Epilogue

Consider this alternative title for the book: *Finding Common Grounds*.

It is imperative for a foreign company to manage its Chinese partner – that’s the core message of this book. However, there are two partners to a Chinese joint venture; and the subject matter of this book is therefore just one side of a bilateral effort that is incumbent on both a foreign company and its Chinese partner. In other words, there is a reciprocal subject matter in which an important facet entails the Chinese company’s management of its foreign partner.

Seen in this light, a foreign company’s management of its Chinese partner is also about finding common grounds.

All the Players found common ground with their respective Chinese partners at the start of their joint ventures, but Danone’s gaps with Zong Qinghou widened beyond the point of no return whereas Nestle, Coca-Cola and SABMiller continued to find common ground with Rong Yaozhong, COFCO and China Resources respectively.

On a personal basis, I first went to China (Beijing) in early 1993 on a seconded job assignment at two Chinese joint ventures. The pollution was bad, phlegm spitting was a common sight, and the toilet at the office of my Chinese client was not for the faint-hearted. The local Chinese were nice and hospitable, but working with them proved to be an exercise in frustration. It was not very pleasant. One day, a taxi driver told me that city government had slapped a ban on the use of coal during certain hours in an attempt to clear the air, literally – Beijing had bid for the 2000 Olympics and the International Olympics Committee was due for a visit soon. I did not verify the authenticity of that conversation but it struck me as a rather odd government measure, especially in the midst of a freezing Beijing winter. I left Beijing during spring, relieved that those hours of trying to understand and work with the local Chinese were finally over, and that I was heading home. In 1994, I was lured back to China by a generous expatriate pay package, this time to Shanghai as a full-time employee. Again, it was not very pleasant but the pay and perks were good, and I stayed on. One day, it dawned on me as a foreigner working in China, to start looking for common ground with my host country and the local Chinese, colleagues and clients alike.

Today, more than 20 years after my first trip to Beijing, I am still at it – looking for, and finding, common ground in China both at work
and play. It is still work in progress, but has been and continues to be a satisfying endeavour. Of course there are difficult moments, but it is no longer unpleasant. The air is still not very good though, and there remains a wide range of daunting issues that need to be worked on in China.

Needless to say, China’s progress has also been phenomenal, at least from my personal perspective having experienced, at first hand, how the country and her people have changed since 1993.

It is my hope that foreigners and foreign companies will come to find their common ground in this 5,000-year-old country which gave the world the compass, gunpowder, paper and printing.
Appendix 1

Brief explanation: legal structures for foreign companies in China

By way of background reading, set out herein is a brief explanation on the legal structures which foreign companies typically adopt for operating in China: joint ventures, strategic alliances and wholly foreign-owned enterprises.

A joint venture is a legal entity, like an incorporated company, that a foreign company and a Chinese company invest in for the purpose of doing business together in China; that is they are shareholders in a joint venture. A foreign company can hold a controlling (more than 50%), non-controlling (less than 50%) or joint-controlling (50%) stake, which can be done either by investing directly in the existing Chinese company, thereby changing it into a joint venture, or through the establishment of a new joint venture from the start. The extent of a foreign company’s involvement in the management of the joint venture is typically a key negotiation term prior to its investment. The Chinese shareholder of a joint venture is usually referred to as the Chinese joint venture partner.

A strategic alliance does not result in the formation of a joint venture. Instead, a foreign company and a Chinese company execute an agreement to work together based on a common strategic interest, typically leveraging on each other’s respective competencies in areas such as technology, marketing and distribution. In some instances, a foreign company will also take a small equity stake in its Chinese strategic partner (the counterpart Chinese company), which it can subsequently increase in tandem with how well the strategic alliance is progressing (i.e. with better visibility and increasing confidence) or sell in the opposite scenario.

A wholly foreign-owned enterprise (commonly known just as WFOE, pronounced woo-fee) is exactly what one would expect: a foreign company’s wholly owned subsidiary in China. This can result from the 100% acquisition of a Chinese company by a foreign company, or from a foreign company’s complete buyout of its Chinese joint venture partner. A foreign company’s buyout of its Chinese joint venture can be
motivated by better visibility and confidence in the future of the joint venture, and/or dissatisfaction with the joint venture partner, among other scenarios.

The explanation set out herein is intended to be simple. Although professionals like lawyers and accountants will find this to be inadequate for their exacting standards, it should suffice as background reading for the subject matter of managing Chinese partners – regardless of whether the Chinese partner is a Chinese joint venture partner, strategic alliance partner, bought-out Chinese joint venture partner or, quite simply, a Chinese entrepreneur.
Notes

1 The Case for Laying the Cornerstones

1. A case in point: of the first 100 Google search results for “China Joint Venture Dispute” at the time of research, Danone and Wahaha were mentioned in 23, close to a quarter. Some 16 other companies (including Virgin Media, Warner Bros and News Corp) were also mentioned, but each of them appeared in only one search result. In other words, Danone and Wahaha were the only names with repeat mentions. Indeed, the Wahaha Dispute was the most high profile joint venture dispute in China from 2007–2009, if not the last decade.

