

Pepsi entry into india essay



**ASSIGN
BUSTER**

1. Why do companies like PEPSI need to globalize? What are the various ways in which foreign companies can enter a foreign market? What hurdles and problems did Pepsi face when it tried to enter India during the 1980s? Companies like Pepsi need to be global for the following: * Expand Sales- Increase the market for their production by tapping potential new countries * Minimize Risks- Globalization and International trade also helps in minimizing risks. * To leverage on technology * To increase production efficiencies * For diversification so as to reduce risks To counter foreign investments by competitors * Minimize Costs and optimal resource utilization- By shifting operations in areas with cheaper labour and resources. Companies can enter foreign markets through the following ways: * Export * Joint Ventures * Mergers and Acquisitions * Licensing, franchising * Strategic Alliances * Management Contracts * Contract Manufacturing * FDI Hurdles faced by Pepsi: * India being a closed economy till 1991, there was high level of intervention by the government in the corporate sector * Low awareness, demand and consumption for soft drinks.

The per capita consumption was only 3 per annum * Foreign brand name could not be used * There was no liberalization and this not even 1% FDI was allowed. * Sensitive political and social problems in the country like terrorism * Cola concentrate – the major ingredient to make Pepsi soft drink could not be imported * Agriculture sector was the priority and thus Pepsi had to win the government by making promises of development in the agriculture sector 2.

Critically, analyze the strategy adopted by Pepsi to sell itself to the Indian government. Do you think the biggest factor responsible for the acceptance

of its proposal by the regulatory authorities was its projection of its operations as the solution to many of Punjab's problems? Why or Why not? *

In 1977 Pepsico saw opportunity in India, after Coca-cola departed. *

Promoting and developing the export of Indian agro-based products The deal was however, rejected by government of India. In 1985, Pepsi made its second attempt to enter India in proposal along with Tata Industries and Punjab Agro Industries Corporation (PAIC). The proposal includes: *

- * Initial investment of \$15 million
- * Agro Research centre
- * A fruit and vegetable processing unit.
- * Creation of 50, 000 jobs
- * Technology for better utilization of Punjab food production by prevention of wastage.
- * Through 1986-1988 *

Government's concern that Pepsico's proposal of production of processed food (chips, fruit drinks) would displace what are home prepared items and hurt India's BOP. In 1988, Indian government and PepsiCo. Reached an agreement. Yes as most of the commitments were related to Punjab therefore it is the biggest factor responsible for acceptance of Pepsi. 3. How did the company react to the changes in the business environment after the liberalization of the Indian economy in the early 1990s? Critically comment on the allegations that Pepsi deliberately did not adhere to most of its commitments? Post liberalization changes: *

- * In 1994, it bought off its partners in venture i. e.

Voltas and PAIC *

- * With liberalization, the company now established a wholly-owned subsidiary, PepsiCo Holdings India Pvt. Ltd. (PHI), which was completely devoted to the soft drinks business
- * Although soft drinks sales were capped, Pepsi had other avenues like processed food, fruit juices and its chain of restaurants.
- * Plastic exports were 67%
- * Changed name from

Lehar Pepsi to Pepsi * Sold off its Tomato Paste plant to HUL in 1995 *

Gradually reduced contract farming Allegations of not meeting commitments

in India: Failing to create jobs * Export of fruit and vegetable based product

was negligible and started exporting tea, rice and shrimps * Failed its

commitment to export 50% production * Products exported were same which

use to happen earlier 4. Examine the contract farming initiatives undertaken

by Pepsi in India and explain the rationale for such initiatives from the

company's perspective. Why is it important for multinational corporations to

work towards the improvement of the economy of the countries in which

they operate?

What are the various other ways in which this can be done? Contract farming

initiatives: * Offered advanced equipment * Increase in tomato crop

production * Providing high yield seeds to increase the productivity *

Imported the required material for tomato cultivation Rationale for Contract

farming: * Company insisted on the development of those crops, which were

directly or indirectly related to their businesses such as soft drinks, snacks,

fruit juices and mineral water. Other rationale behind the contract farming

was to increase their own business rather than any social welfare * Taken

initiatives for: 1. Chili farming 2. Groundnuts production over paddy

production 3. Rice production 4. Fruit and vegetable farming Ways that to

improve the economy of host country * Spending in infrastructure

development like roads, community centers, schools, other investments etc *

Increase in trade so that host country can get duties and increase its foreign

reserve