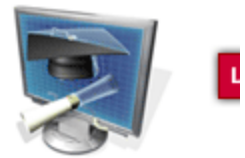


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Coke Pops The Top Off An Emerging Market

As Coca-Cola Co. ([KO](#)) struggles to put the fizz back into its German business, it can at least count on emerging markets such as Brazil, Russia, Turkey, and China to deliver a pop in sales. In Brazil, Coke's third-biggest market after the U.S. and Mexico, volume sales rose by 14% in the first quarter of 2005. Crucially, sales of trademark Coca-Cola, which have suffered in mature markets as consumers shift to healthier drinks, led the surge in South America's biggest economy, advancing 13%. "They're not suffering from the radicalism over health that has taken hold of Europe," says Márcio Kawasaki, a beverage-industry analyst at São Paulo investment bank Fator Doria Atherino. "Brazil is still a promising market."

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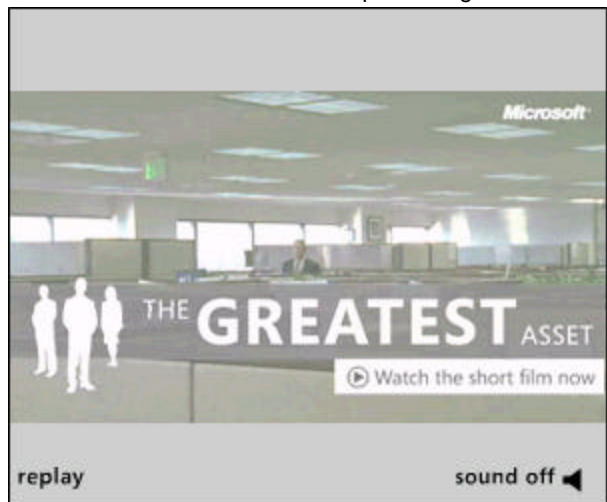
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 - International -- Editorials




The economy and the weather have helped. Sales started flat in 2004 but took off in the second quarter, riding on the feel-good factor of an expanding economy. After a decade of near stagnation, Brazil grew 5.2% in 2003. A mild winter and hot summer pushed sales higher. "The real problem for Coke is that it is a premium product competing with products selling for half the price," says Graham Wallis of

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Datamark, a São Paulo food and beverage consultancy. "As soon as the economy gets a little bit better, people start to trade up."

That's an issue in Brazil. Big brands like Coke, PepsiCo ([PEP](#)), and Guaraná Antarctica, a favorite Brazilian pop, must compete with so-called tubainas -- low-cost sodas made by local companies. Competitors say these upstarts keep prices low by evading taxes. With the end of high inflation in the mid-1990s, soft drink sales took off, growing by 60% from 1994 to 1999. The low-priced tubainas did best, capturing a third of the market.

Coke's initial response to the tubainas' assault was to cut prices. But that didn't help it win back market share, and profits were eroded. "We definitely had a struggle with profitability," says Brian J. Smith, head of Coke's Brazilian operation since 2002. "It didn't match up to our position [with] respect to volume."

That got Coke to focus on strategy. Packaging played a big part. Previously, Coke's beverages were available in just three formats in Brazil: standard 350-ml cans, two-liter PET bottles, and 290-ml glass returnable bottles for bars. Now the Coca-Cola brand alone comes in 18 different containers. By spreading sales across a wider array of formats, Coke can afford to price more competitively without sacrificing margins. The smaller formats also have allowed the company to capture sales among poorer Brazilians, who might not be able to justify the cost of a two-liter bottle of Coke but will splurge on a 200-ml bottle.

Thus Coke has been able to pump up earnings in Brazil even as its market share has stayed almost level. The soft-drink giant currently is moving heavily into returnable glass two-liter and 200-ml bottles, a move that could pay off if, as observers expect, the government brings in a surcharge on polluting PET bottles. Smith credits Coke's success in Brazil to better networking across the company. Many of the strategies applied in that country were first tested in neighboring Argentina and elsewhere. Now it's Smith's turn to show his colleagues in Germany how it's done.

By Jonathan Wheatley in São Paulo

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