4. Names styled in italics throughout this book, such as Danone and Wahaha, refer to the brand names as distinct from the corporate names.
5. To be sure, Danone’s progress in China after the Wahaha Dispute has not exactly come to a standstill. On the contrary, Danone continues to show strong performance in China, which remains a principal market and a growth engine.
6. It is not possible, nor is it intended, to present a comprehensive account of the Players’ respective histories dating back to the second half of the 1800s. The focus is to present background information on how each Player developed in its home country, and its global expansion, with a view to giving a perspective on its resources and competencies as it made its entry, or re-entry, into China.

2 Danone’s Bitter Split-Up with Hangzhou Wahaha

1. Although privately held and controlled by Zong Qinghou and employees, more than 40% of Hangzhou Wahaha’s shareholding is still owned by the government.
4. Saint Gobain Corporate website.
6. Ibid.
9. Antoine Riboud on emerging markets in 1995: “Being there now, at the first stirrings of new consumer societies, means that we can build market share at a cost that is significantly lower than in industrialized countries.”
11. Ibid.
12. Ibid.
13. Ibid.
14. Ibid.
17. Ibid.
18. Ibid.
21. According to a 1994 article “BSN sets up yoghurt joint venture in China,” Danone signed an agreement for a yoghurt joint venture near Beijing although there is no mention of this in any of the company documents that were researched for this book.
23. Bottled water sales volume of 0.9 billion litres is extracted from Danone’s 2000 Annual Report, but according to its Form 20-F, bottled water sales volume for the Wahaha joint venture was 1.1 billion litres in 2000.
25. Estimated by applying 25% to Danone sales of € 11.7 billion in 1994, which is € 2.9 billion (or close to € 3 billion).
27. Ibid.
29. As quoted in article BBC Monitoring Asia Pacific – Economic (2000), chairman of Shanghai Bright Dairy announced that “5 percent of the 500m yuan (about 60m US dollars) total capital stocks were bought by Danone.”
30. Danone’s annual reports are sometimes entitled “Danone, the year under review,” “Danone, economic and social report,” and “Danone essentials.” For ease of reference, these reports are also described as “Annual Report” in this book.
31. In some instances, figures quoted in the researched materials are denominated in US dollar, Swiss Franc or the Euro. However, where Yuan and Hong Kong Dollar figures are quoted, these have been converted into US dollar, in this book, using the relevant approximate historical exchanges for reference purpose (source for exchange rates: http://finance.yahoo.com/ and http://fxtop.com/).
34. Danone (2009).
36. Ibid.
38. As quoted in Areddy (2007), the President of Danone Asia Pacific described these competing companies as “mirror organization.”
40. The earliest version of the annual report available on Danone’s corporate website is for 1998.
42. Ibid.
43. To be sure, and as reported in the 2007 Annual Report, “Danone Health Drink took over the number one spot in the Chinese spring water market, with growth accelerating to 19% in the Shenzhen region, its core market.” However, this is for one product segment of the beverage market and is therefore not of the same scale as the Wahaha joint venture.
45. Ibid.
46. Ibid.
47. Ibid.
48. Ibid.
49. Interestingly, Danone appeared to have twigged its acquisition strategy by broadening its global acquisition criteria to include smaller targets, or as Franck Riboud remarked in the 2006 Annual Report: “[W]e now have the capacity to start out in a new country from scratch, or almost. Which means buying or partnering with the local leader isn’t the only path to rapid success. We can start out with nothing or buy the number-three or number-four business, as we did in Egypt, where our market share jumped from nil to over 12% in only a year.” Seen in this light, Danone’s strategic position in China at the end of 2008, that’s without partnering with local national champions, can also be viewed as a consequence of its strategic re-positioning for international markets.
50. Danone did not directly disclose China sales in its 2009 Annual Report although it did disclose that these accounted for 4% of its total group sales of €14,982 million, thereby placing China sales at around the €600 million mark.
52. A reference to 2006, when Danone looked back at its past 40 years of corporate history as a period of “pioneering spirit [of ] accepting risks, daring to strike out in new directions, and a capacity to overcome setbacks and move on to new successes.”
56. Ibid.
57. Ibid.
58. Danone originally invested in the Wahaha joint venture with a Hong Kong minority investor, who was subsequently bought out by Danone.
59. According to Zong Qinghou, *Future Cola* was produced by Hangzhou Wahaha as Danone did not approve of this beverage product for the Wahaha joint venture. However, in what appears to be a contradiction, Danone’s 2000 Annual Report stated that “this company [the Wahaha joint venture] is also a major leader in dairy drinks and controls a significant share of the cola market.”
60. In 1949, Kuomintang retreated to the island of Taiwan after losing the civil war to the Communist Party on mainland China. Put simply, the question of Taiwan’s political status has since been a highly charged and divisive matter that has, at various times, led to potential flash points or even actual military engagements between Taiwan and China.
65. Estimation based on €300 million from the sale of its stake in the Wahaha joint venture and a capital loss of €98 million (€300 million + €98 million = €398 million). Strictly speaking, a proper computation of Danone’s total investment is more complicated and this is therefore not entirely accurate. However, it should suffice for illustrative purposes.
70. Although the announcement specified Hangzhou Wahaha, the ranking is for all beverages produced under the Wahaha and related umbrella, which would also include beverages from the Wahaha joint venture.
74. Ibid.
75. Lai (1997).
77. Open letter was dated in July 2007, and Zong Qinghou also disclosed sales and profits for the first five months of 2007, which increased by 25% and 25.25%, respectively.
79. Ibid.
80. Literal translation; can be taken to mean joint venture partner and/or management, i.e. the domestic company and/or Chinese entrepreneur that is operating the joint venture.
82. Ibid.
83. Ibid.
84. Ibid.
85. Ibid.
86. There is a related issue of allocating the corporate expense of the foreign company to its Chinese joint venture, which also needs to be communicated to, and perceived by its Chinese partner to be equitable.
87. PR Newswire Europe Including UK Disclose (2009).
88. Danone alleged there were up to 77 plants that operated outside of the Wahaha joint venture.
90. It is important to note that Zong Qinghou’s open letter presented his account of the Wahaha joint venture without Danone’s side of the story, so to speak. Nonetheless, the open letter is useful because of the insights that it provided on Zong Qinghou’s perspectives of how Danone managed the Wahaha joint venture and Zong Qinghou, its general manager.
91. Tao and Hillier (2008) provide a good read on the legal aspects of the Wahaha saga.
92. On the same note, Danone was also involved in a widely reported dispute with Wadia, its joint venture partner in India, over trademark and non-competition issues, i.e. the same key issues as the Wahaha Dispute; and as was the case with the Wahaha joint venture, Danone eventually terminated this joint venture by selling its stake to Wadia in 2009.
93. Wang Jiafen, 20 September 2008, China Entrepreneur. According to her account, Danone originally formed two joint ventures with Shanghai Bright Dairy, the first for yoghurt, and the second for pasteurized milk, referring to Danone’s joint venture with Shanghai Yoghurt Corporation and Shanghai Fresh & Dairy Products according to Danone’s account.
96. Sun (2007); Shanghai Daily (2007); Kwok (2007); Xinhua (2007).
97. According to Dow Jones Chinese Financial Wire (2004) “Danone also has a 30% stake in the [Hangzhou] Wahaha Group”; and as set out in Miller (2004), “Danone now owns 30% of the whole company [Hangzhou Wahaha].” This remains to be verified as the only stake that is mentioned in Danone’s annual reports is in respect of its 51% stake in the Wahaha joint venture; i.e. there is no mention of a stake in Hangzhou Wahaha, its Chinese partner. However, if Danone did hold a 30% stake in Hangzhou Wahaha back in 2004 or earlier, that would also have had the effect of folding all the beverage companies of Hangzhou Wahaha and the Wahaha joint venture under one ownership structure.
100. Based on 25x of the combined earnings for Hangzhou Wahaha and the Wahaha joint venture in 2006, and a free float of 20%.

