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PROFESSIONAL PAPER

## Suspension of Managerial Decisions in Relation to the Risks in the Business

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**ABSTRACT** – *This paper analyzes the importance of the elasticity of managerial decisions in different territories on the example of Coca-Cola Hellenic Group (CCH Group). Suspension of managerial decisions is an important part of the product life cycle. Previous studies have indicated the price elasticity different approaches depending on the life cycle stage through which the product moves.*

*Bearing in mind the business risks and “sensitivity” consumer prices, CCH Group’s own market divided into three segments: the country in which the sale has been established, developing and emerging countries. On the basis of this division is made portfolio marketing mix, in order to find “the right product at the right time in the right location at the right price”.*

*In addition to achieving the economic benefits to the countries it operates in, the company generates direct, indirect and induced impact on economic development.*

**KEY WORDS:** *elasticity, market segments, risks*

### Introduction

"Coca-Cola" is produced in the world since 1886, and in Serbia since 1997. The CCH Group is one of the largest bottlers of non-alcoholic ready-to-drink beverages in Europe, operating in 28 countries.

For more than 120 years of product sales "Coca-Cola" observed the movement that corresponds to the concept of product life cycle.

However, doing business in different countries points to the need for the concept of product life cycle and resilience management decisions supplement the risk analysis of countries in which it operates.

Today's sale under a number of country risk, ranging from political, economic, social to financial.

In emerging and developing countries, are subject to the risks of operating which include potential political and economic uncertainty, government debt crises, application of exchange controls, reliance on foreign investment, nationalization or expropriation, crime and lack of law enforcement, political insurrection, terrorism, religious unrest, external interference, currency fluctuations and changes in government policy.

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Financial risks of operating in emerging and developing countries include risks of liquidity, inflation, devaluation, price volatility, volatile energy prices, currency convertibility and transferability, country default and austerity measures resulting from significant deficits as well as other factors.

The CCH Group has a balanced mix of markets, including more mature in its established markets and developing countries and markets with high-growth potential in its emerging countries. This balance allows to minimise external financing of its long-term growth and limit its exposure to the effects of potential economic or political instability in some of territories .

Based on established a strategic tool which is called "OBPPC" (Occasion, Brand, Price, Package, Channel), achieved sales growth. In addition to the economic benefits realized and the impact on the country in which they carried on. It is the direct, indirect and induced impacts on employment growth and GDP. Effects of production groups is reflected in the provision of public goods in a socially responsible activities.

### **Elasticity of managerial decision-part life cycle of the product**

Analytical aspects of theoretical assumptions about the life cycle of products in the market based on the premise that the product life cycle is a function that in each period  $t \geq 0$  (0 indicates the time of launch of the product on the market), the intensity of reflected achieved sales of products on the market, expressed in quantitative or indicative values.

The life cycle of the product can be used to predict the demand, as well as to compare different brands of similar products (Hatton, 2000).

If the company understands the process of product development and market that is able to handle the product in a proactive manner (Levitt, 1962).

The typical S curve shows the relationship of the concept of sales over time. With the appearance of products on the market, increasing sales and profit because they invest in products and sales channels. Unit profits are increasing in the growth and decline, due to competitive pressure in the maturity stage (Levitt, 1965).

If the level is determined by the sale, then the life cycle stage of the life cycle stages that can be used to explain the sale level (Hunt, 1983).

The traditional concept of product life cycle ignores the competition and the fact that sales of products function marketing (Wind & Claycamp, 1976). Sales growth declines over time, why should monitor demand trends, techniques and competitors (Wiersema, 1982).

Generally, scholars agree that the price of the product varies due to the different elasticity at certain stages of the life cycle of product (Dean, 1950).

However, about the size of prices in certain phases of the life cycle, there are different views:

- 1) Product price should be higher in the initial stages of the life cycle

Mickwitz (1959) first pointed to the fact that management decisions need to be flexible and different as the product moves from one stage of the life cycle to another.

Empirical testing of this hypothesis comes from Parsons (1975). The conclusions of the testing, supports the theory Mickwitz the elasticity of demand varies over time.



Management activities should be higher in the first years of the product life cycle, which prevents penetration imitative products.

Dino (1985) identified three stages of the fall in prices of electronic products: market launch, growth and maturity.

The relationship between the product and the price, and can be represented as follows: new product introduction rate should be as high as possible with intensive promotional activity; product price is reduced movement of products through different phases due to the pressure of competition and the stage of saturation of the product, the market price is formed as a standard and as such must be accepted by buyers and sellers (Schafter&Roper, 1985).

