The peoples republic of china business essay

Business

2. Thesis theoretical basis

Nowadays, enterprises have entered the era of low profit and increasing competition. And they also behave more and more similar to each other. Competition is already up to the strategic level and becomes the key to success. Therefore, under the competitive environment, achieving competitive advantage is considered as the ability for a company to stay ahead of present or potential competition (Porter, 1985). The theory of competitive advantage is mainly used to answer the question why some companies can have better performance than others (Ibid). Scholars in strategic management have made great progress in answering this question, For example, Prahalad and Hamel (1990) claimed that core competence is the main source that leads to different performances between competitors within an industry . Though, a significant number of results are now available, most of the scholars have different understanding or interpretation about the source of competitive advantage which lead different strategy theories as is discussed below.

2. 1 The Definition of Competitive Advantage

Hofer and Schendel (1978) introduced the concept of competitive advantage to the field of strategic management. They explained that competitive advantage is obtained by companies through allocation of resources and development of a unique resource positioning distinct from other competitors. After that, Porter (1985) pointed out in his book " Competitive Advantage" that competitive advantage comes from the values business creates for customers, and he defined competitive advantage as a company having a long-term, unique and advantageous competitive position relative to other competitors. He argued that competition is the key to success and determines all the activities related to the company’s overall performance, such as: innovation, cultural cohesion and the efficiency of implementation; while advantage means company can gain ascendancy in any environment (Porter, 1985). Moreover, Porter (1985) suggested that company can use three strategies to provide value for the purchase: cost leadership, differentiation and focus strategies. However, Besanko, Dranove, and Shanley (2000: 389) suggested, " When a firm earns a higher rate of economic profit than the average rate of economic profit of other firms competing within the same market, the firm has a competitive advantage in that market." And Hill and Jones (2001) thought that if the high economic profits can be maintained for several years, it could suggest that the firm has a sustainable competitive advantage. Aaker (1989) claimed that the assets and skills are the basis for a company since they provided a sustained competitive advantage and long-term performance. Ansoff and McDonnell (1990) defined the competitive advantages as the qualities possessed by the company in product or market scope, and these qualities can bring the company to a better position in the competition than other competitors. From the summary above, it can be seen that though there is no unique definition of competitive advantage, all different interpretations of competitive advantage stress that the competitive advantage is relative measure of the advantage of a company over its competitors. 2. 2. The Source of Competitive AdvantageMany scholars have tried to fully elucidate how to obtain the competitive advantages for enterprises from economic perspective or management perspective. Andrews (1971) in his book " Concept of Corporate Strategy" first proposed that the company must have a unique competitiveness. And he created the SWOT matrix, which is used to analyze corporate strength, weakness, opportunity and threats. The SWOT analysis framework can be considered as the earliest theoretical analysis framework for competitive strategy. And it established two basic dimensions for the analysis of competitive advantage: internal factors and external environment. And after that, different schools appeared in the interpretation of the causes of competitive advantage including the Positioning School which pay relatively more attention to the external environment, the Capabilities-Based School and the Resource-Based School which focuses on corporate internal conditions. 2. 2. 1 The Positioning SchoolThe neoclassical economics considered that individual companies achieve high profits mainly due to the different market structure. There exits entry barriers, exit barriers and government's protection and restrictions within the industry. Masson and Bain advanced three basic areas for the modern industrial organization theory: market structure, market conduct and market performance (SCP Paradigm) or Mason-Bain Paradigm (Porter, 1980). And this paradigm indicates that the different performance between enterprises is caused by market structure and market conduct. Michael Porter is a representative for the Positioning School. He further explained the source of corporate competitive advantage in his book " Competitive Advantage" (1985). Porter (1980; 1985) introduced Mason and Bain's industrial organization theory to the field of strategic management. He explained how companies develop their strategies to gain sustainable competitive advantage from different angles, such as industrial structure, comparative advantages and disadvantages within the industry, and entry-exit barriers. In Porter's view, the industrial structure or industrial environment is the basis of enterprise development and implementation of competitive strategy. Therefore, Porter repeatedly stressed that structural analysis is the footstone of establishment of competitive strategy (Ibid). Meanwhile, Porter (1985) argued that the state of competition within an industry depends on five basic competitive interactions, which are: the threat of the entry of new competitors, the threat of substitute products or services, the bargaining power of buyers, the bargaining power of suppliers and the intensity of competitive rivalry. And each of those competitive forces subjects is influenced by different economic and technical factors. For example, the threat of the entry of new competitors is restricted by economies of scale, switching costs, capital requirements, distribution channels and other factors. Those five competitive forces jointly determine the intensity of competition in an industry and the potential of profit. Though Porter's industry analysis theory created a precedent of competitive advantage research, it still has some shortcomings. Rumelt (1984) argued with empirical analysis, Porter's claim that the industry positioning is a key factor to gain competitive advantages is not in line with the actual situation. This is because the degree of dispersion of industrial long-term profitability is much higher than the dispersion among industries; and the main sources of corporate excess do not come from the external structure features within the industry but caused by the difference between companies' internal resource (Rumelt, 1984). And Prahalad and Hamel (1990)also pointed out that while the industrial structure is a key component of the competitive environment, Porter only gave a thorough analysis and description about what the enterprise " might do" (environmental threats and opportunity) and did not elaborate the contents of what the enterprise " can do" (company' s strength and weakness). 2. 2. 2 The Capabilities-Based SchoolThe capabilities-based school emphasizes the use of a company's unique capability to develop and implement the competitive strategy and access the competitive advantage (Prahalad and Hamel, 1990). Companies that have similar resources always have different efficiency in the use of resources, and such differences between companies are related companies' different capabilities. The different capabilities between companies are the source of competitive advantage (Collis, 1995). Amit and Schoemaker (1993) defined capability as the abilities companies have to achieve specific business goals through allocation of resources. There are two representative opinions: one is " core competence" given by