3 Nestlé’s Nurturing Care of Totole
1. A brand with more than CHF1 billion in sales is known as a “Billionaire Brand.” According to its annual report for 2011, Nestlé had 29 billionaire brands. Note: Nestlé also publishes an annual “Management Report,” but for ease of reference, this is also described as “Annual Report” in this book.
4. According to Heer (1991), it was 1907 but according to Nestlé Australia website (www. Nestle.com.au), it was 1908.
5. According to an account of how milk chocolate was invented, as set out in Stradley (2004).
6. As described in Maggi UK website (http://www.maggi.co.uk/).
7. As of 2012.
8. As described by L’Oréal (http://lorealprofessionnel.co.uk/).
9. Although, as noted by the then Nestlé Group Chairman Pierre Liotard-Vogt, all Nestlé’s businesses (existing traditional as well as newly added) have “one
thing in common [in that] they all contribute to satisfying the requirements of the human body in various ways.”

10. Nestlé sold its stake to Swissair in 1990, marking the end of its venture in the hotel business.


15. Even earlier in the case of “greater China” as Nestlé started trading activities in Hong Kong in 1874.

16. Nestlé opened a Guangzhou sales office, as distinct from a joint venture, in 1984 i.e. prior to the signing of its first Chinese joint venture agreement in 1986.


22. The year of establishment for Nestlé Shanghai cannot be ascertained from materials researched. However, Cassian Cheung, COO of Nestlé China, was quoted in Whitcomb (1994) as stating that “our joint venture with Shanghai Sugar, Cigarette and Wine Corp. will produce nutritional drinks such as Milo,” suggesting that Nestlé Shanghai was, or would be, set up in 1994.