2) The price of the product reaches a minimum at the stage of maturity

The analysis of 43 German product, Simon (1979) has established a dynamic model of sales, according to which the price elasticity decreases in the introduction stage and growth, reaches a minimum at the stage of maturity and increases in the stage of decline.

That the price of the product has a minimum value in stage of maturity indicated MacMillan (1982). The cost of advertising and promotion are the most important at this stage. Sales can not expand the market without additional marketing efforts and loyal customers.

3) Prices are falling at various stages of the life cycle, and in the later stages can be increased (Wernerfelt, 1985).

Identical conclusion came Karnani (1984) based on an analysis of market share in the various stages of the product life cycle. Product is essential to build market share as early as possible in the growth phase because the value of shares in market fell most at this stage. Reduction of the share is slower in the later stages.

## **Markets of the CCH Group**

The CCH Group has primary responsibility for controls, the customer relationships and route to market in each of its territories and develops and implements its own sales and marketing strategy in each of its relevant territories in a formula: availability; affordability; acceptability; activation and attitude (Prospectus, 2012).

Availability means placing the CCH Group's range of products within easy reach of consumers in the "right" package, in the "right" location, at the "right" time.

Affordability means offering a wide variety of desirable, premium quality products, in packages appropriate for the occasion, at the "right" price. In doing so, the CCH Group aims to reach as many consumers as possible while taking into account the differing levels of purchasing power in the territories in which it operates.

Acceptability means supplying an extensive and growing range of products that meet the highest quality standards in each country, enhancing their acceptability to consumers.

Activation means motivating consumers to choose the CCH Group's products by improving product availability and attractiveness at the point of purchase and by building brand strength in its local markets.

The CCH Group achieves this in close cooperation with its customers through the placement of cold drink equipment, such as coolers and vending machines, the provision of



signage and other point of sale materials and the implementation of local marketing and promotional initiatives.

Attitude is about the way the CCH Group's sales representatives and its people behave every day in their interactions with the customers ensuring that the CCH Group meets their needs with an objective to become a preferred supplier.

The CCH Group divides its territories in which it operates into three reporting segments<sup>2</sup>:

1) established countries, which are Italy, Greece, Austria, the Republic of Ireland, Northern Ireland, Switzerland and Cyprus;

These countries have traditionally enjoyed a relatively high degree of political and economic stability and have broadly similar economic characteristics. They typically exhibit higher levels of disposable income per capita relative to the CCH Group's developing and emerging countries, which enhances the affordability of the CCH Group's products, especially its more profitable single-serve packages designed for immediate consumption.

2) developing countries, which are Poland, Hungary, the Czech Republic, Croatia, Lithuania, Latvia, Estonia, Slovakia and Slovenia;

All of the CCH Group's developing countries have market-oriented economies. The developing countries generally have lower disposable income per capita than its established countries and continue to be exposed to economic volatility from time to time.

The CCH Group's developing countries are typically characterised by lower net sales revenue per unit case than in its established countries. TCCC's<sup>3</sup> products were introduced in the early 1990s in most of the CCH Group's developing countries, where they have since become established premium brands.

In addition, consumers tend to be more price-sensitive in the CCH Group's developing countries than in its established countries. Consequently, the CCH Group's products often face competition from local non-premium brands, which, in a number of cases, have been present in the market for many years and remain popular with consumers.

3) emerging countries, which are the Russian Federation, Romania, Nigeria, Ukraine, Bulgaria, Serbia (including the Republic of Kosovo), Montenegro, Belarus, Bosnia and Herzegovina, Armenia, Moldova and Macedonia.

These territories are, according to the CCH Group, exposed to greater political and economic volatility and have lower per capita GDP than the developing or established countries. As a result, consumer demand in the this countries is especially price sensitive, making the affordability of the products even more important.

The CCH Group seeks to promote its products through a strategic combination of revenue growth management, packaging and promotional programmes taking into account local economic conditions.

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<sup>2</sup> pages. 57-58, Prospectus, 2012.

<sup>3</sup> TCCC (The Coca Cola Company) is one of the largest independent bottler. TCCC could exercise its rights under the bottlers' agreements with the CCH Group in a manner that would make it difficult for the CCH Group to achieve its financial goals. For more details see "Bottler's agreements" in part IV: "CCH Relationship with TCCC, Kar-Tess Holding and Other Related Parties", page 118, Prospectus, 2012.



Most of the CCH Group's emerging countries are characterised on average by lower net sales revenue per unit case than its established and developing Countries.