Prahalad and Hamel (1990) and the other one is " overall capacity" proposed by Stalk et. al. (1992). Prahalad and Hamel (1990) defined core competence as the organization's accumulative knowledge, in particular, the knowledge about how to coordinate various kinds of production skills and how to integrate multiple technologies. There are three core criteria to recognize corporate core competence: (1) it can provide the possibility to leverage many products and markets; (2) it must provide significant benefits to the end consumer; (3) it is difficult for competitors to imitate (Prahalad and Hamel, 1990). And the core competences empower a company to access a wide variety of markets. Then, Stalk et. al. (1992) argued that a very successful company must pay attention to its behaviors, that is, the organization activities and business processes, and consider improving these activities and processes as a primary strategic objective. Therefore, they proposed the concept of overall capacity as the collective skills and knowledge within the organizational members and the organizational procedures of people interact with each other in the organization (Stalk et. al., 1992). Both of these two capability concepts stressed the unique ability which is reflected by company' s internal behavior, but the core competence stresses the individual key advantage of the business value chain while the overall capacity emphasizes the overall strength of the value chain. 2. 2. 3 The Resource-Based School (RBV, Resource-Based View)The resource-based view (RBV) was very popular in 1990s. As a representative theory of the field of strategic management, resource-based theory has undergone considerable development. Newbert (2007) illustrated that resource-based theory can be classified as VRIN model which is based on static view and dynamic capabilities model. 2. 2. 3. 1 VRIN model which based on static perspective (RBV)Resources-based theory takes enterprise as a combination of human resources and physical resources. It claims that different performances of companies are due to the uniqueness of their resources. And enterprise uses these unique resources to gain competitive advantage and establish or implement its strategies. Penrose (1959) proposed the concept of resources and considered enterprise as the collection of production resources that include material resources (equipment, land, raw materials, etc.) and human resources (engineers, managers, workers, etc.). And based on this, Wernerfelt (1984) was the first to present the resource-based view and he believed that enterprise is a collection of resources and the source of competitive advantage is the enterprise strategic resources. He also pointed out that companies may need access to distinguish and obtain the key resources to achieve higher profits. Generally, these key resources refer to the permanent assets including tangible and intangible assets that a company owns. And he argued that it is more reasonable to analyze a company from the resource’s perspective than product’s perspective. This is because compared with the traditional concept of products; one can get more direct understanding from the resource-based view. Meanwhile, he established two assumptions as the premise of analysis: one is the strategic resources that enterprises own are heterogeneous; and the other is that those strategic resources cannot flow within the industry. Barney (1991) further developed Penrose and Wernerfelt’s resource-based view . Based on the assumptions of resource heterogeneity and immobility; he proposed a concept of strategically relevant resources and the four characteristics (VRIN). He defined enterprise resource as all assets, capabilities, organizational processes, corporate identity, information and knowledge which the enterprise can control and is enabled to use to improve its efficiency and effectiveness of strategies. However, he also pointed out that for enterprises, not all of the resources are strategically relevant. This means that, only those resources, which could help enterprise, achieve sustaining competitive advantage and assist the enterprise sustaining above average returns, can be seen as strategic resources. Therefore, according to Barney (1991), these strategically relevant resources must include four characteristics (VRIN), which are valuable, rare, inimitable, and non-substitutable. " Valuable" means that the resources can facilitate company in identifying opportunities, isolating threats and promoting the creation or implementation of the strategies, which in turn can help company improve its efficiency. " Rare" means that resources are possessed by few competitors and those possessed by only one company. Generally, as long as the number of companies who possess these valuable resources is less than the number of companies which could lead to a perfectly competitive industry, this valuable resource could produce competitive advantage. However, it is not sufficient for a company to achieve sustainable competitive advantages if resources only have " valuable" and " rare" features, because other companies can imitate or use other means to obtain those resources. Therefore, the strategically relevant resources must also be " inimitable» and " non-substitutable" (Barney, 1986; 1991). 2. 2. 3. 2 Dynamic Capability (RBV)Resource-based view extended the understanding of organizational performance and strategic management. However, some scholars have questioned the effectiveness of resource-based view (Elsenhardt and Martin, 2000; Barney, 2001). The older primitive resource-based view and VRIN was established based on static standpoint which cannot be established in unstable and unpredictable circumstances. Therefore, the competitive advantage that caused by those resource-based view is unreliable in a dynamic market environment (Elsenhardt and Martin, 2000). In a dynamic market environment, how to obtain and maintain competitive advantage for company became a new challenge for researchers. For this reason, the new theoretical methods which can help company gain competitive advantage and high profits in dynamic market was proposed recently. Winter (2003) claimed that there is no doubt that the strategic resources are important for enterprise to possess competitive advantages; however, they are not enough. In order to obtain higher profits, companies also need to have and reproduce their relationship network within which resources can integrate or configure. Teece et al. (1997) proposed the framework of dynamic capabilities and defined it as enterprise's capabilities that enable the enterprise to integrate and reconfigure its capabilities and resources to match the rapidly changing external environment. The definition of dynamic capability by Teece et al. Is supported and further developed by other researchers. For example, Elsenhardt and Martin (2000) argued that dynamic capability of enterprises can help enterprise create and develop new capacity to meet or create market opportunities during the process of using resources, especially the process of integrating, restructuring, obtaining and releasing resources. Therefore, the main difference between the dynamic capability theory and VRIN model is: the dynamic capability theory is based on the resource-based view and adds the dimension of environment change into its framework. That is, the resource-based view focuses on a certain point of time, and the resources and ability mentioned in VRIN model can enable enterprises to obtain competitive advantages relative to competitors and thereby gain high performance. On the other hand, the dynamic capability theory focuses on how to maintain long-term competitive advantages for companies in a dynamic environment, in order to gain sustained long-term profits. Although the focuses are different between these two theories, both of them belong to resource-based theory and explain the reasons for different performance between companies. In practice, it is beneficial to understand both to help guide a company toward higher profits. 2. 3 Analytical FrameworkCompared with the theory of positioning school, theoretically, the capacities-based and resources-based views have progressed greatly . However, due to the dynamic and global external environment which brings significant impacts on the formation and development of companies’ competitive advantages, nowadays, the process of the formation of competitive advantage is the process of matching company’ s internal resources as well as capacities and external environment. Therefore, the research of company’ s competitive advantage of this thesis must combine with external environment analysis, strategic resources analysis as well as core competence analysis. In this thesis, Porter ’ s five forces model is used to analyze the external business environment which has a direct impact on the formation and development of competitive advantages for China beverages production industry. Porter ’ s five forces model (Porter, 1985) focuses on the micro-environmental analysis to show the competitive structure of the industry and the relationship among the competitors within the industry as well as other related industries. Thus, these basic competitive forces which are the sources of competitive advantage determine the intensity of competition and who earns the ultimate profit in this industry.

