The Sermsuk-Pepsi Partnership: Happy Marriages Don’t always Last

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Abstract

In April 2011, the Thai and U.S. business presses were awash in the news that one of the longest-running and most successful business partnerships between the U.S.-based conglomerate, PepsiCo, and its Thai bottler and distributor, Sermsuk Pcl (“Sermsuk”) had just been announced as slated for termination, effective April 1, 2012. Many observers within the soft drinks industry in both countries were stunned. Not only had the relationship endured for nearly 60 years, but it had been a highly profitable one for both parties. Moreover, under Sermsuk’s marketing and distribution acumen, Thailand had emerged to become one of the few national markets in which PepsiCo’s market share exceeded that of its arch-rival, Coca Cola (bangkokbiznews.com). Observers were left puzzled, as few would have predicted that such a long-established and successful partnership would eventually end in mutual, albeit muted, acrimony with each side blaming the other for the divorce. Hence, the business communities in the metropoles of both nations were keenly interested to know the causes of the ruptured relationship, in case it might contain useful lessons for their own increasingly globalized operations.

Keywords: PepsiCo Versus Sermsuk, Inter-Cultural Communication, Business Negotiation, International Business Deal

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มหากาพย์เสริมสุข-เป๊ปซี่: การหย่าร้างที่ขมขื่น

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บทคัดย่อ

ในเดือนเมษายน 2011 สื่อต่าง ๆ ได้รับข่าวที่น่าตกใจเกี่ยวกับการแยกทางกันระหว่างสองธุรกิจที่มีความร่วมมือกันมายาวนานและประสบความสำเร็จที่สุดระหว่างเป๊ปซี่โคบริษัทในเครือของสัญชาติอเมริกันและผู้จัดจำหน่ายในประเทศไทย บริษัท เสริมสุข จำกัด มหาชน (เสริมสุข) ทั้งสองบริษัทได้มีการประกาศยกเลิกสัญญาที่ทำมาร่วมกันมานาน โดยผลบังคับใช้วันที่ 1 เมษายน 2012 ซึ่งบรรดานักลงทุนและผู้ติดตามข่าวทั้งหลายถึงกับต้องตะลึง เนื่องจากทั้งสองไม่เพียงมีความสัมพันธ์มานานเกือบ 60 ปี แต่ทั้งสองก็มีผลกำไรที่ดีอย่างเสมอมาด้วย นอกจากนี้ การดำเนินการทางตลาดและจัดจำหน่ายภายใต้เสริมสุขก็ทำให้เป๊ปซี่มีส่วนแบ่งการตลาดที่เหนือกว่าโคคา โคล่า ซึ่งประเทศไทยเป็นเพียงไม่กี่ประเทศเท่านั้นที่สามารถทำได้เช่นนี้ (bangkokbiznews.com) บรรดานักลงทุนและผู้ติดตามข่าวต่างต้องฉงน เนื่องจากคงไม่มีใครที่จะคิดว่าความสัมพันธ์ที่ยาวนานระหว่างสองธุรกิจนั้นจะจบลงได้ง่าย ๆ และต่างฝ่ายก็กลับโทษกันในการยกเลิกความสัมพันธ์ในครั้งนี้เปรียบได้เสมือนการหย่าร้างของสามี ภรรยาที่ลงเอยไม่ดี กรณีศึกษานี้จะเป็นตัวอย่างที่น่าศึกษาในมุมมองของธุรกิจจากทั้งสองประเทศว่าปัจจัยใดนั้นทำให้ความสัมพันธ์ที่มีมานานร้าวราน อีกทั้งกรณีศึกษานี้ยังจะเป็นบทเรียนที่สำคัญแก่ธุรกิจในยุคโลกาภิวัตน์นี้ด้วย

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History of the Two Partners -- Sermsuk Pcl and PepsiCo

A Brief History of Sermsuk Pcl

The origins of Sermsuk could be traced back to the post-World War II era when, following negotiations in Bangkok between the soon-to-be founders of the Company[1] and PepsiCo, the new enterprise was launched on April 18, 1952. In introducing carbonated beverages to the Thai market, Sermsuk's co-founders took a risky gamble because at the time the drinking of carbonated beverages was a fairly novel idea for many Thai consumers. In addition to introducing Thai consumers to a relatively new type beverage, the six Sermsuk co-founders had also been intent on having a positive impact of employment opportunities, as well as serving as an encouragement to the Kingdom's industry sector. During 1952-53, the first medium-sized plant was set up on Silom Road in the central district of the Bangkok metropolitan area with registered capital of only 8 million baht.

The date, March 18, 1953, marked Sermsuk's entry into the Thai soft drinks market with the first distribution of Pepsi in 10-ounce bottles under the advertising slogan "More is Better, Better is More," and with a price of only 1 baht (US$ 0.031). The 10-ounce bottle served to differentiate newly introduced Pepsi from competitor soft drink products, which were bottled in the then standard 6.5-ounce size. The new soft drink gained immediate popularity, so much so that the initial plant's production capacity of 20,000 crates per day soon proved insufficient to keep up with the rising demand. Indeed, for the next 14 years, Sermsuk enjoyed the "happy struggle" of creatively augmenting production plants (e.g., adding production shifts) rapidly enough to keep with the popularity of the product.

Building Production Capacity:

Initially, to meet the growing demand, the board of directors authorized the construction of a second bottling plant in 1967 in the Bangkhen, an outer district of Bangkok. Equipped with two machines imported from the U.S., along with a machine brought over from the Silom plant, the new plant, opened in October 1967, with a production capacity of 55,000 crates per day. Thus, not only did its construction more than double existing capacity, but also gave Sermsuk a presence in the city's expanding suburbs.

Not long thereafter, a new factory in Nakhon Ratchasima, the central-northern province of Thailand, was commissioned, thereby opening the way for the Company to expand its production and marketing operations to the North, beginning in 1969-70, with a new plant on the banks of the Chaophraya River in Nakhon Sawan's Muang District. Initially, the operation here was under the supervision of the Bangkhen plant, but in 1973 became a self-managed unit. Its production capacity soon reached 40,000 crates a day, at a production speed of 800 bottles per minutes. Nearly simultaneously, between 1973 and 1975, the company was also expanding its Bangkhen factory by adding more production space for a fourth machine, thereby increasing capacity to 100,000 crates a day.

Then, in response to the then Government's policy to encourage the expansion of medium-sized industry factories to areas outside the capital, Sermsuk opted to locate its fifth plant at Bang Khayang Sub-district, Pathum Thani's Muang District. Construction, which began in 1978, was divided into two phases. The first phase entailed the construction of the building and the installation of the five super large machines with a capacity of 2,600,000 bottles a day. The second phase was focused on the expansion of the production building and the installation of five more machines, thereby increasing total capacity to 6,000,000 per day.

Still, consumer demand continued apace, threatening to overwhelm production capacity. This soon necessitated building yet another factory, this one located in Punpin District, Surat Thani, in the south of the Kingdom. Entailing an investment of 250 million baht and a daily capacity of 20,000 crates, this plant was aimed at satisfying the increasing demand for product in the fourteen provinces in the South. It was to the delight of the company's management and employees that Her Royal Highness Princess Sirindhorn presided over the inaugural ceremony of this, Sermsuk's sixth factory, on August 18, 1998.

It did not take long for the Company to realize that there remained yet more demand than it could supply with its existing portfolio of production plans. Hence, in 2002, Sermsuk Public Co., Ltd. embarked on the establishment of another new plant in Chonburi, an eastern province near Bangkok) to extend the production capacity and support the continually growing market. The new 600 million baht plant -- situated in Nong Mai Daeng, Muang district, Chonburi province -- encompassed an area of 68,600 square meters and was one of the nation's most advanced beverage plants. Its capacity to produce the soft drinks, in addition to the recently added instant tea product line, in PET bottles at a rate of 24,000 bottles per hour enabled the fastest distribution possible. With this plant, Sermsuk could boast of nationwide coverage of its vast consumer market.