23. Rudolf Tschan, Chairman of Nestlé China, as quoted in Wang (1994).

24. Nestlé subsequently increased this to a controlling stake of 90% in 1999.

25. Recap: Helmut Maucher was the CEO when Nestlé re-entered China.


27. As quoted in Plafker (1996), Helmut Maucher also expressed confidence that China is heading in the right direction.


32. Josef Mueller, Chairman of Nestlé Sources Shanghai, as quoted in Wan (2000).


34. Nestlé announced its first joint venture, Nestlé Shuangcheng, in 1986, some 16 years ago, and it’s not clear from this article why Rainer E Gut referred to “12 years after it [Nestlé] entered China.” It might be that Rainer E Gut was referring to 1990, about 12 years before, when Nestlé Shuangcheng commenced production.

37. Reflecting this shift, 13 of the 15 Chinese food and beverage operating subsidiaries listed in Nestlé’s annual report for 2009 (i.e. at the end of the decade) were already established in 2002. In other words, more than 85% of Nestlé’s major Chinese food and beverage operating subsidiaries at the end of the decade were actually already in place at (or near) the beginning of the decade.
38. Although Nestlé’s press release announcing the 2002 results contained the term “Greater China.”
39. However, according to AFX Asia (2004) (quoting Chinese newspaper Nanfang Daily), Nestlé planned to invest ¥170 million to expand Nestlé Shuangcheng, some two months before its acquisition of Ergun Meilu Dairy.
40. Similar to a province except that it has more autonomy, hence the designation “autonomous region.”
42. Beverage Partners Worldwide, Nestlé’s beverage joint venture with Coca-Cola, had launched Nestea, a lemon-flavoured ready-to-drink tea in Beijing in 2002; but this was a product launch, as distinct from the inauguration of the Cereal Partners Worldwide Tianjin plant in 2004.
45. 11.5% organic growth here as distinct from 13% growth in sales.
47. As quoted in Xinhua News Agency (2005).
49. Earliest annual report available on Nestlé corporate website is for the year 1998.
50. However, it is difficult to envisage a situation in which Nestlé did not make disclosure of its 2006 sales for Greater China or China elsewhere, that’s apart from its annual report, for example, in investor presentation, research analysts reports or earnings presentation conference calls.
51. Fifth Tianjin plant if the Cereal Partners Worldwide joint venture plant is included.
52. Nestlé was also “blacklisted” for water pollution along with 2,700 other companies in China including multinational companies, although the negative publicity fall-out from this was not quite as significant as for the excessive iodine.
54. Peter Brabeck-Letmathe remained as chairman.
55. Using the rounded-up sales figure of CHF1.7 billion and CHF1.9 billion for 2005 and 2006, respectively, the increase is 12%; the 9% increase is based on more precise figures for sales of CHF1.706 billion and CHF1.861 billion, which is more accurate.
56. The Swiss franc also weakened against the Hong Kong dollar and New Taiwan dollar, both by about 4% and 2%, respectively (source: http://fxtop.com/).
58. Ibid.
59. Not just Nestlé but also other foreign brands.
62. Just to be clear, the inauguration ceremony was a good public relations opportunity, but the R&D Centre was not.
64. Ibid.
65. Ibid.
66. Earliest sales figures available in Hsu Fu Chi listing prospectus are for the year ended 30 June 2004.
68. Rumantsch is spoken in the only trilingual canton, Graubünden. The other two languages spoken there are German and Italian. Rumantsch, like Italian and French, is a language with Latin roots. It is spoken by just 0.5% of the total Swiss population (www.swissworld.org).
69. Including China in 1936 before the Communist Party of China came into power.
70. 解密斯诺笔下的毛泽东：精明 博学 能吃苦 (original in Chinese; translates as “Unravelling Mao Zedong Under Snow’s [author name] Pen: Astute, Knowledgeable, Indefatigable”).
72. Shortened for ease of reading; as reported in the 1999 Annual Report, the three regions are (a) Asia, Oceania, Africa, Middle East (b) Europe and (c) USA, Canada, Latin America.
73. World Bank Data: Poverty headcount ratio at $1.25 a day (based on 2005 international prices).
75. Full sentence translates as “Industry slogan to substitute taste essence with chicken essence” (“鸡精取代味精”的产业口号) (www.totole.com.cn).
76. Literal translation of 老鲜味工业
77. Literal translation of 巾帼创新业
78. From a Chinese saying, meaning to serve the best food from two of China’s ethnic groups, namely, Han, which the majority of Chinese belong to, and Manchurian, the minority ethnic group that ruled China during the Qing dynasty.
79. Literal translation is “The Taste Tour” (鲜味之旅).
80. Literal translation is “Industrial Tourism Demonstration Site” (工业旅游示范点).
81. Recap: Nestlé was in a joint venture with Swissair for Swissotel.
82. Other categories included “1981–2001 China Food Industry 20 Outstanding Enterprises” and “Top 20 Food Enterprises in China for Industrialization of Agriculture.”
83. Full name: General Administration of Quality Supervision, Inspection and Quarantine.
84. The phrase “wind and cloud” is sometimes used to describe significant influence in Chinese, as in the far-reaching natural effect of wind and cloud on earth.
85. Literal translation “China Flavour Segment Top Ten Wind & Cloud Enterprise” (中国味界风云榜十大风云企业).
87. General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China.
88. Source: (www.rdasia.com).
89. Literal translation is “All is floating clouds” (一切全是浮云).
90. Totole’s mission was changed to “Totole, let life be better” in 2009, and the use of the old mission herein may be a case of not updating the corporate website.
91. “Three Farming Issues” refer to the farmer, farming village and farming industry.
92. Literal translation: “In the midst of high growth, Totole’s corporate goal from start to end is to ‘let 1.3 billion people savour more delicious taste,’ but contained at the back of this statement is Totole’s mission to lead the entire food flavouring industry, and even to assume the social responsibility for solving the country’s ‘three farm’ problems” (高速发展中的太太乐始终以“让十三亿人尝到更鲜美的滋味”为企业发展的目标，在这句话的背后，蕴含着太太乐带领整个调味品行业发展的使命，乃至为国家解决“三农”问题而承担的社会责任).
93. By way of recap, Patrice Bula lauded this as “a major milestone in the history of Totole and Nestlé in China,” amongst others.
94. Literal translation of 把大的前景放在前面，目标实现了，个人的价值也会得以实现.
95. Ball (2002).

