re-positioning of Top Topic as with their new product range (Ego). However, Martin felt that consumers might be confused and there was a possibility that cannibalisation might occur. Therefore, the positioning of Top Topic might be changed or altered, but how?

3. <u>Selling Vinea only to HORECA (restaurants, hotels etc.) and Top Topic in retail</u>

   One of the easiest ways to avoid cannibalisation would be to use separate marketing channels for both products and to keep Viena's premium brand positioning, as well as the new brands of Top Topic.

4. <u>Not to enter the Czech market in order not to cannibalise Top Topic</u>

   One of the members added that a further solution might be not to enter the Czech market as according to recent data from Euromonitor suggested that carbonised drinks would be in decline in the forthcoming years and to have two brands with comparable taste in the same market might be too much if market growth was declining.

Martin Klofonda started to think about each suggestion and how he should evaluate them. He had not thought of having the 'devil's advocate' solution of not entering the Czech market with Vinea. The meeting with the CEO was marked in his schedule for tomorrow, so he still had some hours to make his evaluation and to propose the best strategy for the organisation.