Leadership and Vision:

Much of the credit for Sermsuk's rapid expansion and success could rightly be attributed to Song Bulsuk, the key initiator and pioneer among the founding group, who held the position of manager director for 25 years (from 1958 to 1983), which coincided with the Company's dramatic expansion from a single bottling plant to the five modern plants that it had at the time that he passed the leadership baton to his son in 1983. It was he, Song Bulsuk, who had relentlessly pursued the vision of over-taking longer-established Coca-Cola and making Pepsi the number one soft drink throughout Thailand. Because of his vision and his fierce determination that Pepsi become and remain number one in the Kingdom, Sermsuk was firmly set on the path to overtake Coca-Cola, thereby making Thailand one of the few countries in which Pepsi's market share exceeded that of Coca-Cola.

From the outset, Song Bulsuk did not see Sermsuk as just another business, but as an integral part of social development. In this connection, despite the exclusive bottling and distribution arrangement with Pepsi, he strove to ensure that Sermsuk identified itself as a part of the Thai community. Moreover, his management style and operating philosophy were among the many valuable assets which had strongly contributed to Sermsuk's past advancement. For example, to ensure the company's ability to keep apace of its extensive marketing network, a hallmark of its market-oriented strategy, he implemented a financial management strategy that ensured the Company ongoing access to adequate funding to expand its operations on an "as-needed" basis. He also had a knack for seeking business opportunities wherever they might be found. In this quest, he was greatly assisted by his habit of forging strong business relationships with the leaders of many of the Thai's leading business conglomerates, including the Lumsums family who were major shareholders in Kasikorn Bank, one of Thailand's largest commercial banks. Moreover, Song Bulsuk endeavored to ensure the realization of his vision that his own family would continue to drive the future of Sermsuk. He therefore sought to keep family members closely involved in various aspects of the business, as could be seen in his guiding and coaching his son (Somchai Bulsuk) in the assumption of positions of increasing responsibility in the Company.

Taking the reins when his father stepped down as managing director in 1983, Somchai Bulsuk clearly had big shoes to fill in looking after and continuing his father's visions for Sermsuk. A graduate of the U.S.A.-based Menlo College School of Business, a private non-profit business school that was colloquially known as "Silicon Valley's Business School," Somchai's first post-graduate job was with a bank before he decided to join his father at Sermsuk.

Although the son of the managing director, Somchai Bulsuk was not treated in any special way. He started as a laborer loading soft drink crates onto delivery trucks, thereby learning the business from the bottom up. As he accumulated experience in various positions, Somchai gradually absorbed his father's management style and business philosophy, foremost among which was a cautious, planned, and methodical approach to doing business. He considered these the legacies of his father's many years at the helm of the Company. They were deemed the essential elements needed to build and sustain a strong foundation for the business. Further, while he believed that Sermsuk must have ongoing healthy growth, he was resolved to avoid over-investing in anything and to using every dollar wisely. To this effect, he accentuated prudence in the management of cash and other current assets. For example, rather than borrowing and paying interest, Somchai Bulsuk preferred spending that would generate sales. With his solid educational background, his measured progression through the ranks, and his subscription to his father's vision and philosophy of doing business, Somchai Bulsuk seemed destined, in the view of many, to drive the Company to greater heights and an even brighter future.

Sermsuk the Culture

While it could not be said that Sermsuk was merely a mirror image of all other Thai business establishments, it was nonetheless true that the Company was a product of Thai business culture and therefore reflected a Thai approach to business and business relationships. Thailand, in turn, was of course an Asian nation and therefore, although assuredly cultural distinct, nevertheless had many commonalities with other Asian cultures. In this sense, Thai national culture could be viewed as a subset of Asian culture in general, while Sermsuk's corporate culture could be viewed as a particular expression of Thai business culture in general.

In the typology of national cultures that emerged from Geert Hofstede's seminal research, Thailand (like many Asian cultures) was characterized as a "collectivist/feminine" culture -- nearly the direct opposite of the individualistic/masculine cultures that predominated in North America, the United Kingdom, and a few other mostly Western nations. On the "collectivist" dimension, people in such societies belonged to and strongly identified with their particular "in groups" – groups that took care of them in exchange for loyalty and adherence to the group's norms and ethos. In such societies, members of "in groups" -- whether they be a nuclear family, an extended family, or an extended relationship – exhibited a long-term commitment to the group. Precisely because group members were viewed as highly interdependent, these societies fostered strong relationships where everyone took responsibility for fellow members of the particular group. Indeed, loyalty to the member's group was often felt and perceived by the individual person as so primal as to not infrequently override most other societal rules and regulations. It was not the individual member's welfare or ambitions or aspirations that were determinative. Rather, it was the welfare, needs, and aspirations of the collective that shaped individual outlooks and behaviors, oftentimes at a subconscious, unthinking level.

These deeply held values and beliefs manifested themselves in concrete ways in terms of what was considered appropriate and inappropriate behavior, sometimes even with respect to members of "out groups." For example, in order to preserve the group, harmonious relations were deemed de rigueur. Thus, argumentative, confrontational, pushy and overly aggressive stances were frowned upon in Thai society. Harmony was highly valued, even at the expense of a person having to subordinate how he or she really felt about something or someone. In particular, brutal honesty in the service "just being truthful" was deemed highly inappropriate, rude, and divisive. Harmony took precedence over "speaking one's mind," all the more so if "speaking one's mind" might cause another person to "lose face."

Offences that led to "loss of face" (i.e., making a person feel shame in front of his/her group) were strictly verboten. Like most members of Asian cultures, Thais were very sensitive to being shamed or "losing face." Thus, comments that a Westerner might shake off with a shrug, a grimace, or perhaps a profanity (e.g., "Your question reveals that you haven't understood a thing that I've said in the last half hour. Wake up!") might offend a member of a collectivist culture to the point where they would consciously avoid all further interaction with the speaker.

Not surprisingly, then, personal relationships, not agreements and contracts on pieces of paper, were the key to conducting business in a collectivist culture. And, building such relationships – relationships of mutual trust, respect, and affinity -- took time, often a lot of time. Hence, patience was the name of the game. A determination to strike a deal would rarely overcome the serious offence of rushing into a discussion about the business "at hand" on the occasion of the initial meeting. A common consequence of violating this cultural rule was that sometimes the cultural offender might succeed in getting the other party's signature on some "contract" (members of collectivist cultures have been known to seemingly accede to an aggressive party's demands just to avoid being perceived as "rude" or "disrespectful") – only to find out later that the signature did not signify agreement at all. (In contrast to the English expression "Let's get down to business: Let's go over the proposed contract," the more Thai orientation or inclination might well be "Let's get down to 'personal': How are you enjoying your stay in my country?"

On the "feminine" dimension of the Hofstede typology, Thailand ranked high on the scale. Feminine cultures were those in which the assertiveness and competitiveness that typified masculine cultures gave way to an orientation toward cooperation, collaboration, and/or accommodation. The preservation of interpersonal harmony and saving face were facilitated when aggressive win-lose struggles were replaced with conflict- and tension-free endeavors to work things through together, with everybody "winning" something and nobody "losing" everything.

At some level, then, because Sermsuk was a thoroughly Thai enterprise, its culture embodied the collectivist/feminine pattern of beliefs, values, mores, ethos, and behavior. It could hardly be otherwise, as it was founded by Thai entrepreneurs and largely staffed by Thai managerial personnel who were steeped in the Thai way of making sense of, and conducting themselves in, the world.

A Brief History of PepsiCo

PepsiCo Inc. (PepsiCo), the partner of Serm Suk in the aforesaid bottling and distribution disagreement, was an American multinational food and beverage conglomerate headquartered in Purchase, New York. Formed in 1965 through a merger of Pepsi-Cola Company, and Frito-Lay, Inc., PepsiCo had since expanded from its namesake product, Pepsi, with interests in the manufacturing, marketing and distribution of a broad range of grain-based snack foods, beverages, and other products. With annual turnover of US$60 billion and 285 thousand employees, PepsiCo was the world's second largest food and beverage company (by net revenue), operating in over 215 countries through its subsidiaries Frito Lay, Quaker (acquired through merger in 2001), Pepsi, Tropicana (acquired in 1998) and Gatorade (acquired in the merger with Quaker Oats). Its scores of second-level brands, plus its 19 core brands (each with revenue of over US $1 billion retail), afforded Pepsi the distinction of having the world's largest food and beverage portfolio (pepsico.com).

The Early Days:

The recipe for Pepsi (the soft drink), was first developed in the 1880s by Caleb Bradham, a pharmacist and industrialist from North Carolina, who by 1898 had taken to calling it "Pepsi-Cola." As the cola developed in popularity, he created the Pepsi-Cola Company in 1902, and registered a patent for his recipe in 1903. The Pepsi-Cola Company was first incorporated in the state of Delaware in 1919.