The CCH Group believes that its emerging countries provide significant growth opportunities. Some of the factors that influence these growth opportunities include relatively low consumption rates, population size (especially in the Russian Federation, Nigeria and Ukraine) and favourable demographic characteristics.

Like any company, Coca-Cola system depends on the economic environment in which it operates (see Table 1).

*Table 1. SWOT analysis of the market in the territories CCH Group*

<b>Strengths</b>	<b>Established countries</b>	The availability of a large number of products	Political and economic stability	<b>Established countries</b>	<b>Opportunities</b>
	<b>Developing countries</b>	Brand products	GDP growth Political stability	<b>Developing countries</b>	
	<b>Emerging countries</b>	The low price of the product Household consumption	Size of countries and favorable demographic characteristics	<b>Emerging countries</b>	
<b>Weaknesses</b>	<b>Established countries</b>	Different preferences about consumer	The financial crisis	<b>Established countries</b>	<b>Threats</b>
	<b>Developing countries</b>	Lower net income per unit of product	The financial crisis	<b>Developing countries</b>	
	<b>Emerging countries</b>	Distribution system	Political and economic instability Unemployment The financial crisis	<b>Emerging countries</b>	

Macroeconomic conditions had been positive in the CCH Group's developing countries in years prior to 2008, with all territories experiencing positive real GDP growth. However, economic growth has slowed or reversed in the last three years as a result of the global financial and credit crisis. In 2012 and 2011, GDP growth and unemployment stabilised in the CCH Group's developing countries compared to 2010, when GDP growth declined and unemployment increased. Currency fluctuations can have an impact on the CCH Group's net sales revenue in its developing countries, particularly in times of high economic volatility.

The CCH Group's emerging countries were the first to be affected by the global financial and credit crisis of 2008. Since then, the CCH Group has not experienced concrete and sustained evidence of recovery.



Even though GDP appears to have stabilised and in some cases returned to growth in 2011 and 2012 in some of these territories, unemployment remained at relatively high levels and currencies were very volatile, particularly in the first half of 2012.

The following table illustrates certain key economic indicators for the territories within each segment for the year ended 31 December 2012 (see Table 2).

*Table 2. Economic indicators for the Territories of CCH Group*

	<b>The CCH Group's Country total volume (million unit cases)</b>	<b>Country population (million)</b>	<b>GDP per capita (\$)</b>
Established Countries	670,9	90,7	35,609
Developing Countries	393,4	77,2	13,945
Emerging Countries	1.011,9	412,9	6,732
All Territories	2.076,2	580,9	12,202

*Source: Prospectus relating to Coca-Cola HBC AG (2012)*

A substantial proportion of the CCH Group's operations, representing 61,6% of net sales revenue in the 2012, 61,4% in the 2011 and 57,7% in the 2010, is carried out in its Emerging and Developing Countries (see Table 3).

*Table 3. The share of sales in the total sales to various territories (%)*

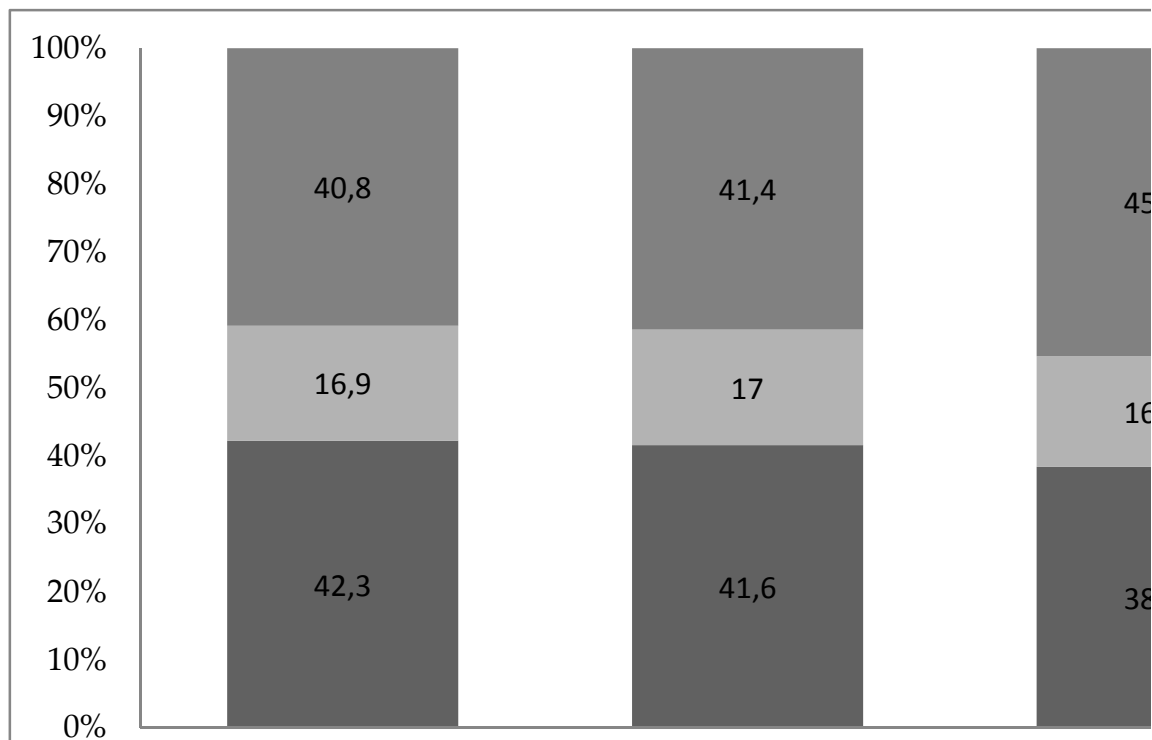
	<b>2010.</b>	<b>2011.</b>	<b>2012.</b>
Established Countries	42,3	41,6	38,4
Developing Countries	16,9	17	16,3
Emerging Countries	40,8	41,4	45,3

