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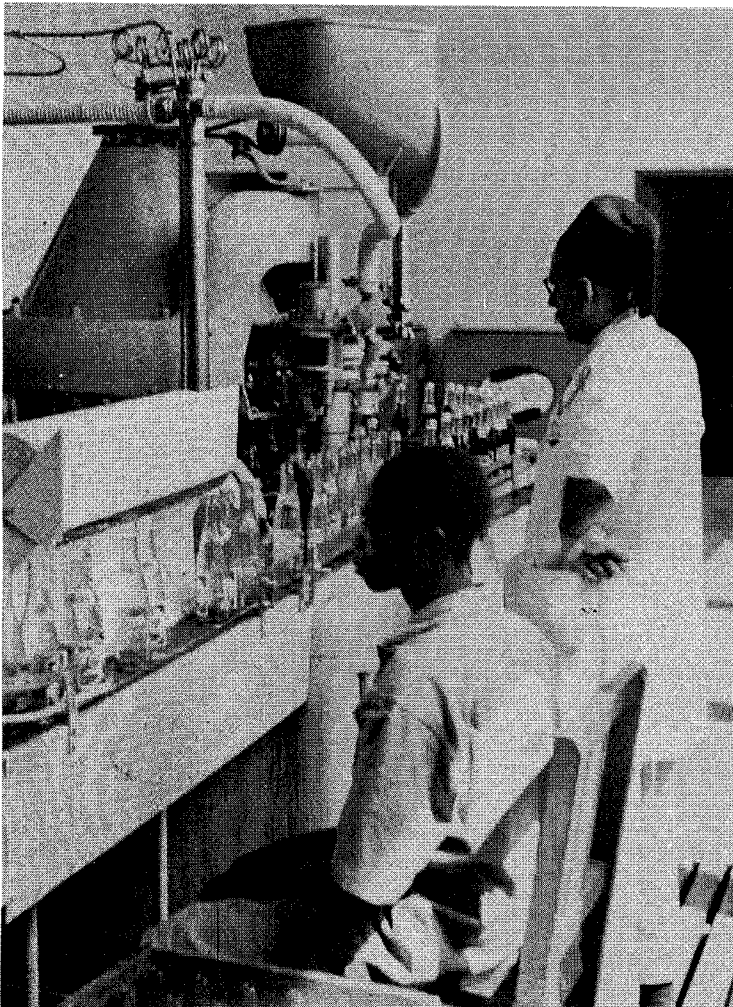
JBG-24
Pepsi-Cola, Kampala

P.O. Marangu
Moshi, Tanganyika
East Africa
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Mr. Walter S. Rogers
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522 Fifth Avenue
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Dear Mr. Rogers:

On arriving in Kampala I visited the Lake Victoria Bottling Company, regional concessionaires for Pepsi-Cola, and obtained as much information as I could lay hands on. I did not approach the directors, but dealt with people in the plant itself. I do not think there is enough detail below to make up



a proper case study for the Harvard Graduate School of Business Administration, but it should supply Professor Bertrand Fox and colleagues with the sort of material in which they seemed most interested during my visit last winter and provide them with a basis for advising me in preparing a satisfactory case study.

The financial backing of Pepsi-Cola in Uganda, and the degree of entrepreneurship required to introduce such an established product into a remote and underdeveloped area, were initially undertaken by two Kenya white farmers. They initiated - perhaps after stimulation by Pepsi-Cola authorities - negotiations with Pepsi-Cola in New York. A Pepsi-Cola field representative then was sent out to advise on the sort of equipment required and, in consultation with the potential concessionaires, to estimate market potentialities and help calculate the amount of capital required. On the basis of their educated guess (statistics being what they are in East Africa, no

such estimate can be arithmetically founded) a first year sales figure of 75,000 cases was projected. This, along with higher hopes for succeeding years, was held to justify an investment of £44,000, which the two local business men, with several associates now joined in, agreed to make. An agreement was signed giving a delineated concession to the Lake Victoria Bottling Co., Ltd., the corporate name of the concessionaires.

The problems of management of installation and initial operations were handed over to a Mr. Richard Adshead, a man who had had experience in the Kenya Coca Cola plant. (Finding competent white managers in this colonial area is not too difficult. Only one man was needed, and one gets the notion in East Africa that the pioneer aspects of the area continue to attract a number of energetic young men, adept at improvising and coping with the primarily physical trials of the country.) It seems that Adshead, a young Canadian, did very well. He anticipated many of his difficulties, having obtained, like the investors, a familiarity with local conditions through personal experience.