Early in the era of the U.S. Great Depression (i.e., in 1931), the company went bankrupt, after which the trademark and syrup recipe were purchased by Charles Guth, owner of a syrup manufacturing business in Baltimore, Maryland. Guth was also the president of Loft, Incorporated, a leading candy manufacturer, and he used the company's labs and chemists to reformulate the Pepsi's syrup. He further contracted to stock the soda in Loft's large chain of candy shops and restaurants, used Loft resources to promote Pepsi, and moved the soda company to a location close by Loft's own facilities in New York City. In 1935, the shareholders of Loft sued Guth for his 91% stake of Pepsi-Cola Company in the landmark Guth v. Loft Inc. case. When Loft won the suit, Pepsi was formally absorbed into Pepsi-Cola in May 1941, and re-branded as the Pepsi-Cola Company that same year. (Loft restaurants and candy stores were spun off at this time.) Later, in the early 1960s, Pepsi-Cola launched a strategy of related diversification, expanding the company's product lines with the creation of Diet Pepsi and the purchase of Mountain Dew soft drinks.

In 1965, the Pepsi-Cola Company merged with Frito-Lay, Inc. to become PepsiCo, Inc., the name by which it was known still known. At the time of its foundation, PepsiCo was incorporated in the state of Delaware and headquartered in Manhattan, New York. The company's headquarters were relocated to its still-current location of Purchase, New York in 1970, and in 1986 PepsiCo was reincorporated in the state of North Carolina.

PepsiCo Today:

As of January 2012, PepsiCo's product lines generated retail sales of more than US$1 billion on each product line, and the company's products were distributed across more than 200 countries, resulting in annual net revenues of US$43.3 billion. Within North America, Pepsi Co was ranked (by net revenue) as the largest food and beverage business.

PepsiCo was organized along the lines of a modified global product structure, with sales in the company's Asia Pacific Region[2] under the responsibility of Umran Beba, president of the Region since February 2010. (See Exhibit 1 for a high-level overview of the structure of the corporate organization.) An 18-year PepsiCo veteran who had held a wide range of roles joining the company in 1994, Beba was responsible for PepsiCo's food and beverages businesses throughout the Asia-Pacific region, which spanned more than 23 countries with 5,700 direct employees and about 70,000 indirect employees. The Region – composed of both "developed" and "developing" markets -- consisted of Japan, Korea to Australia, New Zealand to Pakistan and the whole of South East Asia. There were 14 company-owned operations in this geography, 20 franchise partnerships and 5 joint ventures. Growth rates were in the double-digit range with healthy profitability.

When the Asia Pacific region was subsequently combined with the Middle East and Africa to form the PepsiCo Asia, Middle East and Africa (AMEA), AMEA's operations included all beverage, food and snack businesses in Asia, the Middle East and Africa, excluding South Africa. Either independently or in conjunction with third-party partners, PepsiCo AMEA made, marketed, sold, and distributed a number of iconic PepsiCo brands, including Lay's, Chipsy, Kurkure, Doritos, Cheetos and Smith's, many Quaker-branded cereals and snacks, beverage concentrates, fountain syrups and finished goods under various beverage brands (e.g., Pepsi, Mirinda, 7UP, Mountain Dew, Aquafina and Tropicana). These branded products were sold to authorized bottlers, independent distributors retailers. In certain markets, PepsiCo AMEA operated its own bottling plants and distribution facilities. PepsiCo AMEA also, either independently or in conjunction with third-party partners, made, marketed, and sold ready-to-drink tea products (under the Lipton brand name) through an international joint venture with Unilever and licensed co-branded juice products to third-party partners through a strategic alliance with Tingyi under the House of Tropicana brand name (pepsico.com).

PepsiCo the Culture:

PepsiCo had long had a reputation among American corporations as being a "hard-driving," "aggressive," "take-no-prisoners" kind of company. Having been forced for decades to wage a "no-holds-barred" battle with arch-rival Coca-Cola for a viable share of the global cola market had induced in the organization a passion for directness, nimbleness, creativity, and an assertiveness bordering on aggressiveness. And, these were the traits that it sought in its hires. Convinced that excessive bureaucracy would only hamper their eternal drive to "best" Coca-Cola wherever the two rivals crossed paths on the global stage, PepsiCo was known within the American corporate establishment as having some of the brightest, hardest-working, (and hardest-playing), self-driven, and ambitious managers and executives among its corporate compatriots.

Like General Electric (GE) -- another American multinational conglomerate corporation known for hiring only super-bright, super-hardworking, and super-ambitious talent -- PepsiCo tended to hire its future managers and executives at a relatively young age, virtually right out of graduate business or management school, give them unusual profit-and-loss responsibility at a young age, unapologetically discard those who could not deliver, and reward handsomely those who did. Very much a "work-hard/play-hard" culture, it was not a place for the shy, the indecisive, and those were content with second place. Consequently, those who survived the breaking-in process shared the same vision of "Performance with Purpose" and were committed to sustainable growth with commensurate profitability.

Thus, PepsiCo was very much a product of the particular national culture in which it was embedded and by which it had been shaped. More specifically, despite the well-known symbolism of its being a "melting pot" of ethnic and cultural diversity, the US nonetheless exhibited a distinct business culture – a major component of which was belief in "The American Dream," that is, the widespread belief that every individual could succeed and prosper financially by working hard. This concept contributed to a strong work ethic and belief in a merit-based work system. Accompanying these cultural artifacts was the tendency toward work lifestyles in which, among other things, long work hours (including frequent overtime), the supremacy over the individual over the collective, and initiative and motivation, and a clear distinction between management and subordinates were highly valued – and frequently rewarded. In addition, personal competence, professionalism and accountability for individual performance were greatly prized. This tended to lead to a work culture where superiors were only consulted when needed and where much business was carried out autonomously by "empowered" individuals imbued with a sense of the particular organization's values and mission. More often than not, the concomitant focus on individual initiative and achievement tended to foster an highly competitive work environment, as well as comfort with a "win-lose" orientation toward advancing one's interest, dealing with conflict, and negotiating with other parties -- as will be seen shortly.

Thailand Food and Beverages Industry

With its $1.5 billion industry the largest in South East Asia, there was no question but that Thailand had a thirst for soft drinks (aljazeera.com). To be sure, the contagion of the 2007-2009 global financial crisis had noticeably impacted the consumption of soft drinks in the Kingdom, as consumers spent cautiously because of the poor economic climate. However, off-trade volume[3] sales of overall soft drinks were nevertheless predicted to post a compound annual growth rate (CAGR) of 5% over 2009-2013 -- a net increase of US$990 million, making Thailand as an attractive market for investment, despite the downturn.

The Thai soft drinks market had total revenues of $3.8 billion in 2012, representing a compound annual growth rate (CAGR) of 4.0% between 2008 and 2012. Market consumption volumes increased at a CAGR of 2.9% between 2008 and 2012, to reach a total of 6.0 billion liters in 2012. The performance of the market was forecast to decelerate, with an anticipated CAGR of 3.5% for the five-year period 2012-2017, which was nonetheless expected to yield a market value of US$ 4.5 billion by the end of 2017 (datamonitor.com).

The reasons for the robust size and growth rate of the Thai soft drink market were essentially two fold. First, there was no question but that Western tastes in food and drink had made pronounced inroads into country, and increasingly so during the 1960s and thereafter. The presence of nearly every brand of American fast-food outlets (and a few British and other brands) was vivid testimony to the increased consumption of nearly everything from "Big Mac burgers and fries" to KFC "chicken tenders" – as well as the sodas that accompanied them. Initially, Thai consumers of such foods and drinks were largely the youth, e.g., teenagers and sub-teenagers; but, in time, the urge to grab a quick snack and a Pepsi or Coke or whatever spread to the adult population, also.