4 Coca-Cola’s Long Courtship of COFCO

1. These bottling joint ventures operate under franchise from Coca-Cola, and they in turn set up the plants across China.
3. As set out in the Coca-Cola 2012 Annual Report, quoting Interbrand 100 Best Global Brands. Note: Coca-Cola also publishes an “Annual Review,” but for ease of reference, this is also described as “Annual Report” in this book.
4. John Pemberton.
5. Frank Robinson.
8. Barron’s, 7 November 1938.
11. A brand in Coca-Cola with more than US$1 billion in sales.
12. Russia supported the communist North in the Vietnam War, while United States supported the South; Coca-Cola eventually starting its Russian bottling operations in 1985.
13. The Anti-Defamation League was founded in 1913 “to stop the defamation of the Jewish people and to secure justice and fair treatment to all” (www.adl.org).
16. J. Paul Austin, then chairman & CEO Coca-Cola, noted on the subject of taking Coca-Cola back into China, that “all it took was patience,” further adding that “it’s been 10 years in the process” (Leviton, 1979).

17. For ease of reference, Coca-Cola is used hereafter in a generic manner encompassing all Coca-Cola brands in addition to the classic Coca-Cola, for example, Sprite and Fanta, that’s not just the classic Coca-Cola.


19. A popular Coca-Cola advertising slogan.

20. Referring to the opening of Canton Fair, an important trade fair in Guangzhou; the safe landing of the US space shuttle Columbia; and the opening of Coca-Cola’s bottling plant in Beijing (Sterba, 1981).

21. Translated by author: Chinese name “华北对外贸易公司.”


23. Just to be clear, Coca-Cola’s management of its other bottling group partners in China is also important but the focus of this book is on its one, and only, Chinese partner: COFCO. Indeed, Coca-Cola’s management of COFCO, Swire Pacific and Kerry Group, particularly in the allocation of franchise markets to each of them, was crucial to the growth of its Chinese bottling network as a whole. In this regard, Nestlé’s management of Totole and Haoji, described as the “notional merger” in chapter 7 of this book, is an illustration of a foreign company’s management of two competing Chinese partners. Clearly, Coca-Cola and Nestlé are not directly comparable in this regard but the underlying principle of the “notional merger” is still applicable, albeit in a different way, since it was important for Coca-Cola to manage the differing interests of COFCO, Swire Pacific and Kerry Group.


25. Based on materials researched, it is not clear how and why COFCO eventually ended up owning only minority interests in Coca-Cola bottling plants when it actually owned the first bottling plant in China. One plausible explanation is that COFCO was, in those days, an import/export company, and as such might not have been deemed appropriate to operate a bottling plant by the relevant authorities, as distinct from its initial agreement of importing and distributing Coca-Cola. As it turned out, Coca-Cola subsequently signed an agreement with the Ministry of Light Industries to build or upgrade 10 bottling plants in the hinterland, which, as indicated by its name, is in charge of light industries, as distinct from import/export, in China.

26. COFCO’s main trading arm based in Hong Kong.

27. As articulated by Zhou Mingchen, COFCO Chairman, in Reuters (2000).


29. The dragon is a symbol of good fortune, and in Chinese phonetics, “8” sounds like prosperity. So, 8th of August 2000 was therefore a double prosperity date in the year of good fortune.

30. By way of recap, COFCO contributed minority equity interests in 11 bottling plants while Coca-Cola contributed equity interests in two bottling plants at the start of the COFCO joint venture in 2000.
31. Recap: COFCO International sales were HK$1.3 billion (US$167 million) for the full year of 2000, and its net profit was HK$90 million (US$12 million).

32. This is not strictly correct as COFCO injected its 65% interest in the COFCO joint venture into COFCO International, but no distinction is made for ease of reading.