3. Beverages market in the People's Republic of China

3. 1. Market overview

3. 1. 1. Market definition

The beverages market consists of retail sales of diet cola, standard cola, fruit -flavored carbonates and mixers. The market is valued according to retail selling price (RSP) and includes any applicable taxes. Any currency conversions used in the compilation of this chapter have been calculated using 2011 annual average exchange rates.

3. 1. 2. Market analysis

The Chinese beverages market has experienced strong overall growth in value and volume in recent years. This growth is, however, expected to decelerate to only moderate levels over the forecast period ending 2016. The Chinese beverages market had total revenues of $10. 9bn in 2011, representing a compound annual growth rate (CAGR) of 6. 8% between 2007 and 2011. In comparison, the Japanese and Indian markets grew with CAGRs of 2. 7% and 7. 1% respectively, over the same period, to reach respective values of $7. 0bn and $2. 1bn in 2011. Market consumption volumes increased with a CAGR of 5. 8% between 2007 and 2011, to reach a total of 11. 8 billion liters in 2011. The market's volume is expected to rise to 13. 4 billion liters by the end of 2016, representing a CAGR of 2. 6% for the 2011-2016 period. The performance of the market is forecast to decelerate, with an anticipated CAGR of 3. 5% for the five-year period 2011 - 2016, which is expected to drive the market to a value of $12. 9bn by the end of 2016. Comparatively, the Japanese and Indian markets will grow with CAGRs of 2.

3% and 7. 3% respectively, over the same period, to reach respective values of $7. 9bn and $2. 9bn in 2016.

