

COCA-COLA AMATIL (PNG) LTD

Review Paper-Wholesale and Retail Industry

Structure, Size and Characteristics

Coca-Cola Amatil (PNG) Limited (CCA) has been operating in PNG since June, 1991 and is a subsidiary of Coca-Cola Amatil based in Macquarie Street, Sydney, Australia.

CCA a manufacturer of 86 non alcoholic product beverages and currently employs approximately 600 people. CCA has one manufacturing facility based in Lae with operational sites based in twenty one urban centers right around the country. CCA has a customer base of over 10,000, whom “on sell” these products through various levels of wholesale and retail establishments.

CCA Operational Sites:

Southern Region – Port Moresby, Alotau, Popondetta, Kiunga and Tabubil

Highlands Region – Mt Hagen, Goroka, Kundiawa, Kainantu, Mendi and Wabag

Momase Region --- Lae, Madang, Wewak, Bulolo, Ramu and Vanimo

Islands Region --- Kokopo, Kimbe, Kavieng and Buka.

Demand for wholesale and retail services

A large percentage of products are sold to major wholesalers who on-sell to retailers particularly in the larger urban centers and in the more remote areas. The customer has access to two points of purchase either from a wholesale outlet or direct from a CCA operational center

Controls on Wholesale and Retail Price

There is a fixed wholesale price which enables all wholesalers to purchase product at the same price nationally.

This is achieved by CCA paying all freight costs to ensure there is no pricing disadvantage because of business location

Retail pricing can only be set as a recommended retail price and although CCA wherever possible actively pursues standard pricing nationally we accept market forces may determine the actual retail price point in any given area.

Sugar is a large part of our raw material costs and is one of the major impediments we face. Ramu sugar is protected with a 70% tariff rate and as a major component of the manufacturing of soft drink, makes it very difficult to provide a localized competitive product. This tariff protects a business that provides inferior product that requires additional investment to meet production standards. In fact some products we manufacture require us to import product so as to ensure we meet quality standards.

Another issue is actual supply, in recent years Ramu have been unable to meet our requirements and have imported product which has again increased costs as our production facilities have to be altered accommodate non conforming packaging and staffing has to be increased to cater for additional handling.

Consumer Protection

All products must meet international specifications set by The Coca Cola Company and the International Beverage Industry. Quality assessments are conducted regularly both internally and by independent external quality control analysts to ensure our product is always of international standard. This includes general packaging, labeling and ingredients panel standards that must conform to international guidelines.

CCA spent in excess of two million kina in 2006 / 2007 financial years and a further eight hundred thousand kina in 2007 / 2008 to support the PNG Made Campaign.

This investment was made to protect CCA from cheaper foreign imported product that were released into the PNG market with little or no controls on duty paid and failed to meet PNG Food and Packaging laws.

Customs Department appears to be ill-equipped to address these issues. The Customs Department should be up-skilled in the latest information technology and equipment required to carryout compliance work to protect local industry. Inadequate measures in checking validity of invoices, declaring prices, product quality checks makes it very easy for entry of illegal or inferior goods at the expense of the local industry.

Transportation.

Transport is fundamental to the distribution of products. The cost of transporting products to customers is 100% borne by CCA

This cost is obviously a significant investment in getting our product to market, however high insurance premiums are also paid due to poor road conditions and shipping infrastructure to insure against inadvertent loss and damage to stock in transit.

The road conditions on the major highways and rural roads severely affect accessibility to market. The expense incurred in keeping a fleet of two hundred and fifty plus vehicles operational and in a road worthy condition is enormous and a major component of that expense can be directly linked to poor road and highway conditions between major towns, cities and provinces.

There is a serious need to rejuvenate the transport and shipping industry to encourage new entrants in to the market because at the moment there is little opportunity to exercise choice within the industry as it's so limited in service levels.

There is a need to properly regulate the shipping industry more closely to ensure all international and PNG safety standards are maintained and freight rates are reasonable.

Law and Order

The provision of security to protect staff, property and stock in transit is more than two million kina per year due to persistently high levels of criminal activity. It's an additional cost leveled squarely at industry and can not be claimed as a deduction.

The Police Force is not providing the degree of service required by business against the current level of criminal activities.

Compensation demands by people is another huge impediment to business. It encourages people to take the law into their own hands and further compounds the law and order

problem. For businesses to grow and prosper compensation demands must be better controlled by regulatory bodies and our experience reinforces our belief that the majority of these cases can only be seen as extortion attempts.

Health and Quarantine

Used Coca Cola PET bottles are re-used by street vendors in the informal sector to sell other beverages such as cordial, water etc. This is a misuse of product trademark and importantly a risk to consumer re water-borne disease infections. The bottles are not sanitized before its re-use and in some cases washed in waste water drains?

The actions of these vendors places the company in a very vulnerable position and increases the risk of consumer back lash as a result of trade mark association.

There is a need for a regulatory body to look after the informal sector to ensure that the sale of beverages and other consumable items meet food and beverage regulations.

Infact, all current regulatory requirements in place do need to be reviewed such as the Food and Sanitation Act which provides for wholesome, sound and safe food for human consumption.

Utilities

The supply of electricity, telephone, and water is unreliable and inefficient. However the business pays high costs for these utilities. The rates charged do not equate to the level of service provided.

Electricity is subsidized by CCA's own generators when PNG Power supply is out however the overall cost is still high. Spiking damages equipment and machinery and CCA has experienced several incidents and had to repair or replace over two million one hundred thousand kina worth of equipment as a result of poor power supply.

Telephone and Water suffer from similar supply and service inadequacies that also increase general operational costs and impedes time to market requirements.

The cost of airfares and the limited choice of air travel add to the expensive travel faced within the country. There is a need to encourage the airline industry to allow new entrants into the market. The unreliable schedules add extra cost in time and money to CCA Management and staff who travel regularly by airlines.

There is a dire need to de-regulate these utilities i.e. electricity, telephone and water to bring competition and drive costs down.

Summary

All points detailed are serious impediments to our business, and as a result are major barriers to achieving an effective efficient business operation.

We need government support that ensures processes and procedures are appropriately managed and controlled.

The bottom line is we need the recognition that local manufacturer's contribution to the financial and social economy is enormous and must be protected.

The fact is without proper structures to ensure the appropriate controls and support is in place, businesses such as ours and others will be left with no option but to seriously consider relocation and possibly become importers.

Submitted by:

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