The problems of getting the plant machinery to the remote African town of Kampala, Uganda were considerable. The machinery was to be of the latest design but, of course, of a minimum output unit size. The two basic units were a Miller Hydro-Bottle Washer, of American pattern but manufactured in England under license, and an Alpine 12 head bottling and capping unit. A minimum supply of bottles, 12,000 cases of 24, were also ordered, plus numerous lesser items. The first job was to purchase the equipment in England, after which it had to be shipped on crowded shipping lines some 6,798 nautical miles to the Port of Mombasa, be off loaded in a crowded port, got onto an overloaded narrow gauged railroad, and hauled over some 865 miles of one track railway that had, among other things, to descend and surmount the east and west escarpments of the Great Rift Valley. Orders were placed in April 1950 and the last essential increment dribbled in in March, 1951. The investment sum remained profitlessly tied up for that period, while the perhaps fluid market factors in Uganda continued to change.

Erecting the building was not a serious chore. Materials, with the exception of cement, the price of which was controlled, were generally available in Kampala on the open market. Indian contractors and European architects could be engaged. With some beforehand dickering, electric power and water supply became available through the Uganda Electricity Board and the Kampala town water supply. A Government allotment of 100 224-pound bags per month of locally produced sugar was secured. Natural CO² was to be supplied by a company in Kenya, who incidentally hold, through their discovery of the one known natural source, an East African monopoly. After the finishing of the building the fitting of fixtures took place piecemeal, as each item of machinery arrived, so that the plant actually was commissioned on April 10, 1951, about a month after the last major item arrived and about eleven months after the machinery had been ordered from England.

1. The other bugaboo of British investors, "government interference," taxes, and restrictions, is, of course, less worrisome here than in United Kingdom.

As the project got underway one key task was to move the five ton Miller Washer from a rail siding in Kampala to the plant site. Adshead searched round beforehand for any sort of a prime mover and wheeled platform capable of holding the bulky single-piece five ton load, and found nothing at hand but a military tank-trailer in possession of the local Public Works Department.¹ The trailer platform was too low, and there were at the siding, or mobile in Kampala, no lifting cranes or hoists of five ton capacity which could transfer the load between the different levels of rail-car, vehicle, and plant floor level. Using an especially modified heavy truck, Uganda Roadways finally was able to haul the unit from the siding, and it was lifted off the truck and put into position by hand labor. Fifty African laborers were used to lower, lift and move the unit, using screw jacks, blocks, rollers, levers, ropes and pulleys, and finally set it on its prepared concrete floor. Many parts of the operation, despite all earlier planning, had to be extemporized day by day; and at one time, Adshead said, the washer-moving difficulties had brought him to a serious consideration of knocking out the front brick wall of the building and reversing his plan to bring the unit in through the rear doors, which faced a six foot lower side of the lot.

Getting sales started was a pioneering job, and the company felt its way. The only way to make sure whether the natives would drink Pepsi-Cola warm or whether coolers would have to be shipped in was to sell what could be sold and wait for reactions. The only sure point was that there would be alternate rush and dead seasons, as held true for all other business, as natives became seasonally rich during the cotton picking season and poor during the growing months. Sales problems, however, turned out to be subordinate to maintaining plant operations.

Among the current operational difficulties an outstanding problem has been the bottle reserve. In the opinion of the manager, it has never been large enough. The initial stock was 12,000 cases, which even under present one-shift operations leaves a margin of only 500 cases for work and storage. The danger of bottle wastage were thought at first to be great: the African native likes color, and the Pepsi-Cola label on the bottles might persuade him to forfeit the deposit and retain the bottle for home use and decoration. Breakage in transporting and handling would be considerable too, especially in trucks driven fast over dirt roads. The company at first was unwilling, however, to invest in more than 12,000 cases, and additional shipments subsequently ordered from England have not yet arrived, leaving the bottle bottleneck as the predominant factor currently restricting expansion of sales. In order to be sure of getting enough of the bottles back the Company is requiring a higher bottle deposit than it would, in the interests of sales relations, prefer.

1. Two points are significant here: First, that in this sort of British colonial area, where government is economically as well as politically ubiquitous, much dealing with government agencies is always necessary, sometimes outweighing advantages such as lower taxes. Secondly, the presence of leftover war material - trucks, bulldozers, metal goods of the heavy sort - often enables commerce to move into an area formerly inaccessible.