3. 2. MARKET DATA

3. 2. 1. Market value

The Chinese beverages market grew by 5. 2% in 2011 to reach a value of $10, 914 million. The compound annual growth rate of the market in the period 2007-11 was 6. 8%.

Table 3. 2. 1: China beverages market value: $ million, 2007–11

Year

$ million

CNY million

€ million

% Growth

20078, 381. 454, 097. 26, 024. 620089, 057. 358, 459. 66, 510. 48. 1%20099, 755. 062, 962. 77, 011. 97. 7%201010, 378. 766, 988. 67, 460. 36. 4%201110, 914. 070, 443. 17, 845. 05. 2%CAGR: 2007–116. 8%

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M A R K E T L I N E

3. 2. 2. Market volume

The Chinese beverages market grew by 3. 9% in 2011 to reach a volume of 11, 784. 8 million liters. The compound annual growth rate of the market in the period 2007–11 was 5. 8%.

Table 3. 2. 2: China beverages market volume: million liters, 2007 –1

Year

million liters

% Growth

20079, 416. 8200810, 114. 87. 4%200910, 815. 06. 9%201011, 339. 34. 8%201111, 784. 83. 9%CAGR: 2007–115. 8%

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M A R K E T L I N E

3. 3. MARKET SEGMENTATION

3. 3. 1. Category segmentation

Fruit-flavored carbonates is the largest segment of the beverages market in China, accounting for 41. 4% of the market's total value. The Standard cola segment accounts for a further 40. 6% of the market.

Table 3. 3. 1: China beverages market category segmentation: $ million, 2011

Category

2011

%

Fruit-flavored carbonates4, 519. 641. 4%Standard cola4, 426. 040. 6%Diet cola815. 37. 5%Other carbonates630. 95. 8%Mixers522. 24. 8%Total10, 914100%

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M A R K E T L I N E

3. 3. 2. Geography segmentation

China accounts for 32. 8% of the Asia-Pacific beverages market value. Japan accounts for a further 21. 1% of the Asia-Pacific market.

Table 3. 3. 2.: China beverages market geography segmentation: $ million, 2011

Geography

2011

%

China10, 914. 032. 8Japan7, 023. 921. 1India2, 069. 86. 2South Korea1, 540. 24. 6Rest of Asia-Pacific11, 757. 035. 3Total33, 304. 9100%

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M A R K E T L I N E

3. 3. 3. Market share

The Coca-Cola Company is the leading player in the Chinese beverages market, generating a 61% share of the market's volume. PepsiCo, Inc. accounts for a further 26. 8% of the market

3. 3. 4. Market distribution

On-trade form the leading distribution channel in the Chinese beverages market, accounting for a 32% share of the total market's volume. Independent Retailers accounts for a further 29. 3% of the market.

3. 4. MARKET OUTLOOK

3. 4. 1. Market value forecast

In 2016, the Chinese beverages market is forecast to have a value of $12, 931. 4 million, an increase of 18. 5% since 2011. The compound annual growth rate of the market in the period 2011–16 is predicted to be 3. 5%.

Table 3. 4. 1.: China beverages market value forecast: $ million, 2011 – 16

Year

$ million

CNY million

€ million

% Growth

201110, 914. 070, 443. 17, 845. 05. 2%201211, 370. 273, 387. 98, 172. 94. 2%201311, 821. 676, 301. 58, 497. 44. 0%201412, 222. 778, 890. 28, 785. 73. 4%201512, 577. 081, 177. 09, 040. 42. 9%201612, 931. 483, 464. 49, 295. 12. 8%CAGR: 2011–163. 5%

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MARKETLINE

3. 4. 2. Market volume forecast

In 2016, the Chinese beverages market is forecast to have a volume of 13, 430. 1 million liters, an increase of 14% since 2011. The compound annual growth rate of the market in the period 2011–16 is predicted to be 2. 6%.

Year

million liters

% Growth

201111, 784. 83. 9%201212, 161. 53. 2%201312, 531. 93. 0%201412, 858. 02. 6%201513, 144. 12. 2%201613, 430. 12. 2%CAGR: 2011–162. 6%

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M A R K E T L I N E

3. 5. FIVE FORCES ANALYSIS

3. 5. 1. Summary

The beverages market will be analyzed taking soft drinks manufacturers as players. The key buyers will be taken as bottling companies and retailers, and producers of packaging, soft drinks ingredients and other raw materials as the key suppliers.