33. Or as described in the announcement and circular, “Agri-Industrial business,” referring to businesses involving the processing of agricultural raw materials to produce products for wholesale, industrial or foodstuffs production uses, such as: (1) processing of corn and other agricultural raw materials to make biofuel and biochemical products; (2) processing of oilseeds to produce vegetable oils and fats and oilseed meals; (3) the trading and processing of rice; (4) processing of barley to produce malt for beer and the importation and distribution of malting barley in the PRC [People's Republic of China]; and (5) processing of wheat to produce wheat flour and flour products, or any combination thereof.

34. Whereas the corporate name before COFCO International was “China Foods Holdings,” the word “holdings” was dropped, leaving just “China Foods” as the new corporate name.

35. Just to be clear, the brand Coca-Cola is owned by Coca-Cola, and China Foods is a bottler and distributor of Coca-Cola.

36. Strictly speaking, COFCO International acquired two businesses, namely, the Coca-Cola bottling business and Shaoxing Wine business (a Chinese wine) at a price of HK$1.816 billion. With a net profit of HK$0.2 million, the Shaoxing wine business made up less than 0.3% of the combined net profit of HK$86 million for 2005, accounting for just HK$4 million of the total price.

37. This transaction was announced in 2007 but it was completed in two phases, the first phase for the bottling plants in Jilin, Qingdao, Jinan and the minority interests in five bottlers in 2007, and the second phase for the Beijing bottling plant in 2008.

38. Coca-Cola's acquisition of the Kerry joint venture had the effect, intended or otherwise, of “simplifying” its management of its bottling group partners since its “notional merger” had now been effectively reduced to just two joint venture partners, namely COFCO and Swire Pacific.

39. According to the announcement dated 6 August 2007, the valuation of the interests to be swapped was performed in-house in January 2007, suggesting that preparations were already underway at the beginning of the year, if not earlier.


41. China Foods acquired a 21% stake in Coca-Cola Bottlers Manufacturing Holdings Limited, the investment holding company, which in turn owned 100% of Coca-Cola Dongguan.


44. Recap: COFCO contributed minority interests in 11 bottlers to its joint venture with Coca-Cola in 2000.

45. Although not conclusive, due to insufficient information and without detailed analysis, Swire Pacific's HK$372 million price tag translates to
roughly ¥173 million for a 21% stake, which is about 17% higher than the ¥148 million that China Foods paid for its 21% stake.

47. Swire Pacific Limited (2000–2011); exact percentage not stated and estimated based on the graph presented.
49. Ibid.
50. Ibid.
51. Ibid.
52. Ibid.
53. Not just in China. Two cases in point: Coca-Cola jointly acquired Multron, a juice business, with its bottler, Coca-Cola Hellenic Coca-Cola in Russia in 2005; and Jugos del Valle, S.A.B. de C.V., a Mexican Brazilian juice business, with its bottler, Coca-Cola FEMSA, in 2007.
55. Ibid.
56. From the accounting perspective, a holding company can only consolidate sales from subsidiaries where it can exercise unilateral control. As such, the China beverage sales that were consolidated by Swire Pacific were HK$1.1 billion (or US$141 million) in 2007, instead of the HK$7.8 billion sales that included jointly controlled bottlers, which were disclosed but not consolidated for accounting purposes. From the commercial perspective, Swire joint venture did sell HK$7.8 billion worth of Coca-Cola beverages, and this is therefore the figure adopted for the purpose of estimating total beverage sales by the three bottling groups.
57. On the basis that Coca-Cola China Industries and the Swire joint venture were roughly of the same size (author estimate: both are within 10 plus % of each other).
59. Comprising 22 provinces, four municipalities and five autonomous regions; all of which are classified as a province within China’s political administrative hierarchy.
60. COFCO joint venture’s network also covers two cities in Guangdong province, namely, Zhanjiang and Maoming.
61. Swire Pacific Coca-Cola joint venture’s franchise for Guangdong province does not include the cities of Zhanjiang and Maoming.
62. Earliest publicly available financial information on the COFCO joint venture is for the year 2003.
63. Including sales of jointly controlled bottling plants.
64. Prior to its joint venture with Coca-Cola in 1994, Swire Pacific had already been a Coca-Cola bottler in Nanjing and Hangzhou since 1989; so, as a bottler, Swire Pacific’s experience in China dates back to 1989 and not 1994.
66. This was not to last very long as China Foods subsequently acquired Chateau Viaud in Bordeaux, which of course is in France.
67. As described in 2010 Annual Report: “segment results” are measured consistently with the Group’s profit before tax except that interest income, dividend income, finance costs, share of profits of associates, as well as unallocated head office and corporate results are all excluded from such
measurement. In other words, the profit before tax for each business sector excluding the aforesaid items.

68. Wines suffered a significant drop in profits for 2010 as a result of restructuring; its CAGR for profits from 2006 to 2009, i.e. without the effects of the 2010 restructuring, was 23%.