The second driving force for the consumption of soft drinks in the Kingdom was a function of its regional and global status as one of the world's most popular tourist destinations. Indeed, in 2012, tourism accounted for around 6% of the country's GDP. A substantial portion of these tourists hailed from countries where soft drinks -- particularly the well-known U.S. brands such as Pepsi and Coke -- had long been popular. To be sure, most came to Thailand to experience something different – a different culture and a refreshingly new cuisine (and drinks), as well. However, as a casual stroll along any tourist beach or municipal thoroughfare would reveal, tourists were not at all averse to occasionally resorting to long-familiar fast-food and drinks. In other words, many, if not most, did not totally "check" their long-established dining habits when they arrived at Thai airport immigration. Especially among the young, dining on Thai thom yam kung and sticky rice today blended right in with having an order of "chicken McNuggets and French fries" the following day.

However, of recent, changing economic conditions across South East Asia were leading to somewhat changed patterns of food and drink consumption in Thailand, as well as its neighboring countries. More specifically, challenging economic circumstances had led many Thai consumers to become more price-sensitive, with price becoming one of the main factors in their consumption decision-making process. The recently emerged middle-classes had been hard hit by the so-called "Hamburger Crisis" of 2007-2009 and were struggling to maintain their newly found middle class lifestyle. Moreover, political instability in the country contributed to the tendency of Thai consumers to increasingly keep a watchful eye on their wallets, with many cutting down on impulse purchases of food and drinks.

In consequence, soft drinks manufacturers – particularly, local ones -- were beginning to adapt their investment and marketing plans to keep up with consumers' consumption patterns. One adaptive strategy in particular, i.e., the low pricing strategy, had been gaining ground to the point where it was being widely used by soft drinks players as a tactic in the attempt to maintain bottom-line growth. This change was predicated on the belief that in a poor economic climate, affordability was the key to not only maintain consumption frequency for existing consumers but also to encourage product sampling from new ones. Thus, private label contractors and economy brands were increasingly banking on the recessionary economic environment as a great opportunity in which to grow their market share.

Indeed, the latest research showed that Thailand was, in fact, one of the fastest growing markets for private label soft drinks in the Asia-Pacific area, underpinned by the rapid development of chained convenience stores and supermarkets. This was noteworthy, given that private label sales of soft drinks continued to be sporadic in many Asian countries, including China and Vietnam. By contrast, sales of private label bottled water in Thailand, for example, accelerated by 30% over the period 2004-2008, outperforming all the mainstream players. By the end of 2008, private labels commanded a 2.4% share of the bottled water market – small to be sure, but growing rapidly. What was true of the bottled-water market looked increasingly to become true of at least a segment of the soft drink market. Looking ahead, contractors and chained retail formats were expected to take advantage of the weakening purchasing power and advance their market position further over the short to medium term (Euromonitor International).

The Beginning of the Relationship – The Exclusive Bottling Appointment

The Pepsi soft drink launched in Thailand in 1953 through the initiatives of a network of influential Thai businessmen of that era – specifically, Yom Tantsetthi (then president of the now-defunct Bangkok Bank of Commerce and a Lamsam in-law who was a close friend of three prominent business families) and members from the three influential families, i.e., Lamsam, Wang-lee and Bulsuk. Having had earlier experience as a branch manager of a Singapore based bank in Thailand, Yom Tantsetthi knew of Pepsi's resounding success in Singapore and had some information on PepsiCo's plan for the region. He believed that Pepsi could realize similar success in Thailand, and therefore secured the commitment of this close-kit group to join together to introduce Pepsi in Thailand through a franchise agreement. Initially, PepsiCo and its affiliate, Seven Up Nederland, held a 41.54% stake in the new firm.

The new venture received a major boost when Song Bulsuk was invited to join the Company as general manager by Lo Teck Chuan -- a wealthy businessman who was one of Serm Suk's major shareholders and also one of the largest rice exporters in Thailand. Song Bulsuk, a graduate of the University of Hong Kong with a degree in electrical engineering, came aboard in 1958, at a critical and opportune time in Serm Suk's development. The Company was in the midst of expanding its production and distribution operations, while eternal rival Coca-Cola was largely preoccupied with a major shareholder reconstruction initiative (manager.com). Thus, while the PepsiCo's nemesis was distracted by internal issues, Sermsuk, the "new kid on the block," was able to forge full speed ahead with the building of capabilities to begin carving out a share of the cola soft drink market in Thailand.

Sermsuk's rapid progress in gearing up to expand Pepsi's presence in the Thai market was well-received by PepsiCo. After all, a major reason why PepsiCo had entered into the relationship with a local business was the difficulty and long lead time often required to successfully establish a new market in an entirely different South East Asia country, with a culture different from that of its entry point, Singapore. In addition, the joint venture between PepsiCo, the global corporation, and Sermsuk, the local affiliate, promised to afford each partner a number of advantages. One such advantage that accrued to both sides was the autonomous management arrangement whereby the franchisee could freely manage and promote PepsiCo's products in a national market in which Bulsuk and Sermsuk's founding families had intimate knowledge and experience of longstanding. This independency would soon prove its merit, as Pepsi began slowly, but surely, catching up with, and then overtaking Coke in Thailand. In point of fact, these successes enabled Sermsuk to enter the Thailand Stock Exchange, with their first lots of shares traded on June, 30 1975 (settrade.com).

During the course of business, Sermsuk subsequently entered into two significant agreements, the first of which was *The Agreement for Cooperative Advertising and Marketing Principles*, signed in 1997, between Serm Suk and Pepsi-Cola (Thai) Trading Limited, a subsidiary of Pepsi Co Inc. This Agreement imposed certain financial obligations with respect to the sharing the cost of advertising and promotions within the local market. The agreement also obliged Sermsuk to purchase syrup, the main ingredient for making soft drinks, from PepsiCo, as well as use the PepsiCo brand, "Pepsi." This agreement, essentially a renewal of preceding agreements, was consummated during the 1997 Asian financial crisis, when economic conditions were entirely different from those that would come subsequent to the financial crisis. The second renewed agreement, the *Exclusive Bottling Appointment Agreement*, was signed in 1998, with the counter-party signatories being Pepsi Co Inc. and Seven-Up International. In accordance with said agreement, Sermsuk agreed to continue to purchase soft drink concentrate from Pepsi Co Inc. for the production and distribution of its expanded portfolio of PepsiCo-affiliated beverages.

Prelude to a Break-Up: The Unfolding Events

The relationship between Sermsuk and Pepsi first began to erode in October 2010, when Pepsi and its joint-venture partner, Strategic Beverages Company, launched a hostile takeover bid through a tender offer to purchase Sermsuk's shares in the stock market. While some observers attributed PepsiCo's aggressive move to its desire to exert more effective control over the management of Sermsuk, others suspected that PepsiCo's action had been motivated by a concern that Sermsuk was becoming a little too "buoyant." In addition, there were a lot of rumors at the time that Sermsuk was considering, or had begun planning, "hitch-hiking" on Pepsi's reputation to build their own soft drink brand to compete alongside the existing Pepsi products. In any event, the bid failed due to PepsiCo's offering a much lower price than the Sermsuk shareholders expected, resulting in the interlopers' inability to acquire the targeted number of shares. The tender was thereafter withdrawn.[4] However, the damage had been done, in the sense that it had served to make Sermsuk uncertain about PepsiCo's longer-term intentions concerning its bottling and distribution arrangement with Sermsuk.

As the year progressed, other long-simmering tensions and differing points of view percolated up to cause further strains in the relationship. The boiling point was reached when Sermsuk, chafing at what it considered certain one-sided terms in the "Exclusive Bottling Appointment Agreement" (EBA) between the two companies that had been signed in 1998, decided to seek modification of select parts of the EBA. The parts at issue concerned Serm Suk's belief that terms governing the purchase of raw materials or ingredients used in the production of Pepsi carbonated soft drink put the Company at a distinctly disadvantageous position vis-à-vis PepsiCo. Sermsuk objected not only to the fact that, in accordance with the EBA, it was obliged to fork out over US$ 100 million (3 billion Thai baht) per year for soft drink concentration, but also that this amount would automatically increase annually by an amount equal to 3 percent of Sermsuk's gross annual income. Given that this payment had been rising over the course of the past decade in concert with Sermsuk's continuous growth, Sermsuk management and shareholders had come to view the payment as fundamentally unfair. Another provision that Sermsuk found increasingly irritating and objectionable was the one by which Pepsi prohibited increases in the selling price of the product, despite steady increases in Sermsuk's cost of production for factors such as sugar, packaging, freight and labor costs – all of which had been rising relentlessly over the years. Absent amendment of this clause, the belief was that Sermsuk's profit was virtually certain to keep getting smaller and smaller, while Pepsi's would get larger and larger.

