

M&A Watch: Where To Locate The Worlds Most Attractive Soft Drinks Acquisition Deals

Contributed by Euromonitor International
Tuesday, 10 June 2008
Last Updated Thursday, 01 January 2009

Author: Rob Walker Jun 11th 2008 - Date Published

In the first of a series of articles on forecast acquisition activity, Euromonitor International sheds light on where to locate some of the most attractive deals. For further information on soft drinks research, please click here: [soft drinks](#)

Development of emerging market positions outside the BRICs is set to become a key competitive battleground for the industry's biggest hitters. When Muhtar Kent takes over as CEO of Coca-Cola on 1 July he is widely tipped to implement an acquisition tactic geared towards boutique-style deals in a broad range of targeted developing markets. Spreading risk across a wide spectrum of sectors and emerging market countries makes good strategic sense over the short to medium term, firstly because there is a shortage of attractive large-scale acquisition targets in the global marketplace, and secondly because the contagion of the credit crunch is likely to limit investment options in the developed markets of North America and Western Europe. There is little to dispute the attraction of emerging market growth stories in India, Russia, China and Brazil. In fact, the industry should expect new product development and acquisition activity to intensify in those markets over the next five years. However, it will also become increasingly important for the industry's biggest players to strengthen their positions in a broad range of second- and third-tier emerging markets. These are precisely the regions where micro deals could prove highly profitable long-term investments. The strongest forecast growth markets

According to the latest available data from Euromonitor International, the high-profile emerging market of India is forecast to be the world's fastest growing soft drinks story over the next five years, followed in order of ranking by Russia, Vietnam, China, Ukraine, South Africa, Egypt, Indonesia, Mexico and Argentina. Three of the BRICs, therefore, unsurprisingly figure in the top five forecast growth markets (Brazil ranks 18th in percentage terms, but jumps to sixth in absolute volume growth). It is equally important to point out that not one Western European country makes it into Euromonitor International's top 20 strongest growth markets for the 2007-2012 forecast period, while the US is ranked at 50 out of 52 countries. These projections reinforce the assumption that the contagion of the global credit crunch will be most influential on domestic consumption in the world's developed markets; however, the growth curve of domestic demand in the world's emerging markets should continue to head north. This is not to suggest that the emerging markets will be unaffected by economic instability in the US. Clearly, there will be significant downward pressure on all global economic activity and especially on those countries that are highly dependent on US trade, such as Mexico. The important point is that consumption of branded products in many of the emerging markets should continue to grow at an upbeat pace, at least for the short to medium term, because the growth platform created by a new generation of middle-class consumers, defined broadly in emerging market terms as people earning between US\$5,000-10,000 a year, is robust enough to withstand a negative macro-economic fallout.

Top 10 Soft Drinks Growth Markets, 2007-2012

Country	2007 total volume	2012 total volume	% Growth 2007-2012
India	5,4708,68558.8	9,56214,91656	7191,10653.9
Russia	44,97468,94853.3	4,0475,97347.6	40,475,97347.6
Vietnam	4,0475,97347.6	4,2016,06744.4	2,0682,97143.6
China	2,0682,97143.6	14,34520,37242	44,79261,12036.5
Ukraine	14,34520,37242	44,79261,12036.5	10,05313,61435.4
South Africa	44,79261,12036.5	10,05313,61435.4	
Egypt	10,05313,61435.4		
Indonesia			
Mexico			
Argentina			

Euromonitor International The key second-tier markets

Looking beyond India, Russia and China, each of which will continue to develop as key growth engines for the big multinationals going forward, Euromonitor International identifies Argentina, Indonesia, Ukraine, South Africa and Egypt as second-tier markets that are likely to attract important boutique acquisition deals over the next five years. Argentina, for example, is forecast to become the fourth biggest per capita consumer of soft drinks in the world by 2012 (See Euromonitor International comment Argentina, the comeback kid of Latin America). Leading local companies in the Argentinian market include RPB and Pritty, both potentially attractive boutique deal targets for the medium term. And in Indonesia, a high volume growth market that has tended to fly below the investment radar of the multinationals, the RTD tea division of the Sinar Sosro group could emerge as an attractive target asset for the long term. Riskier but potentially high yield countries for new acquisition activity are identified as Bulgaria, Poland, the Philippines, Thailand and Romania.

Crucially, the race to expand positions outside the BRICs will become a critical strategic playing field capable of defining the global soft drinks market into the longer term. The key will be to sift out the most attractive national and regional players in each market and map out those which will be most receptive to the type of distribution, technological and innovation muscle that the giant soft drinks companies can bring to the table. Herein lies the risk, but this will be lessened rather than increased if the acquisition activity is spread across a broad range of smaller and lower impact deals. In short, the evolving world order for soft drinks means that the multinational players will almost certainly need to broaden their emerging market portfolios. And in a climate where product diversity is increasingly important, there is arguably no better entry into a specific sector and second-tier market than through a targeted small-scale acquisition, especially in markets where local industry know-how is essential. Euromonitor International considers that the soft drinks industry will see a

burst of new smaller-scale deals over the first 12-month cycle of the Muhtar Kent tenure. Coca-Cola's competitors should, therefore, be ready and poised to action their own expansion drives into second-tier emerging markets. Failure to explore these options, or excessive focus on the BRICs, could leave Coca-Cola with a vice-like grip on the world's leading second-tier soft drinks growth engines across a wide range of sectors. This might not have a significant value impact on Coca-Cola's competitors over the short to medium term, but the long-term collective implications, both by volume and value, could be more damaging.

For further detail about this article and other related findings, please visit [Euromonitor International](#) by clicking here.