*Source: Prospectus relating to Coca-Cola HBC AG (2012)*

The largest increase in total sales from 2010 to 2012 was recorded in emerging countries. Reduction of the share in sales of products the company recorded established countries (see Figure 1).



Figure 1. The share of sales in the total sales to various territories (%)



But, although the decline, in recent years, the CCH Group has experienced significant growth in a number of its developing and emerging countries. As its business continues to grow and the level of its investment in such countries increases, is faced with the challenge of being able to attract and retain a sufficient number of qualified and experienced personnel in an increasingly competitive labour market. The company ability to sustain its growth in these countries may be hindered if it is unable to successfully meet this challenge.

Some of emerging and developing countries lack the institutional continuity and strong procedural and regulatory safeguards typical in its established countries. These risks are prevalent in the Russian Federation, Nigeria and Romania, which are the largest territories of the CCH Group's emerging countries reporting segment in terms of volume.

The lack of institutional continuity also exacerbates the effect of political uncertainty in the CCH Group's emerging and developing countries, which in turn, could adversely affect the orderly operation of markets, consumer confidence and consumer purchasing power, thereby reducing the profitability and limiting its growth prospects in these emerging and developing countries. Institutional uncertainty is a risk that is particularly pertinent to the Russian Federation and Nigeria. Problems in these countries also is in some emerging and developing countries where corruption can create a difficult business environment.

### Portfolio marketing mix instruments in the territories in which it operates CCH Group

The CCH Group offers its products in an range of flavours and package combinations which vary from country to country. Beverages are offered in both refillable and non-



refillable packages and in a range of flavours designed to meet the demands of its consumers. The main packaging materials for the beverages are pet packaging, glass and cans. Also, customers are offered fast food restaurants and other immediate consumption outlets with fountain products.

This Group produces, sells and distributes Sparkling, Still and Water beverages in all of its territories.

In the 2012, Sparkling beverages accounted for 68% of the sales volume (Coca-Cola 41%, Fanta 10%, Sprite 7%, Bonaqua 5% and Nestea 5%). Still and Water beverages, principally, Bonaqua, Dorna and Valser waters, Cappy juices and Powerade, together with Nestea, accounted for approximately 32% of the sales volume.

The CCH Group, together with TCCC, conducts market analyses to better understand unique shoppers and purchase occasions in different trade channels. The principal focus has traditionally been on the core Sparkling brands: Coca-Cola, Coca-Cola light, Coca-Cola Zero, Fanta and Sprite, including the Still drink categories of ready to drink tea, energy, juice, sport drinks and water. This full portfolio of products provides consumers with a range of choices to meet their refreshment, well-being, health and fitness needs.

Product portfolio refers to starting or acquiring new brands as the CCH Group has done in the past with Dobry, Nico and Rich in the Russian Federation, Bankia in Bulgaria, Rosa, Next and Su-Voce in Serbia, and Lilia and Lilia Frizzante in Italy.