Thus, Sermsuk resolved to bring the PepsiCo representative back to the negotiation table in February 2010 to request a number of amendments based the following rationale.

- First, the EBA contract had been prepared a long time ago (i.e., 1998) and had never undergone review or modification to accommodate the changes in the business environment that had occurred since then. Therefore, there was a need to review the details of the agreement.
- Second, significant changes in the macroeconomic environment were affecting the Sermsuk's gross margin and competitive position. These included government regulation under which Sermsuk was prohibited from passing its rising cost of production onto consumers, as well as PepsiCo's own restrictions on price increases.

More specifically, soft drinks had been placed on the "Watch List" of the Ministry of Commerce, which gave the government decisive influence on the pricing of the listed products. Moreover, apart from the increasingly intense level of competition within the beverage industry in recent years, several components of cost of goods sold (other than concentrates, the largest cost) had risen appreciably over the past few years. To wit,

- *Sugar*. Sugar prices in the country were under the supervision of the Ministry of Commerce, which in 2008 had approved a 5.0 baht per kilo price increase. Sugar was used in in large quantities each year for the production of beverages, whether carbonated or non-carbonated.
- *Oil and Other Fuel Costs*. Crude oil prices had fluctuated greatly in the past, particularly during the past several years, making it difficult to forecast price movements. However, as they were also a non-trivial cost of goods sold, upward movements had an often pronounced effect, direct and indirect, on Sermsuk's profit margin. *Direct* effects were those that derived, for example, from operation of the Company's large fleet of vehicles; *indirect* costs were those that impacted Sermsuk's bottom

line through pushing up the cost of production supplies (e.g., PET bottles, packaging, and cans) that consumed large quantities of oil in their manufacture. (See Graph below showing changes in the Dubai Crude Oil Price Index over time.)

In view of these changed economic realities that were affecting Sermsuk's profitability, the Company believed it important to re-negotiate the details of the EBA to reduce costs in order to strengthen its competitiveness and maintain the ability to make a profit at a reasonable rate in the long run.

- Third, Sermsuk management believed that the pricing calculation used to determine the price paid for concentrate should be stripped of "unrelated" factors, thereby driving down the cost of this critical raw material. More specifically, the Company desired to re-negotiate the formula under which it was obligated to purchase formula, tossing out what it regarded as "irrelevant" tax factors -- i.e., taxes that PepsiCo was obliged to pay to the relevant Thai authorities, but which did not in any way benefit Sermsuk.
- Fourth and finally, Sermsuk management were intent on unlocking Sermsuk's potential for economic development. *Per* the Company's independent financial advisor, for these reasons it was incumbent on them to seek amendments to the EBA, with a view to securing better prices and terms – the expected outcome of which would be: a) lower overall production and operating costs; and b) better terms that would provide Sermsuk with greater flexibility to expand and/or diversify its core business operations, e.g., profit-oriented reshuffling of the product mix and/or new product launches.

Thus, it was that Sermsuk management, convinced of the appropriateness and soundness of its rationale, resolved to move forward with a request that the EBA be re-opened to establish a more equitable basis for the continuation of the joint venture. The Company was resolved to build a more sustainable platform for additional value-added for Sermsuk in the sense that a successful outcome from the negotiation would afford Sermsuk the benefits of a reduction in overall cost of goods sold, as well as improved prospects for new business.

To fully prepare for the requested renegotiation of the terms of the EBA, Sermsuk's board of directors commanded the development of a *Future Business Plan* document outlining a future alternative for the company. The plan, which was presented to the shareholders meeting on February 15, 2011, was composed of two main parts: i) a Business Operating Plan, and ii) a Proceedings in Relation to the Agreements between Sermsuk and PepsiCo. (See Exhibit 2 for a fuller exposition of the contents of each document.)

The *Future Business Plan* laid out a strategy for expanding Sermsuk's business in several related directions. First, the Company, perceiving an opportunity to take advantage of consumers' increasing health consciousness, proposed to expand into non-carbonated soft drinks, e.g., fruit juices. This would be accomplished *via* either internal development of new products to be sold under Sermsuk's own brand or through acquisition of existing brands, or both. Additionally, having achieved extraordinary success with its 1993 exploratory foray into the bottled drinking water market, the Company proposed to deepen this venture through investing in additional lines of drinking water. An average annual growth rate of 17.5% in the five-year period, 2006-2010, convinced the company that there remained untapped higher growth potential in this market.

Further, with an efficient distribution network encompassing some 47 warehouses, 9 sub-warehouses, 1400 routes sales covering all channels of distribution, Sermsuk perceived an opportunity to become a distributor for other business establishments, such as restaurant and quick-serve food outlets, among others. In fact, the Company was already involved in the field; hence, the proposed strategy would be merely a deepening of this commitment. Finally, during its nearly 60 years of successful operations in the soft drinks sector of the larger beverages industry, Sermsuk had acquired manufacturing and distribution core competences that could well prove highly marketable to manufacturers and marketers of other brands, including the increasing number of private-label beverage brands, pending a satisfactory renegotiation of the relevant restrictions in the existing agreements with PepsiCo. In brief, Sermsuk management perceived a promising future for the Company, *with or without the PepsiCo joint venture*.

PepsiCo's Response to Sermsuk's Proposals and Renegotiation Request

While an internal record of PepsiCo's discussions concerning Sermsuk's proposal and renegotiation request was inaccessible, several likely alternative reactions could be posited, based on Pepsi's subsequent responses. First was the view that PepsiCo would never fully agree to Sermsuk's initial proposals, given that it ostensibly had greater negotiation power. In this view, PepsiCo's control of the key asset, i.e., the "Pepsi" name, accorded it a better position in which to "play hardball" and decline to renegotiate the terms of the EBA. On the other hand, there was the view that PepsiCo should – and probably would -- agree to the propositions from Sermsuk, if for no other reason than to maintain Pepsi's own strategic position within the large and growing Thai soft drinks market.

Which route PepsiCo would opt to take became clear only after it held its executive meeting shortly after receipt of Sermsuk's initial proposals. In its official letter containing its responses, PepsiCo's addressed each of the proposals that Sermsuk had initially made in its request for a re-negotiation of several provisions of the EBA.

Item: Concentrate Price under EBA Agreement

In its March 2011 response, PepsiCo agreed to remove the tax items from the concentrate price calculation and to adjust the percentage of concentrate cost so the result would be an approximately 5% reduction in concentrate price. This, however, was a little more than half the magnitude of the 9% reduction that Sermsuk had sought.

Item: Provisions for Cooperative Advertising and Marketing Principles

With regard to the Agreement for Cooperative Advertising and Marketing Principles -- which specified how PepsiCo and Sermsuk shared the annual marketing expenditures for brand building, trade programs, and Pepsi product maintenance (especially regarding cola flavor, market share and sales volume enhancement), Sermsuk had sought to further align both parties' interests with a request that Pepsi provide additional support to the company so that the future advertising and marketing of Pepsi's products could be implemented more effectively.

However, PepsiCo counter-proposed that 3 amendments be added to the advertising and marketing Agreement:

i. First, PepsiCo proposed to provide a *volume growth rebate* as an incentive for Sermsuk to continue to grow sales. That is, the Company would be entitled to the additional rebate if the Company could generate the carbonated soft drink products' sales volume to achieve the agreed-upon sales volume increases over prior years. The rebate would be structured on a "step-up" basis, i.e., the higher sales volume compared to the previous year, the higher the rate of volume growth rebate that PepsiCo would award.

ii. Second, PepsiCo proposed to *increase Sermsuk's spending* under the Agreement for certain distribution channels.

iii. Finally, PepsiCo proposed to reduce the financial support that had heretofore been made available for certain products.

There were mixed reactions among Sermsuk's stakeholders -- management, shareholders and independent financial advisors alike. Many, including Sermsuk's independent financial advisors, agreed with PepsiCo's offer of the volume growth rebate. The proposed rebate, they argued, was a reasonable one, in that it was fully in line with the Agreement for Cooperative Advertising and Marketing Principles, whose objective was to create the basis between both parties to share the advertising and marketing expenses to build the brand and enhance the trade program for all advertising activities, e.g., both below- and above-line marketing activities. Therefore, the financial advisors continued, if Sermsuk managed to achieve sales volume growth vis-à-vis the prior year's performance, Sermsuk would obtain the additional reward or incentive for its performance. This would facilitate alignment of Sermsuk and PepsiCo's business interests.