The syrup, of course, comes from Pepsi-Cola in England, but is not bulky enough to give great transportation problems. The locally purchased sugar contains an inordinate amount of impurities, and it has to be filtered in syrup form through twenty layers of heavy paper. The water is chlorinated, then filtered, with alkalinity kept below 85. Pipe-water in Kampala is warmer than usual, 80°, which makes heating to 140° for the bottle washing easier and cooling for bottling more difficult than usual. The general problem of bottle-and-contents sterilization, which determines the storage life of the drink, is not much greater here than elsewhere in the tropics. A sample is sent each month to London for analysis by Pepsi-Cola Company. The only notable complaint has been that the charge of CO² has not held at sufficient level, which Adshead blames on the 3,600 altitude of Kampala.

Of the task of keeping the plant going the labor aspect is perhaps the most interesting. The plant, except for the European manager and an Asiatic (Pakistani) assistant, is staffed entirely by Africans. In my earlier letters I have dwelt on the subject of the tribal African's unfamiliarity with things mechanical. In his own society he did not use the wheel, and, as I have observed personally out in the bush, his employment of the lever in his tribal life is limited and unimaginative. The functions of screw threads, cams, cogs, springs, hinges which are part of the experience of an American male child are all mysteries to him until after he has moved to one of the white man's towns. In tasks of initiative he seldom possesses a concept of "a fight against time:" he is likely not to show up for work if it rains, or if he has relatives visiting, or if (as is presently rumored in Kampala) his particular tribal community is discontent over some political issue and feels inclined to express itself in a community strike.

In the case of the Pepsi-Cola plant here, however, it is likely that the advantages of African labor far outweigh its faults. First of all it is cheap: 50 shillings¹ or \$7.00 per month for unskilled labor, 100 shillings or \$14.00 for skilled. The English-speaking clerk gets 200 shillings. (The Asian assistant, whose racial prestige - and in fairness whose economic capabilities - lies beneath that of the European but well above the African, receives 1,000 shillings or \$140.00.) Secondly, though the African laborer is a pretty good clock watcher, his night eating habits enable him to work without a break at noon. Another outstanding advantage of African labor is its apparent indifference to the monotony of repetitive, conveyor-belt work. To all appearances, East African laborers are all the more pleased with routine, repetitive tasks. With "untouched by human hands" manufacturing or processing methods, the African, according to Adshead, comes into his own as an efficient and tireless worker. Adshead is very content with his labor setup, saying that his workmen are good by African standards, "fair" by other standards - while his payroll, by European standards, remains negligible.

1. A note regarding currency. The East African Shilling, practically the same value as the English Shilling, is the basic coin of East Africa. However, it is broken into a hundred cents, rather than 12 pence, to decimalize the system. The shilling value is roughly seven to the U.S. dollar.

Adshead also said the African likes to work with food. The laborers are checked by the watchmen for sugar in pockets going out, but they are officially allowed to drink two bottles of Pepsi-Cola per day, and actually drink more. (This is quite a concession, for the price of a bottle retail would equal almost half a day's pay for an unskilled laborer.) The essential plant sanitary arrangements, of a clean suit of overalls per workman per day and showers with free soap also are attractive to Africans who by our standards are used to being ragged and dirty.

The life of the bottling and washing machinery is calculated to be ten to fifteen years when operated on the present basis of one shift per day. The trucks are written off after three years. Due to the generally poor quality of roads, drivers, mechanics, and because of unskillful portioning of cargo weight on the sprung truck platforms there is abnormal wear on springs, shackles and frames. Trucks also are shortened in life by up and down grades, by the serious corrosive effects of the long rainy seasons, and by vibration-crystallization of metal due to road corrugations. Thirty thousand miles is the outside limit of dependability before major overhaul, making the outside limit of use 30,000 miles or three years.

The nature of the market now being sold is very interesting, since the product is the first of its type introduced. The entire territory of Uganda is included within the concession purview as well as the littoral of Lake Victoria. Taken for its purely statistical worth this would mean that this one 12 bottle single-capper machine would be serving a market of some six millions throughout an area of 85,000 square miles. Sales, however, are almost entirely confined to all three races in the European inhabited areas and to natives in the areas of European-Asiatic contact near the roads. This means, geographically, all of Uganda and the littoral of Lake Victoria, especially the north shore area, where modern transportation facilities have naturally moved into the most watered, agriculturally productive area. Normal sales area includes Kampala, Entebbe, Jinja, the urban centers on the north shore of the Lake, and the main lake ports. Kampala, Jinja, and Entebbe, have a combined population of about 60,000 including 1,500 Europeans. Despite the alleged colonial disposition to alcoholics, these whites drink an enormous amount of Pepsi-Cola - mostly chilled - and without adding rum. Rum cokes and Cuba libres are not popular here. There are also 13,000 Asiatics living in this area who exhibit a fondness for Pepsi-Cola. The round-the-lake points include Masaka, population 11,000, and Kisumu in Kenya. The distribution by steamer along the shores of Lake Victoria is purely a matter of delivery to dealers by the steamship company. The bottling company maintains no sub-agencies at the points along the shores.