Forces driving competition in the beverages market in China,

Rivalry in the Chinese market is affected by continuing heavy concentration of market share by the top two players. Bottling companies and retailers represent the main buyers in the beverages market, the latter of which constitutes the more significant force. However, despite the financial muscle of larger retailers, it is public demand that is the central driver of sales within this market. Shaped by heavy marketing campaigns, brand cons ciousness ensures that popular products must be stocked by retailers, reducing buyer power to moderate levels. Supplier power is not substantial, as most inputs are readily available commodities. New entrants to the market face significant obstacles, such as strong brand loyalty and significant fixed costs. With economies of scale further favoring established manufacturers, the threat from new entrants is moderate. There are various products such as tea, coffee and non -beverages that may serve as substitutes to carbonated soft drinks, yet the diversity of public demand ensures a wide range of products will continue to be stocked by retailers. The threat from substitutes is, therefore, only moderate. During periods of decline or limited growth, manufacturers with large fixed costs can be forced into direct competition with one another for a limited pool of consumers. Although concentration of the market reduces the intensity of market rivalry, with dominant companies secure in their relevant area and bolstered by a strong brand image, the large size of players serves to increase rivalry, which is assessed as moderate overall.

3. 5. 2. Buyer power

Drivers of buyer power in the beverages market in China, 2011

The distribution of beverages is achieved through a variety of means in this market. It is not uncommon for manufacturers, such as The Coca-Cola Company, to produce soft drinks that are ready for consumption and supply retailers directly. The leading players generate most of their revenue from the production of concentrates, which are sold to bottling companies. Some bottlers are independent, whereas others are owned by the big -name manufacturers, and are usually described as 'partners' and 'customers'. The bottlers are licensed to convert purchased raw materials into soft drinks, packaged with the manufacturers' branding, and distribute them as ready for sale commodities to buyers within a particular sales territory. Although the majority of bottlers are free to make their own business decisions, the close ties between manufacturers and bottlers means that food & beverage retailers are arguably the more significant buyers from the point of view of market players. The financial muscle of such retailers is lower in China than other markets due to the fact that the majority of retail sales of beverages are through on -trade establishments and independent retailers rather than supermarkets and hypermarkets. Additionally, a strong level of brand consciousness amongst consumers undercuts this position of strength. Consumers in this market are likely to be strongly influenced by brand, and this weakens buyer power, as retailers are forced to stock brands popular with consumers. Failure to stock successful items can be highly detrimental for a retailer. Overall, buyer power is assessed as moderate.

3. 5. 3Supplier power

Drivers of supplier power in the beverages market in China, 2011Manufacturers in this market, require access to a range of ingredients, including sweeteners, refined sugar (sucrose) and aspartame. Although certain ingredients are available from more than one supplier, such sourcing remains vulnerable to fluctuations in the market price of the relevant commodity. Other ingredients, such as aspartame, can be acquired only from a limited number of companies upstream. However, even in these cases, there are usually substitutes available. For example, if aspartame becomes expensive or unobtainable, then it can be substituted by saccharine and other similar products. Water, which is the major input in this market, may raise the concerns of multinational players, especially in some countries, where water scarcity is a risk factor for their business. Advertising and marketing agencies also play significant role in the brand building process in the beverages market. Years of consolidation has left the advertising industry highly concentrated in most countries, strengthening supplier power to some extent. Overall, supplier power is assessed as moderate in this market.

3. 5. 4. New entrants

Although it would be difficult for a new entrant to compete with the brand strength and reach of existing incumbents, it may be possible to achieve small-scale success stressing a unique production method. However, even if a new player opts for a business model in which much of the production process is performed by bottling partners under license, there will still be a need to invest in manufacturing capacity in order to produce the concentrates. The nature of the market also demands an extensive marketing campaign in order to generate and maintain a successful brand image. With The Coca-Cola Company and PepsiCo so firmly established within the market, even aside from the costs, this acts as a daunting deterrent to many potential entrants. The effect of economies of scale which benefits current mass manufacturers of such products also makes it difficult for a new entrant to enter into the market. Additionally, food and drug regulations have been an area of key concern in China and, following a government announcement in June, 2012, a five-year plan has been established to make such regulations more stringent. New entrants may, therefore, be put off by the need to comply with a greater degree of regulation, which could increase costs and limit profitability. However, the market has achieved strong growth in the past few years, making it a potentially attractive prospect to prospective new entrants. Overall, there is a moderate likelihood of new entrants.

Factors influencing the likelihood of new entrants in the beverages market in China, 2011

3. 5. 5. Threat of substitutes

There are many substitutes for beverages available for both: retailers and end -users. Some examples include: tea, coffee, and non-carbonated soft drinks, such as squash or juice. Leading players tend to have diverse product ranges, which reduces the threat posed by substitutes. For example, Coca - Cola offers a wide range of drink products, including water and juices, outside of its core offering of carbonated soft drinks. In this market, an increasing health consciousness amongst consumers may serve to cause retailers to favor healthier alternatives to carbonated soft drinks. Furthermore, switching in the sense of allocating more shelf space to the substitutes may be advantageous in cost terms (substitutes such as coffee, tea and squash can be stored at room temperature instead of fridges). This may be especially beneficial in countries where electricity is relatively e expensive, such as India. The threat from substitutes is increasing in this market; however, at the moment, it remains moderate.