In opposition were those stakeholders who felt that PepsiCo's proposed sales volume rebate idea was too one-sided. They argued that Sermsuk might not fully reap the benefit from the volume growth rebate because it was payable only if Sermsuk could generate the PepsiCo-specified sales volume increase over the previous year's sales volume. If Sermsuk could not generate sufficient sales volume to meet such annual targets, Sermsuk would not be entitled to the rebate, or at least receive it a lower level than expected.

The reaction of Sermsuk stakeholders to PepsiCo's proposed distribution-channel spending was more uniformly negative. There was concern that under this amendment a PepsiCo decision to increase its spending on certain distribution channels under the Agreement for Cooperative Advertising and Marketing Principles on certain distribution channel would automatically translate into Sermsuk having to also increase *its* spending on the specified channel. In addition, some of the subsidies heretofore provided by Pepsi were expected to be abolished. Therefore, overall, it was expected the PepsiCo-proposed increased spending on certain distribution channels, in conjunction with PepsiCo's reduction of its subsidy, would have an overall negative impact on Sermsuk as it sought to fulfill its concomitant obligation to increase its own spending under the terms of said Agreement.

Lastly, the PepsiCo proposal that it occasionally provide financial support for certain products that it aimed to promote was not considered much of an inducement to most Sermsuk stakeholders. This support had not been provided on a long-term basis, but rather varied with changes in the prevailing market environment arising from demand and supply realities or the level of market competitiveness. Consequently, the already mentioned reduction in PepsiCo's financial support that would accrue from the above-mentioned second proposal was predicted to have an overall negative impact on Sermsuk's performance.

Summary of PepsiCo's Proposals versus Sermsuk's Proposals

From the earlier analysis, and having considered all options and alternatives, Sermsuk evaluated the overall financial impact to the company of both the PepsiCo proposals and the proposal of the "Future Business Plan" that had been formulated by Sermsuk's board of directors. The financial impacts of the two alternatives were as follows:

Expected after-tax impact of PepsiCo Group's proposal on Sermsuk performance in 2011	**Expected after-tax impact of Sermsuk's pursuit of its "Future Business Plan" on the Company's performance in 2011**
145.8 million baht	**250.2 million baht**

Consideration of the expected impact of the two alternatives revealed that the opportunity cost to Sermsuk from accepting PepsiCo's proposals would be approximately 104.4 million baht. Therefore, on March 30, 2011, Sermsuk's Board recommended that the Company reject Pepsi's counterproposals and accept the commercial amendments only if Pepsi adjusted the concentrates percentage under EBA terms to 9% reduction in cost that Sermsuk had already specified as an acceptable level. This was duly communicated to PepsiCo.

In rejoinder, PepsiCo sent Sermsuk a revised *Exclusive Bottling Appointment* document for consideration at Sermsuk's Board of Directors' Meeting on March 31, 2011. The document, which had already been signed by PepsiCo, came with a request that Sermsuk also sign. Upon close examination, however, it was seen that the new agreement contained several material clauses or provisions that did not entirely correspond with the requested amendments. This discrepancy, whether intentional or unintentional on PepsiCo's part, proved fateful, for Sermsuk then resolved that it was appropriate to terminate the *Exclusive Bottling Appointment* of January 1, 1998, in accordance with earlier-passed shareholder resolutions. The Board authorized the President and Chief Executive Officer to send a termination notice immediately. The termination was to be effective on the twelfth-month anniversary date of the date of the termination notice. Thus, with the termination notice sent on April 1, 2011, the termination of the EBA with PepsiCo took effect on April 1, 2012. (See Exhibit 3 for a timeline of the key events in the PepsiCo-Sermsuk negotiations.)

Post-negotiation and Future Prospects for PepsiCo and Sermsuk

One of the biggest strengths of Sermsuk was in the area of distribution, an area to which Sermsuk attributed its swift success in the Thai market for soft drinks. With 200,000 outlets selling its products, it was able to quickly flood the market. Another supporting factor was the fact Thais were the biggest carbonated soft drink consumers in Southeast Asia, drinking on average 39.2 liters per year, more than four times the per capita consumption across Asia-Pacific (Euromonitor). It was no surprise, then, why soft beverage companies had invested so heavily in this market. For its part, Sermsuk, too, immediately began implementing plans to introduce its own branded cola into the Thai market to compete, head-on, with Pepsi and Coca-Cola. Other strategic moves soon followed.

In this connection, earlier investor suspicions (at the time that SS National Logistics acquired a minority interest in Sermsuk) that Thai Beverage -- Thailand's largest and one of Southeast Asia's largest beverage companies -- also had an interest in acquiring a stake in Sermsuk in order to expand and strengthen Thai Beverage itself came to pass as Sermsuk was putting the finishing touches on its divorce arrangement from PepsiCo. As the year 2012 progressed, Thai Beverage Logistics Co., Ltd. offered to buy the remaining 42 percent stake that Pepsi and its affiliates held in Sermsuk at 58.00 baht per share. The move by Thai Beverage was welcomed by Sermsuk management and shareholders, with the result that Thai Beverage was able to acquire Sermsuk and became one of its major shareholders in 2012 with a 64.66 percent holding (Sermsuk Plc.com) See Exhibit 4 for Sermsuk's major shareholders during (and after) the fateful negotiations with PepsiCo.

Meanwhile, PepsiCo resolved to step up its own investment in Thailand, building a new plant as part of a US$600 million investment that also included new marketing campaigns and a partnership with Bodyslam, a popular Thai music group. One of PepsiCo's top regional executives, Jeff Dahncke, was confident that the new bottling plant and new product distribution arrangements would soon get its soft drinks back into the hands of customers. He continued:

> *This is a business model we use successfully in other markets around the world. There is a brief transition period to get our new system ramped up, but we are very much on track. (Jeff Dahncke, Senior Communications Director, PepsiCo)*

Notwithstanding these post-divorce maneuvers on the part of Sermsuk and PepsiCo, the battle between Sermsuk and PepsiCo ended up leaving a chasm in the cola market – a void into which long-time nemesis, Coca-Cola (Thailand), eagerly and quickly filled stepped, thereby claiming the number one slot in the overall soft drink market for the first time in 25 years. From a reputed market share of 42 percent in 2011 (compared to Pepsi's 48 percent and Big Cola's 10 percent), Coke's share jumped to 50 percent by the end of 2012 (compared to Pepsi's 34 percent and Big Cola's 16 percent). Moreover, Sermsuk's new brand cola "*est*", which launched immediately after its split with PepsiCo, was rapidly gaining market share, with Pepsi freefalling by 15 percent to the second place of 34 percent market share behind Coca-Cola's 50 percent. Meanwhile, Sermsuk was supremely confident that est would surpass Pepsi to capture the No. 2 place in market share by the end of 2014 (bangkokpost.com) – an achievement which, if realized, would be for PepsiCo the ultimate irony.