The most important trend generally affecting the future consumption channel in the CCH Group's established countries is an increasing concentration of the retail sector. The CCH Group has taken initiatives to consolidate its production network by rationalising facilities, through consolidation, relocation of manufacturing lines, and streamlining of warehouses.

The CCH Group's business in Italy encompasses the manufacture and distribution of the products of TCCC, as well as water products of Fonti del Vulture S.r.l. across all of Italy, excluding the island of Sicily.

In the Greek combined Still and Water beverages category, where it is the leading producer of fruit juices with its Amita and Frulite brands in terms of sales volume and value.

In the Austria Sparkling beverages portfolio includes Mezzo Mix and Almdudler, a popular national sparkling beverage, as well as the energy drinks Burn and Monster.

Sparkling beverage brands in Switzerland include Ali and Kinley, Water category brands include Valser mineral water, Nestea ice teas, Minute Maid juices, Powerade sports drinks and Monster in the energy sub-category.

Mix of Sparkling, Still and Water beverages provides the CCH Group with flexibility to address the changing preferences and tastes of Swiss consumers. In the hotel, restaurant and cafe channel, representing nearly 40% of the Swiss volume, the distribution system for non-alcoholic ready-to-drink beverages relies primarily on wholesalers that are highly concentrated.

The strategy in the Republic of Ireland and Northern Ireland has been to diversify its portfolio of Sparkling, Still and Water beverages. The CCH Group's brands in the juice sub-category include Fruice, Pure juice and Oasis.

In developing countries consumers in these markets have shown an increasing interest in branded beverages associated with well-being and fitness, such as water and juices. CCH





Group is committed to maximising these opportunities by introducing existing and new products, flavours and packages in both the future consumption and the immediate consumption channels.

Poland is the CCH Group's largest developing country in terms of both population and sales volume. The portfolio of Water brands in Poland includes Kropla Beskidu and Multivita Kropla Mineralow, whilst its portfolio of energy brands was enlarged with the addition of the Monster brand. The CCH Group has invested in cold drink equipment, an upgrade of its aseptic line to improve production reliability and reduce costs, a new environmentally friendly water bottle and new Sparkling beverages packages were introduced.

Hungary is the largest bottler of non-alcoholic ready-to-drink beverages. The CCH Group's Sparkling beverages brands in Hungary include Kinley and Lift, while Still and Water beverages brands include Naturaqua mineral water and Naturaqua Emotion (flavoured water). The CCH Group distributes a portfolio of premium spirits, including Brown-Forman, Bacardi Martini products and a Hungarian spirit called R'ezangyal.

In some of the CCH Group emerging countries, consumers are showing particular interest in juices and branded waters. In general, the CCH Group's emerging countries have a relatively undeveloped distribution infrastructure and a fragmented retail sector.

The CCH Group produces and sells in the Russian Federation other products of TCCC, such as popular local brands Fruktime and Dobry Lemonade, as well as Schweppes-branded mixer products, "Kruzhka i Bochka", which is a traditional malted beverage called "Kvass" and juice brands in the Russian Federation include Rich and Dobry.

The CCH Group's Sparkling beverage brands in Nigeria include a range of Schweppes products and Limca. Still beverages category brands include Eva bottled water, Dorna water, Schweppes-branded mixer products, Cappy juices and Nestea ice tea, Burn energy drinks and illy cafe.

In all territories Group develops strong relationships with its customers by combining market, consumer and shopper insights with execution at the point of sale. The CCH Group supports such market execution by conducting regular customer satisfaction surveys which assess its competence using a variety of measures, from supply chain reliability, sales force effectiveness, delivery of strong product and marketing promotions, through to overall responsiveness and issues resolution. Also works closely with TCCC to execute coordinated brand and commercial strategies for each of its established, developing and emerging countries.

The CCH Group seeks to integrate consumer marketing and sponsorship activities with its retail promotions. At the same time, these sponsorship initiatives complement the CCH Group's local initiatives, which involve active participation of events, from musical and entertainment promotions to cultural and festive occasions and variety of national celebrations.

### **Impact of business policy CCH Group on economic development of Serbia which is part of developing countries**

Coca-Cola Hellenic Serbia is located in Zemun and occupies an area of about 65.000 m<sup>2</sup>. Coca-Cola beverage products to local bottlers of Coca-Cola Hellenic Serbia, which buys syrup concentrate from Coca-Cola. The business is divided into three units: Coca-Cola Hellenic Serbia (soft drinks), Vlasinka (mineral water) and Fresh&Co (soft drinks and fruit juices). Product portfolio includes leading global brands such as Coca-Cola, Coca-Cola Zero, Fanta, Sprite, Schweppes, Nestea, Burn and Ultra Energy, then local brands such as Rosa, Next, Su-fruit and Joy.

