The Rebirth Of Fix: Developing A Market Strategy To Compete In An Industry Dominated By Multinational Companies

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ABSTRACT

This case was developed for the purpose of providing material for class discussion. The authors do not want to illustrate either an effective or ineffective international strategy. It attempts to illustrate the complicated choices that smaller companies have to make when they are competing against large multinational companies.

Keywords: Greece; Case studies; Internationalization

INTRODUCTION

Chitos, S. A., the company that produces Zagori, the largest brand of bottled water in Greece, has been a very successful company in its industry. In recent years, due to changing market conditions and the decline in growth for bottle water in Greece, its main market, the company has attempted to diversify its operations by introducing new products. Although a diversification strategy may allow the company to expand its market, at the same time, it may have negative implications. By introducing new products, it will compete directly with other multinational companies that have a commanding position in the Greek market and in the foreign markets that it may decide to expand. A move by Chitos, S.A., to introduce new products in new market segments may invite retaliatory actions by much larger and better financed companies. The marketing strategy that Chitos, S.A. will select will determine whether it will continue to grow and remain a profitable company.

HISTORY OF CHITOS, S. A.

Although the Chitos Company initiated operations in 1955, the firm entered a growth stage only in the last 20 years. The company was established to produce soft drinks for the local market in Northwestern Greece. The Greek soft drink market at the time was very fragmented with a large number of small companies serving their local markets. Most of these companies were producing orange and lemon flavored carbonated drinks that were selling mostly through restaurants and cafes. When the Greek market opened to foreign competition in the 1970s and large international multinationals entered the market, most of the smaller local soft-drink companies disappeared. By the mid-1980s, the Greek soft drink market was dominated by the local subsidiaries of the Coca-cola and PepsiCo companies.

Probably Chitos, S.A. would have had the same fate if it had not been for a serendipitous discovery combined with the entrepreneurial spirit of the company. The owners of the company realizing that the future of an undercapitalized regional soft drink company in an continuously internationalizing environment was bleak, attempted to transform the company by becoming local bottlers for the products of the Coca-Cola Company. During the negotiations, they purchased two private springs of natural mineral water located in the area of Zagori, a place of unique natural beauty that also claims to have some of the cleanest water in Europe. Unfortunately for the Chitos Company, the Coca Cola Company decided not to partner with them in the production of Coke products. Subsequently, the Chitos Company decided to enter the bottled mineral water market. The market for bottled water

1 From Chitos’ corporate web site at www.zagoriwater.gr
in Greece in the 1980s was experiencing an explosive growth fueled by increasing disposable incomes and concerns about the safety of municipal water in certain regions of the country.

**GROWING DECISIONS**

The strategic decision to enter the bottled water market, originating probably in the desperation of the collapse of the negotiations with the Coca-Cola Company, turned out to be a very smart strategic move for the company. Very fast it became the leading company in Greece, commanding close to 30 percent of the domestic bottled water market². The company has invested in modern bottling facilities with the ability to produce 130,000 liters of bottled water per hour. In addition, it has vertically integrated its operations by investing in the production of plastic lids and other products necessary in the water bottling process³. The modern production process and the complete control that the company possesses over all aspects of production, has led the firm to achieve the safety quality certification ISO 9002 in 1999.

The rapid growth that the company had enjoyed in the last 30 years recently slowed considerably because the bottled water industry probably reached maturity. In 2009, the market for bottled water in Greece experienced, for the first time, a decline in sales, while in the last 20 years the consumption of bottled waters had grown by approximately 8 percent per year. In addition to worries of a maturing market, Chitos had to face increasing competition by multinational companies that had entered the Greek market. PepsiCo, with an 8 percent market share, was a very strong competitor and was planning to complete new bottling facilities in central Greece by 2011. PepsiCo had purchased the historic soft drink company, Ivi, and it was marketing bottled water under that name. Most Greek consumers perceived Ivi as a local brand. The Coca-Cola Company had also a very strong presence with the Avra brand. Early on, Coke realized the importance of bottled water in the Greek market and it was constantly introducing new products into the market. Characteristically, while bottled water represented 6 percent of Coke’s total sales in Greece in 2001, by 2008 water sales represented 21 percent of total sales. Other multinationals producing bottled waters locally or importing products were the Danone Company, Nestle, and the local subsidiary of Heineken, Athenian Breweries⁴.

Faced with a matured and increasingly crowded market, the Chitos Company had to select a new growth strategy that will allow it to grow and retain its profitability against fierce competition from powerful multinationals. The company had several options at its disposal: 1) diversify into fruit-juices, an important market in Greece dominated by the local Coca-Cola subsidiary; 2) create new soft drinks and try to promote them as “local” products versus the products of the large multinationals, a strategy that has been successful for local companies in South America; 3) diversity into alcoholic beverages by producing, for example, beer and wine; 4) diversify into totally unrelated industries; or 5) sell the company to a large multinational.

**THE GLORIOUS PAST OF FIX**

In a surprising strategic move, the Chitos Company decided to enter the Greek beer market and compete against long-established multinationals which were dominating the market. It decided to resurrect Fix, a defunct historic brand that many Greeks still remember. The Greek beer industry, at least for the first 100 years, was dominated by the beer Fix. The company was established in the 1850s by a Bavarian immigrant that opened a small brewery in central Athens. Gradually, the small brewery grew and monopolized the Greek market. While the unofficial monopoly that the company enjoyed brought substantial profits, it also helped to create an internal culture of arrogance. This resulted in horrible relations with distributors and a lack of a customer-friendly mentality. When foreign competition arrived in the 1960s, retailers and consumers abandoned the historic brand. By the late 1970s, the market share of Fix had declined to single digits and the company declared bankruptcy in 1983. Attempts to revive the historic brand either for the Greek domestic market or to target Greek communities residing in the United States, Western Europe, and Canada were not successful⁵. The demise of the original company can probably be attributed more on the monopolistic behavior of its management rather than the quality attributes of its products.