69. COFCO joint venture sold 570 million unit cases in 2011 (per Annual Report 2011), or just 2% less than the 583 million unit cases sold by Coca-Cola FEMSA in 2000.

70. Definition: Average number of 8-ounce servings consumed per person, per year in a specific market. Per capita consumption of Company products is calculated by multiplying our unit-case volume by 24, and dividing by the population (Coca-Cola 2000 Form 10K).


72. Ibid.

73. Per capita consumption of 11 servings is extracted from Swire Pacific Annual Report for 2000, and is only applicable to the more affluent provinces under its franchise agreement with Coca-Cola. As such, the per capita consumption for China in 2000 would be pulled down by the less affluent provinces and was therefore likely to be lower than 11 servings. On this basis, the CAGR for growth in per capita consumption for China from 2000–2010 is more than the 12% stated herein.

74. One of Coca-Cola’s goals stated in its 2020 Vision, or the “road map for winning together: TCCC & our bottling partners,” is to “more than double system revenue while increasing system margins.” No figures are provided in this document and the 2000–2010 CAGR of 4% in Coca-Cola global sales volume is based on figures extracted from Coca-Cola Form 10K from the relevant periods.

75. 中粮可口可乐十周年庆典完美落幕 (original in Chinese; translates as “Perfect Ending to COFCO Coca-Cola 10th Anniversary Ceremony”). Also in attendance were Yu Xubo (COFCO group president), Qu Zhe (China Foods managing director), and Luan Xiuju (president COFCO Coca-Cola).


5 SABMiller's Leap of Faith with China Resources

1. One of Johannesburg’s early newspapers by the name of Digger’s News (source: www.sab.co.za).
2. Estimated by author at 164 litres per barrel, or total of 82,000 hectolitres.
3. “Miller” was added to the corporate name after SAB acquired Miller, the No. 2 brewer in the USA, in 2002.
4. As described in SABMiller’s website (www.sabmiller.com).
5. SABMiller subsequently disposed of its non-core assets to become one of the leading brewers in the world, one of the largest Coca-Cola bottlers in the world, and a hotel and gaming operator in South Africa.
10. Ibid.
11. Ibid.
12. Ibid.
14. Included in HK$39 million was an exceptional gain of HK$18 million from the disposal of a 49% equity interest to SABMiller, and if this is excluded, the HK$21 million profit derived from beer operations will drop to 11% of total profits.
16. Ibid.
18. Instead of “a premier distribution company in Asia” as used in China Resources press release, CRE’s annual report for the same year used “a leading distribution company in Asia.”
19. Beverage sales consist of beer and purified water, but breakdown is not provided in the annual report for 2000. However, sales for purified water are not significant based on its volume sales of 190,000 tons versus beer volume sales of 1,000,000 tons, and the bulk of the beverage sales can therefore be attributed to beer.
20. SABMiller and CRE report on different year end dates, 31 March in the case of the former and 31 December, which is also a calendar year, for the latter. In this chapter, information is extracted from SABMiller’s annual report for a particular year end, in this case 31 March 2001, for comparison with CRE for the prior calendar year, in this case, for the year ended case 31 December 2000. Although still not entirely comparable, this should suffice for the purpose of this book since the difference in timing is for three months, that’s from January till March of each year.
21. Sales for CR Beverage were not consolidated by SABMiller as it was not a subsidiary; however, in terms of SABMiller’s total sales volume as a group (as distinct from the dollar value of consolidated sales), CR Snow featured prominently in SABMiller’s push to be a leading global brewer.
22. Interestingly, CRE Beverage acquired Euro Dongxihu Brewery from Danone.
23. It is not clear from the Annual Reports of both CRE and SABMiller if this was in fact only a name change or if it also involved the more complicated process of establishing a new corporate entity. Since this matter is not relevant to the subject matter of this book, it is assumed that CRE Beverage merely changed its name to CR Breweries.
25. Ibid.
26. Ibid.
27. SABMiller (2003).
28. Ibid.
29. Peter Lo.
30. To be clear, this is the author’s comment and was not included in the Harbin Brewery announcement.
31. As disclosed in the respective offer announcements based on offer price and number of shares in issue; strictly speaking, this is not the correct cost of acquisition, which should include other items such as outstanding share options and net debt.
33. André Parker, managing director of SABMiller Africa & Asia, as quoted in SABMiller (2006).
34. SABMiller had actually announced earlier, before the year had come to an end, that CR Snow had become the largest brewer in China based on the 12-month period ended June 2006; as distinct from CRE’s annual report, which is based on a 12-month period ended December 2006.
36. One of the three approaches adopted by SABMiller for international growth is “through jointly-owned companies where SAB generally maintains management control and partners have a minority holding. A notable exception is our joint venture in China, CRE Beverage Ltd., in which we have a 49% holding, alongside China Resources Enterprise Ltd – a Hong Kong listed company and constituent of the Hang Seng Index” (Source: SAB Corporate Citizenship Review 2001, 31 March 2001).
38. Plato Logic.
39. By now, Anheuser-Busch had become Anheuser-Busch InBev, having merged with InBev in 2008; and it also sold its stake in Tsingtao in 2009.
40. As quoted in Sudhaman (2004) Harbin mayor, Shi Zhongxing, said that Anheuser Busch was the “right strategic partner” for Harbin.
41. Third-party buyer was Sinopec, a state-owned petroleum and petrochemical group and a Global Fortune 500 company.
42. Third-party buyer was Esprit, a leading apparel and accessories company.
43. Exclude discontinued business and include HK$333 million intra-group sales.
44. Exclude discontinued business and effects of asset revaluation and disposal of non-core assets; and before deducting net interest and corporate expense of HK$97 million.
45. Based on average of 14 million kilolitres and 14.5 million kilolitres of capacity at the end of 2009 and 2010, and sales volume of 9.3 million kilolitres for 2010.
46. As defined as SABMiller’s 2011 Annual Report, “aggregate sales volume” include 100% of the volumes of all of its consolidated subsidiaries, associated companies and joint ventures.
47. As previously explained, SABMiller and CRE report on different year end dates (31 March for the former, and 31 December for the latter), and as such, the comparisons for sales volume and revenue presented here are not entirely comparable. However, these comparisons should suffice to provide a perspective on CR Snow’s sales volume and revenue relative to those of SABMiller.
48. As defined in SABMiller’s 2011 Annual Report, “Group revenue” includes the attributable share of associated companies and joint ventures revenue.
49. To be sure, this was not based on 100% of CR Snow’s sales, but even so, it would still have amounted to less than 10% of SABMiller’s total revenue.
50. Based on CR Snow 2010 revenue of HK$21.5 billion divided by sales volume of 9.3 million kilolitres; and SABMiller 2011 revenue of US$19.4 billion (only for consolidated subsidiaries) divided by sales volume of 21.8 million kilolitres (only for consolidated subsidiaries).
51. Based on HK$3.46/kilolitre (US$0.45/kilolitre) multiplied by 9,280,000 kilolitres.
52. SABMiller works with Coca-Cola as its bottler in El Salvador, Honduras, and 20 markets in Africa (14 of the African markets are in alliance with Castel, a leading beverage company). It is also a Pepsi bottler in Panama.
53. By way of recap, Coca-Cola has three bottling group partners in China, of which one is with COFCO, a Chinese partner.