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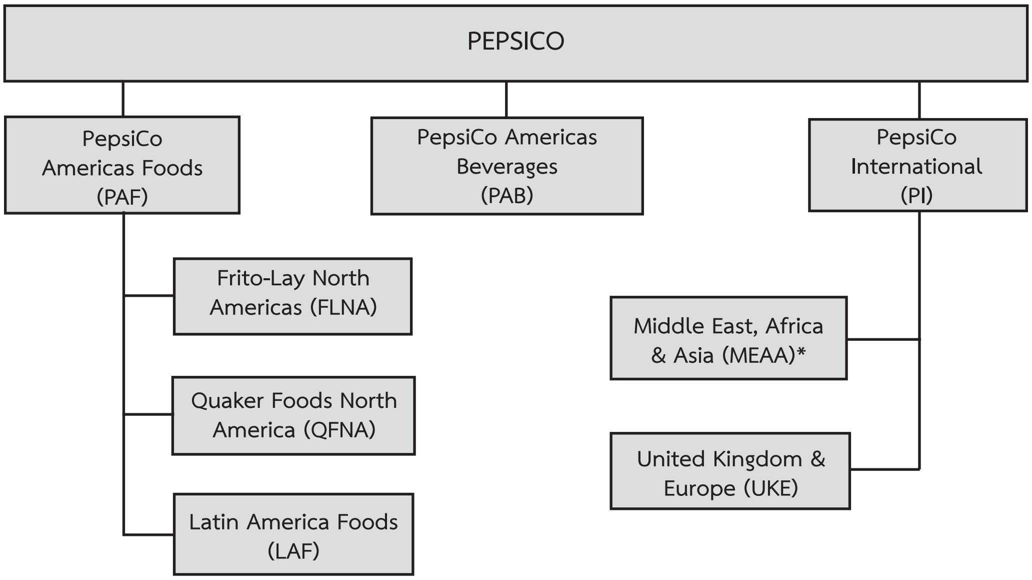
Exhibit 1: Pepsi Corporate Organizational Chart



[Source: www.sec.gov]

**Note*: Middle East, Africa & Asia (MEAA) had reverted to Asia, Middle East & Africa (AMEA)

Exhibit 2: Future Business Plan of Sermsuk Pcl, Dated February 15, 2011

Part I: **Business Operating Plan**

Expansion on Non-Carbonated Soft Drinks

Sermsuk believed that its historical track record has proved that the company is capable of offering products with high-quality standard, providing good service, and responsive to customer demands. Moreover, Sermsuk is also capable to maximize the growth opportunity of products / brand that meet customers demand through its efficient distribution network and expanded customer base. Due to the change in consumer behavior that moves toward more health concern, the non-carbonated soft drinks including, fruit juice, functional drinks has shown increasing popularity from the consumers. Sermsuk acknowledged this opportunity and has a policy to focus on potential and fast growing categories such as fruit juice, coffee and functional drinks.

The expansion of market in non-carbonated soft drinks can be done by launching new products to the market under the Company's owned brand or the Company may acquire existing successful products or brands in the market. The Company believes that these policies will generate growth in sales for the company in the future.

Expansion in Drinking Water Market Under the Crystal Brand

Sermsuk has introduced Crystal drinking water since 1993, the first drinking water brand in Thailand that has been certified by NSF, an international audit agency that inspects and certifies quality standards of bottled drinking waters. Demand for Crystal drinking water increased sharply in recent years accompanied by success factors of Crystal drinking water, such as its product quality, efficient distribution channels, well customer service and effective marketing activations, these attributes contribute to sales revenue to show average growth of approximately 17.5% per annum (CAGR) from 2006 to 2010.

Due to the continual growth in sales revenue of Crystal drinking water, Sermsuk plans to invest in additional drinking water line to ensure sufficient capacity to capture the higher growth opportunity.

Distributor of Food and Beverage Products

By having an efficient distribution network, with 47 warehouses and 9 sub-warehouses in every region and 1,400 route sales to cover wholesalers, retailers, convenience stores, restaurant, quick serve food outlets, and entertainment complex throughout the country and as the distributor of Red Carabao and Oishi ready-to-drink green tea that shown average growth in sales revenue of approximately 13.4% and 22.3% per annum, respectively, this have proven Sermsuk's distribution efficiency in delivering product to customers which have been widely recognized by the market.

Sermsuk plans to expand its product distribution beyond beverages to other type of products, such as snack, food, and other related products through the current efficient distribution network.

Manufacturer of Other Carbonated Soft Drinks products

The production and distribution of carbonated soft drinks is a large industry requiring modern machinery for production, quality control, and efficient logistic for delivery of products to customers nationwide. Sermsuk has been in the carbonated soft drink industry for more than 50 years and equipped with modern manufacturing and bottling facility, good quality control, and efficient distribution channel, which are the keys to success in carbonated soft drinks business. With Sermsuk's experience and keys success factors, the company proved to be the leader in the cola soft drinks market, [making Thailand] one of the few countries [where Pepsi held] a larger market share than "Coke".

Sermsuk believed in its capability to manufacture and distribute carbonated soft drinks under other brands that will further generate growth to the company in the future. However, the ability to manufacture and distribute carbonated soft drinks under other brands is subject to the negotiation of the change in Exclusive Bottling Appointment (EBA) and Cooperative Advertising & Marketing Agreement between Sermsuk and Pepsi Group.

Part II: **Proceedings in Relation to the Agreements Between Serm Suk and Pepsi**

Sermsuk proposed to enter into a new agreement with Pepsi in the form and substance that are reasonably acceptable to the parties. The following are the essence of the new agreement that Sermsuk shall accept including:

a) It shall contain the formula for calculating the price of the concentrates, which results in the price of the concentrates to drop about 9% per year from the price under the present EBA;

b) If Pepsi insists on preserving the right to terminate the agreement upon change of control in the Company, there shall not be provisions regarding penalty or damages to be incurred by the Company and the term "Control" shall have a definition which is clear and generally acceptable;

c) Sermsuk shall not be subject to restriction on the production and sale of the beverages under the Agreements with Pepsi, unless the beverages are of the same kind and type and are in competition with each other, such as Cola;

d) With respect to other proposed Commercial Terms in relation to the sale promotion and marketing budget, *Contractual Terms and Pepsi's Requests,* unless otherwise prescribed under a) - c) or e) herein, shall be in accordance with Pepsi's Proposals; and,

e) Other provisions and conditions must be reasonable, such as the period of a notice to terminate the agreement, and the agreement shall not have provisions or conditions which are not direct commercial points for the agreements of such nature, such as provision on the right of Pepsi to appoint an executive, or provisions which are beyond the control of Sermsuk.

Furthermore, Sermsuk must receive a confirmation from Pepsi that it accepts to enter into agreements that contain the aforementioned essences within 15 days from the date the Meeting of Shareholders passes the resolution. The new agreements must be entered into by March 31, 2011. However, in the event that Sermsuk does not receive confirmation from Pepsi that it agrees to the provisions above within 15 days from the date the Meeting of Shareholders passes the resolution, Sermsuk shall ***"terminate"*** the Agreements between the company and Pepsi immediately. The termination shall be effective as the Board of Directors considers appropriate but no later than 12 months from the date of such termination letter. The Board of Directors of the Company or person, whom the Board of Directors designated, is authorized, to proceed with the serving the termination letter and with other appropriate actions in relation to the termination of the said agreements.

Exhibit 3: Key Events in the Negotiations between Sermsuk and PepsiCo

Date	Description of Major Events
13 January 2011	Board of Directors' Meeting (Special) No. 1/2011 dated January 13, 2011 scheduled an Extraordinary General Meeting of Shareholders on 15 February 2011 to acknowledge and to consider approval of the result of the negotiation of the Agreements between Sermsuk and PepsiCo and to acknowledge the Future Business Plan
20 January 2011	Board of Directors' Meeting (Special) No. 2/2011 dated January 20, 2011 considered and passed resolutions on significant matters which can be summarized as follows: ➢ Acknowledged the report of the results of the negotiation to amend the Exclusive Bottling Agreement ("EBA Agreement") between Sermsuk and PepsiCo and acknowledged the Future Business Plan from the Working Committee designated by the Board of Directors and acknowledged the opinion of the independent financial advisor on such matter. ➢ Proposed that the Meeting of Shareholders refuse to accept the proposals from PepsiCo, which resulted from the negotiation to amend commercial terms and contractual terms of the Agreements between Sermsuk and PepsiCo, proposed on January 12, 2011. Sermsuk has not received any additional proposal from Pepsi after the working committee delivered their comments to PepsiCo's proposals. ➢ Proposed that the Meeting of Shareholders approved for Sermsuk to proceed with the Future Business Plan which includes proceeding with matters in relation to the Agreements between Sermsuk and PepsiCo by entering into a new agreement with PepsiCo in the form and substances that are reasonably acceptable to the parties. However, Sermsuk must receive confirmation from PepsiCo that it accepts to enter into agreements that contain the aforementioned essences within 15 days from the date the Meeting of Shareholders passes the

Date	Description of Major Events
	resolution. The new agreements must be entered into by March 31, 2011; and in the event that Sermsuk does not receive confirmation from Pepsi that it agrees to the provisions within 15 days from the date the Meeting of Shareholders passes the resolution, Sermsuk shall terminate the Agreements between Sermsuk and PepsiCo immediately. The termination shall be effective as the Board of Directors considers appropriate but no later than 12 months from the date of such termination letter.
15 February 2011	The Extraordinary General Meeting of Shareholders No. 1/2011 considered and resolved significant matters as summarized below: ➢ Acknowledged the report of the result of the negotiation of an amendment of the Agreements between Sermsuk and Pepsi and acknowledged the Future Business Plan. ➢ Considered an approval of one of the following: (a) an approval for Sermsuk to amend the Agreements between the Company and PepsiCo on prices and terms which are the result of the negotiation, or (b) an approval for Sermsuk to proceed with the Future Business Plan. The meeting resolved that Sermsuk to proceed with the Future Business Plan which consist of 2 parts including Business Operating Plan and Proceedings in relation to the Agreements between Sermsuk and PepsiCo in the form and substances that are reasonably acceptable to the parties. Sermsuk must receive confirmation from PepsiCo that it accepts to enter into agreements that contain the aforementioned essences within 15 days from the date the Meeting of Shareholders passes the resolution. The new agreements must be entered into by March 31, 2011. ➢ In the event that Sermsuk does not receive confirmation from PepsiCo that it agrees to the provisions in clause 1) above within 15 days from the date the Meeting of Shareholders passes the resolution or by March 2, 2011, Sermsuk shall terminate the Agreements between the Company and PepsiCo immediately.