Factors influencing the threat of substitute s in the beverages

3. 5. 6. Degree of rivalry

The Chinese beverages market is highly concentrated, with the top two players alone accounting for 87. 8% of the total market volume. The companies that operate under high fixed costs, due to specialist production facilities and marketing campaigns, have less freedom to scale down during periods of slow or poor growth. Equally, with the nature of the market, economies of scale favor mass manufacturers and encourage expansion. For these reasons, companies can be pushed into direct competition for a limited number of consumers. Some beverages companies outsource later stages of their production process to third parties, in order to evade some of these difficulties, reducing the possibility of its market exit. However, for players who own the majority of their manufacturing resources, this option is unavailable. With only a limited number of players, competition is lessened as each player establishes a more secure segment of the market, aided by strong branding and product differentiation, although the size of major players serve to increase rivalry to an extent. Overall, there is a moderate degree of rivalry in the Chinese beverages market.

Drivers of degree of rivalry in the beverages market in China, 2011

3. 6. Leading Companies

Major PlayerMarket ShareCoca-Cola (China) Beverages Limited40. 0% (2011)Pepsi (China) Limited32. 0% (2011)Foshan Sanshui Jianlibao Trading Co., Ltd. 3. 6% (2011)Hangzhou Wahaha Future Cola Beverages Co., Ltd. 2. 4% (2011)Siping Hongbaolai Beverages Co., Ltd. 0. 8% (2011)Other21. 2% (2011)3. 6. 1. Coca-Cola (China) Beverages LimitedMarket Share: 40. 0%Coca-Cola is currently the leading carbonated soft drink manufacturer in the world, and is also the leader in China's carbonated drink industry, accounting for 40% of the market share. The company has been the largest in the industry in China for many years. In 2007, Coca-Cola and its joint ventures together realized sales revenue of $2. 6 billion, and profit of $114. 7 million. Sales revenue of beverages accounted for 75% of the company's total revenue. In 1979, Coca-Cola became one of the first international consumer goods enterprises to enter China after China began its reforms and economic opening-up policies. Two years later, it set up the first factory in Beijing. By 2009, Coca-Cola had invested more than $2. 0 billion in China, set up 39 factories in China, and a syrup concentrate factory in Shanghai and a major agent factory for brand-name beverages in China in Tianjin. Coca-Cola's development strategy in China is via partnerships, with the company's products mainly produced by three groups: Swire Beverages, Kerry Beverage Operations Limited and COFCO Coca-Cola Co., Ltd. In 2000, COFCO jointly set up its group with Coca-Cola, holding 65% of the shares. Currently, COFCO is the controlling shareholder of six Coca-Cola subsidiaries, 11 subsidiaries, and has Coca-Cola franchises in 14 provinces in China. Swire and Coca-Cola have nine joint ventures in China. In cities in South China and coastal cities in East China controlled by Swire, the sales volume of Coca-Cola is large. In August 2006, Kerry and Coca-Cola ended the 14-year partnership. Coca-Cola Global Racking System Company acquired 11 factories of Kerry in nine Chinese provinces. For sales, Coca-Cola divides the entire country into several sales regions, with bottling factories in the center of each region. In central cities of sales regions, factories are directly responsible for sales, while surrounding areas beyond the sales center are in charge of subsidiaries. Coca-Cola's business has grown rapidly in China, which makes China the fourth-largest market of Coca- Cola in the world. In 2001, Coca-Cola moved its Greater China headquarters from Hong Kong to Shanghai. In the next few years, it will increase investments in China greatly. Important phases of Coca-Cola's business development in China: (1) In 1979, first exported Coca-Cola drinks to China; (2) In 1980, the first Coca-Cola bottling factory was set up in Beijing; (3) In 1984, Xiamen factory was completed, and Sprite and

Fanta were launched; (4) In 1985, the first bottling joint venture was put into production in Zhuhai; (5) In 1988, the first Coca-Cola syrup concentrate factory was put into operation in Shanghai; and, (6) In 1997, the first non-carbonated drink factory was established in Dongguan. In 2007, the 30th bottling joint venture - COFCO Coca-Cola beverage (Jiangxi) Co., Ltd. - was put into production in Jiangxi, which was also the 36th Coca-Cola factory in China. Coca-Cola also invested $80 million to build an innovation and technology center and China headquarters in Shanghai. Currently, Coca-Cola's major products include beverages (contributing 75% to sales revenue), bottled drinking water (5%), and fruit juice and tea beverages (20%). The company also formed an alliance with Nestle to produce carbonated tea beverages under the Nestle brand, called Nestle Iced Tea. At present, Coca-Cola is actively developing the non-carbonated drink market further. Coca-Cola also attaches great importance to environmental protection. In July 2008, its 2007 Sustainable Development Report showed that the utilization rate of water and energy resources increased by 9% and 7%, respectively, while the solid waste production rate decreased by 14%. In March, 2009, Coca-Cola announced a further $2 billion investment in China in the following three years. Factories in Jiangxi province and Xinjiang Uygur Autonomous Region will be put into operation to take the total factory number in China to 39.