The bottling plant employs local workforce and generates revenue directly at the factory, but also supports employment, income and tax revenue throughout the economy by purchasing goods and services from suppliers and selling their products through a widely diversified distribution network (including hotels, restaurants and supermarkets) where a large part of the revenue depends on the consumption of Coca-Cola products. Therefore, the influence of Coca-Cola on the development of Serbia is seen as: direct (associated with the Coca-Cola system), indirect (associated with trade partners and suppliers) and induced (related to household consumption) (Table 4).

*Table 4. Direct and indirect contribution to the "Coca Cola" development of Serbia*

	<b>Type of impact</b>	<b>Amount</b>
Number of Employees in the Coca-Cola system	direct	1.300
The number of jobs in the economy thanks to jobs in the Coca-Cola system (ratio 1:13)	indirect	18.500
Local procurement	indirect	69 million euros
Tax	direct	3 million euros
BDP	direct	345 million euros

*Source: „Socio-economic impact of the Coca-Cola system in Serbia<sup>4</sup>“ (2011)*

Coca-Cola system employs 1.300 people and indirectly provides work for 18.500 people in the Serbian economy (or 0,62 percent of the total workforce in Serbia). The sectors that are closely related to Coca-Cola Hellenic Serbia as sugar production, transport and trade. The cost of sugar companies are associated with 450 jobs in sugar production, and indirectly with 110 jobs in agriculture. Transport of raw materials and transport finished products relating to 200 jobs. Traders involved in the sale of Coca-Cola products to consumers, bind to 13.000 jobs: 11.000 jobs in the HoReCa sector (direct consumption) and 2.000 jobs in retail (deferred consumption).

Value added per worker realizes that Coca-Cola is above the national average. Direct value added Coca-Cola system is 25 million (0,08 percent of GDP) and is connected to the 345 million euros of added value for the Serbian economy (or 1,18 percent of GDP).

Coca-Cola paid 3 million euros in taxes makes 1,6 percent of total tax revenue Serbia.

<sup>4</sup> The study "Socio-economic impact of the Coca-Cola system in Serbia" is based on an economic model that consists of "pulling" to the balance sheet of Coca-Cola system in tables and means of production in the various branches of the Serbian economy.



In addition it provides, "private goods to consumers in the form of soft drinks, Coca-Cola also provides "public goods" in Serbia as a whole, regardless of whether the inhabitants of Serbia buy the products or not. These public goods appear in various forms, but include social responsibility activities in areas such as environmental protection, education, assistance to socially vulnerable groups, promoting an active lifestyle and sponsorship of local activities including sports and cultural events.

## Conclusion

The company's operations in different parts of the world is influenced by a large number of opportunities and threats. Within certain groups of countries appear different risks so that the need for a comprehensive market analysis of individual countries to make their business more secure.

Market segmentation allows a deeper analysis of market access company and customer needs. In relation to the identified risks form the price of the product and make decisions about the types of products and distribution methods, in which the reflected and flexibility of management decision in relation to market segments. The existence of flexibility in management decisions, leading to higher profits, establishing brand products and economic benefits for the country in which it operates.

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## Elastičnost menadžerskih odluka u odnosu na rizike u poslovanju

**REZIME** – Ovaj rad analizira značaj elastičnosti menadžerskih odluka na različitim teritorijama na primeru Coca-Cola Hellenic Grupe (CCH Grupe). Elastičnost menadžerskih odluka je važan segment životnog ciklusa proizvoda. Dosadašnje studije su ukazivale na različite pristupe cenovne elastičnosti u zavisnosti od faze životnog ciklusa kroz koju se proizvod kreće.

Imajući u vidu poslovne rizike i "senzitivnost" potrošača na cene, CCH Group je svoje tržište podelila na tri segmenta: zemlje u kojima je razvijena prodaja, zemlje u kojima se razvija prodaja i zemlje u kojima je prodaja nerazvijena. Na osnovu ove podele izrađen je portfolio instrumenata marketing miksa, kako bi se pravi proizvod našao u pravo vreme na pravoj lokaciji po pravoj ceni.

Ostvarenjem ekonomske koristi u zemljama u kojima posluje, kompanija utiče direktno, indirektno i indukovano na privredni razvoj.

**KLJUČNE REČI:** elastičnost, tržišni segmenti, rizici

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