

Potential lures Coke to Kabul

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They call it "Black Fanta."

Afghanis, especially the older ones, love Fanta so much that many use the orange soft drink as a moniker for its darker cousin, Coca-Cola.

The love Afghanis have for their sugary drinks has convinced The Coca-Cola Co. to take a major gamble, setting up a state-of-the-art bottling and production plant in Afghanistan's capital city of Kabul.

Coca-Cola, which has become the first major corporation to plant a flag in Afghanistan since the Taliban took over in the mid-1990s, sees a huge, untapped opportunity in the impoverished nation.

The war-torn Afghan people, although poor, still have money to buy soda. And Coca-Cola (NYSE: KO) is the first to enter the market, an empty canvas full of risk but brimming with potential.

The grand opening of Coca-Cola's \$25 million plant on Sept. 11 -- exactly five years after the 2001 terrorist attacks -- was such a big deal for Afghanistan that the opening attracted President Hamid Karzai. After all, no major corporations exist there. And at full operation, the plant, the most advanced in the region, is expected to support thousands of jobs in a country with a 40 percent unemployment rate.

At the event, Karzai exclaimed how good the investment would be for Afghanistan, a country that derives a third of its income from the opium trade.

As for how good the investment will be for Coca-Cola (NYSE: KO), though, that remains a big question. Coca-Cola, which operates in more than 200 countries, had operations in Afghanistan from the 1970s until the early 1990s, until escalating violence forced the company to pull the plug. So Coca-Cola knows how to do business there. But now, in addition to the constant threat of terrorism, the company has to deal with a host of problems, including an already-weak infrastructure damaged by decades of war.

"It's a challenge to do business there," said Selcuk Erden, Coca-Cola's Istanbul, Turkey-based manager for the Southern Eurasian region. "But we enjoy challenges."

The challenge has been even greater over the past few months, he says, because terrorist attacks have increased since May, after a year or so that was relatively stable. Just on Sept. 8, Kabul saw some of the worst violence in years when a suicide bomber murdered 16 people, two of them American soldiers.

Afghanis, 53 percent of whom live below the poverty line, have been drinking Coca-Cola products for decades. And being the only company to bottle its product in the country gives Coca-Cola a strong advantage over PepsiCo Inc., which imports its soft drinks into Afghanistan. For now, Erden said, both companies enjoy close to a 50 percent market share in the major cities. In the rural areas, he said, Coca-Cola enjoys a slight advantage.

Being first, however, could be a double-edged sword. Coca-Cola will not be able to learn from others' mistakes. And the company will have to start from scratch, devising its own security, production and distribution policies.

"The major advantage is to be the first one there," Erden said. "The major disadvantage is that you will have to discipline the market."

Perhaps the bigger issue is the fact that Coca-Cola is the first major corporate investor in Afghanistan in more than a decade.

Robert Finn, the first U.S. ambassador to Afghanistan after the U.S.-led 2001 invasion, had tried to get companies to invest in the country. But corporate investors were virtually impossible to find. Coca-Cola, he says, should be the model -- and a catalyst -- for others. If Coca-Cola finds success, he said, foreign investors should be willing to take the plunge.

"I'm very happy they're doing it," said Finn, now a lecturer at Princeton University. "Until Afghanistan develops an economy, it will remain an international basket case."

Kadri Ozen, who manages Coca-Cola's government and public relations for the region, says the company is expected to produce 3 million to 5 million cases of beverages next year, a low number by most standards. But given the security situation and the fact that the company is still building a distribution network in the mountainous country, he considers it a good target. For the near future, he says, Coca-Cola will distribute only to the major cities and will consider the outlying villages later. Distributing outside the country isn't even an option yet.

Coca-Cola's formula will be "exactly the same," Ozen says, but Fanta will be slightly more orange in color than its U.S. counterpart. The plant also is producing Sprite and is considering producing water, too. For now, the drinks will be sold in glass and plastic bottles. The plant makes the entire product, except for the concentrate, which is shipped from Pakistan.

In a recent trip to Afghanistan, Ozen saw Coca-Cola -- and Pepsi -- being sold everywhere. Because the people are so poor, with the average Afghani making \$200 per year, Coca-Cola products are sold for the equivalent of 20 cents per bottle. Drinks are often sold anywhere entrepreneurs can set up shop.

"Anyone having a stand or anything like two bicycles under a platform owns a shop," he said.

For a brand that is the symbol of Western capitalism, Coca-Cola has seen a remarkably warm reception in the Muslim country, Ozen says. Risks are great, he admits, but most are "appreciative" of the investment.

Even if terrorism is squelched and basic infrastructure -- electricity, water and roads -- are improved drastically, many more risks lay ahead, including political instability.

For example, in Pakistan, says corporate risk analyst Bryan Squibb, a large foreign bottler recently had problems when it opened up its first plant.

A local government at the last minute shut off water to the plant until the company paid a hefty and "discriminatory" tax, he said.

Similar problems could arise in Afghanistan, Squibb said, as instability might lead to new, less friendly local governments. Corruption and bribery also pose problems, experts say.

Finn, the former ambassador, said getting Afghans to drink Coca-Cola is the least of the company's worries.

"Everybody everywhere likes Coke," Finn said. "That's not the issue; it's all the other stuff."

Refreshing the world

A look at some far-off locations Coca-Cola operates in:

- Just opened a plant in Afghanistan, the first major corporation to set up operations since early 1990s.
- Has operations in the Amazon area, delivering beverages by boat down the river to indigenous population.
- Delivers Coca-Cola by icebreaker ships to parts of Antarctica.

Source: The Coca-Cola Co.