One "large-scale" buyer trucks two hundred cases on a 500 mile return trip to Soroti in the northern hinterland. This long truck route is exceptional and is undertaken by a middleman who sells wholesale at a higher (and presumably unauthorized) rate. The highest price paid on this run is 8/60 per case. Adshead thinks this may be the longest overland production-unit-to-retailer distance of any carbonated beverage in the world.

The manager thinks the distribution from the Kampala plant may be unique, in terms of the vastness of the area served. He says the present area is much too wide and expansion in future would logically be in the form of intensified local sales and the installation of a number of separate bottling plants.

As is true in the case of plant operations, the distribution payroll is smaller than it would be in developed Western areas. The Asian truck driver-salesmen are paid 600/--, the Africans 200/-- per month. Each truck has two loading boys paid 55/-- per month, the position of truck driver in East Africa placing him above the task of lifting bottle cases.

As with sales, much is yet to be learned regarding distribution in this new territory. The same, of course, holds true for the development of a pricing policy. Wholesale price is now 6/-- per case (24 bottles) delivered, 5/50 picked up. If over 200 cases are taken at the loading platform in a single order, the price is 5/25. To date, about 75 percent of all cases sold have been delivered. The retailer is supposedly allowed a profit of 50 percent, but usually makes more. Deposit on case and bottles is 15/50.

The extent of the mark-up over production cost is of course confidential, but I have calculated from more generalized figures that a case of Pepsi-Cola which is sold wholesale for 5/50 shillings at the plant or 6 shillings delivered is actually produced for very near 3/58 (labor, material, overhead, but no depreciation). The first year's operation netted a profit of approximately 1,000 shillings, admittedly token, but the company had been prepared to accept a loss. Against first year's sales estimate of 75,000 cases, actual sales had reached the 93,000 mark and would have gone considerably beyond, according to the manager, had he had on hand a sufficient margin of bottles to cope with the large cotton-picking season demand. In a single month, February, I similarly calculated a profit of 16,000 shillings, indicating an increase in sales which would seem to assure the ultimate success of the venture. I understand that Pepsi-Cola in London or New York have held that prices should not be raised, but that the Company now wishes to raise the price further.

This enterprise in the Protectorate of Uganda was characterized by features which are known in other underdeveloped dependent areas. The first is the atmosphere of political insecurity. The only people generally speaking in the area who had sufficient capital and who are accepted readily as agencies for Western hand-goods manufacturing are whites. While the present affairs of Uganda are predominantly influenced, if not outrightly controlled, by these whites and some Asiatic business men, there is a continual voicing of native aspirations for self-government. There is also a notion on the part of emergent Africans - of rumor origin but still meaningful - that the "Europeans are going to leave Uganda in ten years." In this atmosphere European investors understandably seek a rate of profit which will recover their investment within the shortest practicable time.

Along with the political insecurity there is in the increased industrialization of the area a gradual raising of the cost of labor and an increase - perhaps inflationary - in the amount of money in the African's hands. This has caused during the past two years a continued increase in the costs of all the factors of production.

In the experience of this company, and doubtless in the operations of other processing and manufacturing organizations in East Africa, the thought arises regarding the fitness of African labor to compete with European. To me there is some evidence that the African laborer might one day fall into the category of the Japanese textile worker as a person who provides, once trained, a cheaply hired and yet very competent semi-automaton far superior, dollar for dollar, to his western competitors. In East Africa, now, one hears the African constantly accused of stupidity and awkwardness. He seems to break, fumble, or botch everything mechanical or chemical that he touches.



Perhaps this means he is passing through an intermediate stage during which a tribesman becomes familiar with the lever, the wheel, the screw thread, and other devices and then finally takes his place as an understanding workman with perhaps complicated machinery. Or perhaps the primitive African, hired and trained young, can skip this intermediate stage, pick up no generalized mechanical knowledge, but learn instead to serve as a willing, specialized automaton, uncomplaining about the monotonies or "uncreativity" of his job. Perhaps the "untouched by human hands" type of machinery, with a very few technicians who understand it, could be used in Africa and produce goods very cheaply, utilizing this labor in routinized, simple tasks. The physical endurance of the tribal savage, plus his willingness to live in cheap crowded housing, plus his satisfaction with repetitive, monotonous work might one day make him a better factory worker than all his white skinned competitors.

Sincerely,

John B. George

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