Coca-Cola financial analysis

Coca-Cola has produced steady growth in China in recent years. Revenue from its main businesses increased strongly to a forecast $3. 34 billion in 2010. In 2005 to 2006, newly established factories drove the significant increases of revenue from the main businesses. However, profit growth has declined since 2005 due to the expanding investment scale, and new factories that have a relatively weak profitability level initially. Further, rising costs of sugar, orange pulp, and packaging, also caused profits to decrease. Advertising costs, such as Coca-Cola's sponsorship of the 2008 Olympics, also increased expenses.

Financial Performance of Coca-Cola (China) Beverages Limited - 2005 to 2010*

3. 6. 2. Pepsi (China) Limited

Market Share: 32. 0%Pepsi-Cola is the second-largest carbonated soft drink brand in the Chinese market. In the East China market, Pepsi's market share exceeds that of Coca-Cola. Apart from beverages and non- carbonated drink businesses, Pepsi (China) Co., Ltd. also has snack-food businesses in China. Sales revenue of carbonated drinks account for about 65% of its beverage revenue. In 2008 and 2010, Pepsi-Cola announced to add its investments in China, valuing about $3. 5 billion by 2013. The company's first " green factory" in Chongqing was also put into operation, while it announced it would enter the juice beverage field in 2009. In 2010, its new factory in Nanchang gained the LEED (Leadership in Energy and Environmental Design) Gold Certificate, achieving obvious effects of water saving and energy conservation. Pepsi's operation in China dates back to the beginning of China's economic reforms. In 1981, Pepsi and the Chinese Government signed a contract to set up a Pepsi factory in Shenzhen, becoming one of the first US businesses to enter China. Pepsi currently has over 40 joint ventures or wholly owned enterprises throughout China with a total investment of over $1 billion, and nearly 10, 000 employees. By the end of 2006, Pepsi's beverage business had 20 factories in 20 Chinese cities and one wholly owned syrup concentrate factory. Pepsi Guangzhou is the core of Pepsi's Chinese system, and is the only syrup concentrate producer of Pepsi in China, providing products for all domestic Pepsi factories. Pepsi's flagship brands include carbonated soft drinks, which jointly contributed 65% to the company's total revenue, such as Pepsi-Cola, 7-Up, Mirinda, Diet Pepsi, Pepsi Twist and Mountain Dew. It also produces Tropicana Pure Premium's Dole juice series, sports drink Gatorade and Lipton ice tea. From 2005 to 2010, Pepsi's main businesses in China also increased steadily in terms of sales revenue. Total profit in 2006 dropped for the first time, by 5. 6% from 2005. The industry's total profit decreased due to increasing costs and high advertising and promotional expenditure before the 2008 Beijing Olympics.

Financial Performance of Pepsi (China) Limited - 2005 to 2010*

3. 6. 3. Foshan Sanshui Jianlibao Trading Co., Ltd.

Market Share: 3. 6%In 1984, Jianlibao beverage products were first launched in China and became well known and popular in the 1980s and 1990s. In 1999, Jianlibao Group entered the Top 10 list in China's Beverage Industry, but fell in popularity only a few years later. In 2002, Zhejiang International Investment and Trust Co., Ltd. acquired Jianlibao. From then on, Jianlibao Group transformed from a state-owned enterprise to a private enterprise. Jianlibao's product structure focuses on carbonated soft drinks. The carbonated drink Jianlibao accounts for 55% of company revenue, while the non-carbonated drink Fifth Season accounts for 45%. In 2006, Uni-President

Group acquired over 90% of the shares of Jianlibao and took control of the company. Company revenue increased sixfold in 2005 after Uni-President Group became a significant shareholder. In 2006, revenue increased a further 12. 8% as Uni-President Group gained full control and invested in networks, production and advertising. However, Jianlibao's losses continued in subsequent years. Since 2006, more investment has been made in new product development and promotion, resulting in higher expenses and larger losses.

Financial Performance of Jianlibao Trading Co., Ltd. - 2005 to 2010*

3. 6. 4. Hangzhou Wahaha Future Cola Beverages Co., Ltd.