Date	Description of Major Events
	The termination shall be effective as the Board of Directors considers appropriate but no later than 12 months from the date of such termination letter. The Board of Directors of Sermsuk, or person whom the Board of Directors designated, is authorized, to proceed with the serving of the termination letter and with other appropriate actions in relation to the termination of the said agreements.
31 March 2011	Board of Directors' Meeting (Special) No. 5/2011 dated March 31, 2011 considered and passed resolutions on matters which can be summarized as follows: ➢ Approved to propose to the Shareholders' Meeting for approval of the appointment of directors to replace those retiring by rotation and those who have resigned. ➢ Sermsuk received new Exclusive Bottling Appointment, signed by PepsiCo who requested Sermsuk to sign. However, such new agreement contained several substances that are material that do not entirely correspond with the Shareholders' Resolutions. Sermsuk thus could not sign such agreement; and, accordingly, an execution of such agreement was not occurred within March 31, 2001, Sermsuk then has to terminate the Agreements between Sermsuk and PepsiCo according to the Shareholders' Resolutions. The Board of Directors thus considered it appropriate for Sermsuk to terminate the Exclusive Bottling Appointment of January 1, 1998, between Sermsuk and Pepsi Group and authorized the President and Chief Executive Officer to send a termination notice immediately. Such termination will be effective on the date that falls on the 12th calendar month from the date of the notice. ➢ Considered it appropriate to report the acts and proceedings taken in relation to the Agreements between Sermsuk and Pepsi to the meeting of the shareholders for acknowledgement and confirmation of such acts and proceedings. The proceeding

Date	Description of Major Events
	is a part of Future Business Plan which was approved by the Shareholders' Resolutions in the Extraordinary General Meeting of Shareholders No. 1/2011.
1 April 2011	Sermsuk terminated its EBA contract with PepsiCo. The termination will be effective on 1 April 2012.
29 April 2011	The Annual General Meeting of Shareholders No. 1/2011 considered and resolved the significant matters which are summarized as follows: ➢ Acknowledged and confirmed acts and proceedings in relation to the Agreements between Sermsuk and PepsiCo i.e., to terminate the Agreements between Sermsuk and PepsiCo, and delegated Sermsuk chief executive officer to send the termination notice immediately and the termination date shall be 12 months from the date of such termination letter. ➢ Approved the amendment of Future Business Plan in the part of non-carbonated beverages.
20 July 2011	Board of Directors' Meeting (Special) No. 8/2011 dated July 20, 2011 considered and passed resolutions on matters which can be summarized as follows: ➢ Acknowledged the letter dated July 20, 2011 from the Major Shareholders Group informing of their execution of the Agreement to Sell and Purchase Shares in Sermsuk on July 20, 2011. The Board of Directors thus considered and proposed the following matters to the shareholders meeting: 1) Approved for SS National Logistics to transfer the shares in Sermsuk in the material number all or part thereof within 12 months following the end of the tender offer period to allow SS National Logistics to sell the shares held by it; 2) Approved for the amendment of the Future Business plan in the part that relates to the Agreements between Sermsuk and PepsiCo;

Date	Description of Major Events
	3) Approved the amendment to the Company's Articles of Association in Article 12 to be in accordance with the Public Company Act, that is *"The Company shall have a board of directors consist of at least 5 directors, and that at least one-half of the directors must be domiciled in the Kingdom of Thailand";* and 4) Approved Sermsuk to call and hold the meetings of the Board of Directors after the extraordinary general meeting has approved Items (1) – (3) above in order to change directors and authorized directors of Sermsuk as a result of the Agreement between the Major Shareholders Group.

Exhibit 4: Sermsuk's Major Shareholders during (and after) the Negotiation with PepsiCo

1. Major Shareholders list –as of April 30, 2009 (*pre-negotiation phase*)
As of the close of the Share Register Book on January 27, 2011

Order	Name	Number of Shares	% of Total Shares
1	Pepsi –Cola (Thai) Trading Co., Ltd.	66,321,960	24.94
2	Seven-Up Nederland, B.V.	44,140,000	16.60
3	Mr. Niti Osathanugrah	23,456,340	8.82
4	Thai NVDR Company Limited	17,704,070	6.66
5	Bangkok Rinvest Company Limited	10,728,030	4.03
6	Aberdeen Growth	6,447,000	2.42
7	Aberdeen LTF	5,177,500	1.95
8	Mr. Somchai Bulsuk	4,280,267	1.61
9	Mr. Supa Supantharida	3,511,900	1.32
10	Mrs. Somporn Osathanugrah	3,378,890	1.27

2. Major Shareholders list –as of January 27, 2011 *(during negotiation phase)*

As of the close of the Share Register Book on January 27, 2011 for invitation to the extraordinary shareholder meeting No. 1/2011:

Order	Name	Number of Shares	% of Total Shares
1	SS National Logistics Co., Ltd.	86,732,207	32.62
2	Pepsi –Cola (Thai) Trading Co., Ltd.	66,321,960	24.94
3	Seven-Up Nederland, B.V.	44,140,000	16.60
4	Thai NVDR Company Limited	27,678,916	10.41
5	Mr. Sarawuth Thiensuwan	12,574,800	4.73
6	Mrs. Saowanee Phatravanichanon	9,494,000	3.57
7	Mrs. Jarunee Chinwongvorakul	3,600,000	1.35

3. Major Shareholders list –as of March 9, 2012 *(post-negotiation phase)*

As of the close of the Share Register Book on March 9, 2012 for invitation to the extraordinary shareholder meeting No. 1/2012:

Order	Name	Number of Shares	% of Total Shares
1	Thai Beverage Logistics Co., Ltd.	171,923,138	64.66
2	SS National Logistics Co., Ltd.	86,732,207	32.62

Endnotes

[1] Police Lieutenant General Prapinitchonkadee, Momrachawong Boonrub Pinitchinkadee, Khunying Udomluck Sriyanont, Mr. Yom Tantasrethi, Mr. Lowtiakchuan Bulsook and Mr. Wong Kulayanakup jointly founded Sermsuk Company Limited.

[2] Prior to the organizational restructuring in the late 2013, PepsiCo's operations in Asia Pacific Region had been separated from its Middle East and Africa operations. With the restructuring, the Asia Pacific Region was absorbed into the new "AMEA" group encompassing the Asia, Middle East and Africa regions. PepsiCo later began using "MEAA" to refer to the Middle East, Africa and Asia Region.

[3] The off-trade volume refers to the volume of products being sold from traditional shops, retail stores, retailers, wholesalers and cash & carry.

[4] As fate would have it, PepsiCo's failed bid attracted the attention of SS National Logistics Co. Ltd., a major Thai logistics firm, that soon expressed an interest in investing in Sermsuk due to Sermsuk's strengths in logistics and distribution. Upon PepsiCo's withdrawal of its tender, SS National Logistics made an offer to buy 25% of Sermsuk's shares at B42/share, more than two-thirds higher than PepsiCo's bid. Sermsuk welcomed the bid. Consequently, SS National Logistics was able to secure 86,732,207 shares of Sermsuck -- 2,257,086 shares more than its original tender.