6 Lonely Journey of an Ice Cream Peddler in China

5. According to Eon (2003), quoting China Association of the Bakery and Confectionery Industry.
7. Nestlé had originally acquired a 67% stake in 2003, and with this, Dreyer's had now become a wholly owned subsidiary of Nestlé.
11. This key point is sufficiently illustrated with Nestlé's development in the ice cream sector up 2008. But, as a matter of interest, Nestlé's strategy continued to evolve in response to challenges in this sector such as its subsequent decision to close its ice cream business in eastern China to focus on northern and southern China at the end of 2011.
16. Nestlé’s choice to “go-it-alone” in the ice cream sector for China should not be read as its posturing of a rigid and uncompromising stand – quite the opposite. Nestlé’s effort in improving the quality of milk, as well as the livelihood of dairy farmers, in Shuangcheng is an illustration of the fact that it adopted a flexible solution on the ground without compromising its quality standards.

7 Catering to Every Palate in China (... almost)

1. Although spiciness is a feature of Sichuan cuisine, it is not 100% spicy.
3. 瑞士雀巢合资四川豪吉集团, 称王中国调味品市场 (original in Chinese; translates as “Nestlé Joint Venture with Sichuan Haoji Group, Proclaims Top Spot in China Condiment Market”).
8. 人民网 (2012).
10. Ibid.
11. Literal translation: Cook for long time, retain fragrance and soup is not murky (久煮留香不浑汤).
12. Comparison may not be complete as information is based on individual products listed on the respective websites at the time of research. However, it should be sufficient for drawing insights, if only broadly, on the respective brands’ differentiation and overlaps.
13. Heavenly Three Treasures and Seasoning Sauce are listed on the website of Haoji Group, the Chinese partner, as distinct from the four Haoji Essence products which are listed on the website of Sichuan Haoji, Nestlé’s joint venture; although this may mean that Heavenly Three Treasures and Seasoning Sauce are not in the product portfolio of Sichuan Haoji, they have been included for comparison since they are competing products.
14. The “three treasures” refer to three sought-after Sichuan culinary ingredients; again a differentiation here.
15. Another media report described Haoji’s predecessor entity as a state-owned biological chemical plant that was on the verge of collapse, and which starting manufacturing chicken essence in October 1986.

8 Three Steps to Laying the Cornerstones

1. Strategic objective and added value are reflected in a company’s heritage, history and corporate track record; hence, the background for each Player is set out at the beginning of each chapter.
2. Last two points are inferred from Zong Qinghou’s grievances.
3. Recap: Danone assumed management control of what was originally an operationally independent subsidiary, Guangdong Robust, and this effectively meant that Danone had become a direct competitor of the Wahaha joint venture.
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