Market Share: 2. 4%Hangzhou Wahaha Future Cola Beverages Co., Ltd., a subsidiary of Wahaha Group, is the largest domestic carbonated drink producer in China, and its principal carbonated drink brand, Future Cola, has an annual sales volume of 6 billion tons. Wahaha Group is the shareholder or controlling shareholder for over 100 subsidiaries or joint ventures in 26 provinces and cities. It has sales branches in all provinces and has nearly 20, 000 employees. Wahaha mainly engages in the development, production and sales of food and beverages, producing nearly 100 brands in eight categories including milk drinks, bottled water, carbonated drinks, tea beverages, fruit juice drinks, canned food, medical and health care products, and snacks. In 1998, Wahaha launched Future Cola, and it has now become the best-selling carbonated drink in the Chinese rural market. Since 2001, Wahaha has launched tea beverages, fruit juice drinks and dairy products. In 2006, Wahaha launched its fruit dairy drink brand Ying Yang Kuai Xian and children's fruit dairy drink brand Ru Wa Wa. The company plans to focus on the fruit dairy drinks segment in the future.

Financial Performance of Hangzhou Wahaha Future Cola Beverages Co., Ltd. 2005 to 2010*

3. 6. 5. Siping Hongbaolai Beverages Co., Ltd.

Market Share: 0. 8%Hong Bao Lai is a domestic carbonated drink brand in China. Its major products include beverages and ice-cream. Currently, the annual production capacity is 80, 000 tons of beverages and 60, 000 tons of ice- cream. Siping Hongbaolai Co., Ltd. is a leading enterprise in the beverage industry in Heilongjiang, Jilin and Liaoning provinces. Its products are sold in over 120 cities in 20 provinces in Northeast China, North China, East China, and Northwest China. It has sales subsidiaries in Harbin, Changchun, Shenyang, Tianjin and Nanjing, and 22 sales offices. The company now has three production bases: the headquarters, Tianjin and Jiaxing, and 14 product lines. In 1999, the company was reorganized to become a shareholding company. By acquiring the company's equity, Hangzhou Wanxiang Group Corporation and Jiangsu Huaxi Group Corporation, together with Hongzui Group became the three largest shareholders of Siping Hongbaolai Co., Ltd.

Financial Performance of Siping Hongbaolai Beverages Co., Ltd. - 2005 to 2010*

SOURCE: ANNUAL REPORTNOTE: * 2008-2010 DATA ARE ACMR-IBISWORLD ESTIMATES

3. 6. 6. Other Players

Tianjin Shifa Group Co., Ltd.

Tianjin Shifa Group Co., Ltd. was established in 1998. The company consists of more than 20 joint ventures, and its partners include Coca-Cola Company (US), Philip Morris Company (US), Khong Guan Biscuit Factory Pty Ltd. (Singapore), and Nutrexpa (Spain). Tianjin Shifa Group Co., Ltd is one of the top 10 key enterprises in Tianjin, and its main products include beverages, cold drinks, snacks, and tinned and baked food. Total assets of Tianjin Shifa Group Co., Ltd. totaled $73. 4 million in 2007, while revenue and profit fell considerably. Revenue and total profits have decreased from 2005 despite increasing investment. This was mainly due to the company's shift in focus towards long-term investment, controlling administrative expenses and operating activities. This is expected to see the company's position gradually improve in the future.

Jiangxi Runtian Changbei Beverage & Food Co., Ltd.

Jiangxi Runtian Changbei Beverage & Food Co., Ltd. has registered capital of $37. 5 million and its products include Runtian purified water, Runtian fruit juice, Runtian tea, Yiguan sports drinks and carbonated soft drinks. The company currently has five business departments in Jiangxi, Chengdu, Shenyang, Wuhan and North China (Shandong and Zhengzhou). It has 26 subsidiaries across the country, with an extensive sales network covering all the provincial capitals, district-level cities and 70% of the county-level cities.

Fujian Sky and Sea Eastern Food Group Co., Ltd.

Fujian Sky and Sea Eastern Food Group Co., Ltd. was established in 2004, in Fujian province. The company has registered capital of $3. 64 million, and its products include loquat flesh beverage, loquat tea, and compounded loquat and wild vegetable beverages. Since it was established, the company has developed strongly. In 2007, the company generated $26. 5 million of revenue and $1. 8 million of total profits, increasing by 106% and 102%, respectively, for the year.

Hubei Huabin Beverage & Food Co., Ltd.

Hubei Huabin Beverage & Food Co., Ltd. was established in 2005. The main product it manufactures, Red Bull, has become one of the major brands in the domestic soft drink market for its energy source and unique taste. In 2006, Hubei Huabin Beverage & Food Co., Ltd. generated $7. 5 million of industry revenue and $3. 4 million of total profits, with total assets of $43. 1 million.

Shanghai Relang Beverage Co., Ltd.

Shanghai Relang Beverage Co., Ltd. has registered capital of $1. 65 million and 550 employees. The company produces over 20 types of drinks in four series, including Relang and Great Shanghai. The products also gradually entered the interior market from economically developed East China. The company also operates as an OEM for international and domestic brands such as Heysong, Aquarius and Yanzhong.

3. 7. Macroeconomic indicators