³ From Chitos’ corporate web site at www.zagoriwater.gr
Many Greek consumers still remember the taste of Fix very fondly, although many of them decry the monopolistic distribution policies of its management.

The latest attempt to revive Fix originated by the Greek microbreweries company, a 45 year-old company that initially was producing wine and other alcoholic beverages. In recent years, it decided to enter the beer market. Mr. Gkrekis, the Greek Microbreweries CEO, realizing that his company did not have sufficient capital to establish an effective distribution network, decided to merge his company with another firm. In April of 2008 the Chitos Company purchased 51 percent of Greek microbreweries and, in early 2009, started producing and distributing the new Fix.

THE BEER INDUSTRY IN GREECE

The Greek beer market is highly concentrated with two companies controlling more than 90 percent of the market. The Dutch company, Heineken, has been the market leader in the Greek market for the last 40 years, commanding an 80 percent market share. Heineken operates in Greece through its local subsidiary, Athenian Brewery. Carlsberg, the Danish brewing company, has approximately 11 percent of the market following its purchase of the Greek assets of UK brewer, Scottish & Newcastle. The main product that Carlsberg is selling in the Greek market is the beer, Mythos. Mythos was originally founded by Butari, a large Greek wine company. It tried to appeal to consumers that wanted a “local” beer. While fairly successful, the Butari Company decided to sell it to a foreign multinational in order to concentrate on its wine business. Carlsberg recently announced a 50 million Euro investment in the Greek market with the goal of doubling its market share to 22 percent.

Although the overall beer market in Greece declined in 2009 due to the economic crisis, the sector had experienced steady growth in the past. Further growth is expected in the future as Greek consumer tastes become more similar to consumers in other European countries. The annual beer consumption in Greece is 39 liters per person each year. This number is approximately half of the European average, which is 80 liters per annum.

Beer consumption in Greece has traditionally been dominated by the so called “cold trade”, sales in restaurants and bars. Approximately 65 percent of beer is sold in the cold trade market, while only 35 percent was sold in the “hot trade”, sold in grocery stores for consumption at home. Due to economic conditions it is expected that the hot trade sector of the market will increase and more beer will be purchased in retail outlets as Greeks tend to consume more alcoholic beverages and entertain more at home.

GLOBAL TRENDS IN THE BEER INDUSTRY

The global beer market is a mature market with the industry experiencing low growth rates. The growth rate is expected to decline further in the near future. Although the global beer market has traditionally been fragmented with a plethora of national or regional beers, recent trends have led to the emergence of global companies. The top three global companies are presently holding 45.2 percent of the world market. While further consolidation is expected, the unique characteristics of the product will always allow smaller niche beer producers to flourish. This is due to the high differentiation that exists within the beer category with different companies offering different type of beers, including ales, stouts, low/no alcohol, standard and premium lagers, and specialty beer. The premium and specialty sectors of the market are the only ones that have experienced substantial growth in recent years with consumers willing to pay a higher price to purchase a product that is perceived to possess a higher quality.

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6 Ibid.
9 Ibid.
13 Ibid.
FUTURE STRATEGIC MARKETING DECISIONS

Following the mass introduction of Fix in the Greek market, the executives of Chitos Company contemplated whether they had made the right strategic decision. Was their decision to enter the beer market the right one or should they have pursued growth by introducing soft drink and fruit juices? What product and promotional decisions do they need to make in the future in order to become a successful operator in the beer industry? In their initial promotional campaign, the decision was made to utilize the “nostalgia” factor, trying to rekindle the memories that the older consumers had from the 1970s. Was that the right strategy, or did they had to focus more on the fact that Fix was a local beer fighting the big multinationals? Should they try to expand into niche markets, Greeks residing abroad, Greek restaurants in foreign countries, or tourists visiting Greece looking for a local beer, instead of focusing on the Greek mass market? Considering the growing segment of microbreweries worldwide and the growing number of imported premium beers in the Greek market, does it make more sense for the company to specialize in producing premium beers instead of making a lager beer similar to the ones produced by its competition? All these were decisions that the management of Chitos Company had to make in the near future.

CASE DISCUSSION QUESTIONS

1. Why did Fix decline in the 1970s and went bankrupt in the early 1980s?
2. Do you think that it makes business sense to try to revive a failed brand? Can you think of examples of other brands that have been revived in recent years? What are the advantages and disadvantages of reviving an old brand?
3. Is a nationalistic ethnocentric marketing strategy effective for a small company competing against large multinationals? Do you see any problems with this strategy?
4. Do you think that Fix needs to compete head to head in the Greek market with the large multinational Greek companies or try to move into niche markets? If it moves into niche markets, do you think that it makes more sense to do it by promoting to niche segments (Greek living abroad, Greek restaurants in foreign countries, or tourists visiting Greece) or by producing niche products (premium microbrewery products)?

AUTHOR INFORMATION

George Nakos is Professor of Marketing and coordinator of the Marketing program at Clayton State University in Morrow, Georgia. His research interests center on international marketing, small business and entrepreneurship. Dr. Nakos has published several journal articles and he has authored, co-authored, and presented many papers in national and international conferences. His most recent work has appeared in the Journal of International Marketing, Journal of International Management, Journal of Small Business Management, International Business Review and Entrepreneurship Theory and Practice.