



Georgian Glass and Mineral Water

Jacques Fleury, CEO of Georgia Glass and Mineral Water (GGMW), stared thoughtfully into his wineglass. Georgian tradition called for a series of brief toasts to be made at the end of a good meal with friends, and it was Fleury's turn. His last toast had been to the health of the man who had hired him, Mamouka Khazaradze, and to that of his other colleagues at the long table. His next one, he felt, should be to the future of the company he had only heard of four months ago and had joined in early March. It was now April 13, 1997, and Fleury knew there were many things to wish for on behalf of his company.

Khazaradze, a 30-year old Tbilisi-born entrepreneur, had founded GGMW in order to capture and grow the value of one of Georgia's most famous intangible assets – the popularity of mineral water from the springs of the Borjomi valley. (See **Exhibit 1** for a map of the Republic of Georgia and **Exhibit 2** for macroeconomic data on Georgia.) Fleury had been recruited when Khazaradze and the other investors in GGMW had realized that the firm required dedicated professional management. Although he had never been to Georgia before, Fleury found the former Soviet republic charming, and had been excited about the prospect of revitalizing a brand with such wide and favorable recognition. The challenges facing him, however, were daunting.

When Fleury had joined, GGMW was nearly out of money and he had been told that the company would need to raise at least \$3 million to cover necessary investments. Fleury's own investigations suggested that the capital needs of the company might be substantially higher if GGMW were to produce a consistent product of high quality and to truly establish GGMW's position in the market. While the company's shareholders were supportive, Fleury knew he would have to consider carefully what investments were necessary and when they would have to be made before he could argue his case successfully.

Moreover, even if the investments were made, GGMW faced a considerable series of challenges. Competition came not only from other bottled waters and soft drinks, but also from counterfeiters claiming to sell Borjomi water. In some cases their claims were real, but the water was often bottled under unsanitary conditions; in other cases it was simply tap water with some additives to create the characteristic Borjomi taste. Complicating matters further, although GGMW did have exclusive rights to the Borjomi brand, some of their competitors had a virtually identical product! Fleury knew it would be difficult to establish a successful branding strategy under these conditions.

Fleury also knew that he would have to manage the Georgian company without some of the tools he had previously taken for granted. The factories' financial records consisted of incomplete

Charles M. Williams Fellow Chad Ellis, MBA '98 prepared this case under the supervision of Professor Walter Kuemmerle as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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handwritten entries, many of which were unclear. It would be months, perhaps years before GGMW could have reliable financial statements and a true picture of its assets and liabilities.

Operating in a former Soviet republic also meant working without a clear legal framework. Although Georgia had made progress towards establishing a market-based economy, it lacked the legal institutions and experience necessary to establish a solid legal framework in which to operate. Mismangement in the former State factories was high, and GGMW had become accustomed to losing some of its product to 'leakage' at various points along the value chain. Fleury spent much of his time, as well as GGMW's money, fighting fires that would not exist in his native France. Could GGMW survive and thrive under these conditions, or would the allure of a powerful brand prove chimeric in an environment where value was so difficult to capture?

The Republic of Georgia

The Republic of Georgia, part of the former Soviet Union (FSU), lies in the Caucasus Mountains between the Black and Caspian seas. Georgia has a landmass of 69,700 square kilometers (slightly smaller than South Carolina), and 310 kilometers of coastline. The climate is warm and pleasant, and tourism around the Black Sea has long been an important factor in its economy. Khazaradze recalled a Georgian fable about the country's origin:

God was handing out land to all the peoples of the world. Each group waited in line and was given a nation to call their home. When God had finished, and all the land had been given away, the Georgians came running up. God told them they were late, and asked them why they had not come with everyone else. The Georgians replied that they had been drinking to God's health. God was so moved by this that he decided to give them the land he had set aside for himself.

Despite the pleasant geographical conditions, Georgia's recent history has been difficult. The economy suffered significantly following the collapse of the Soviet Union, and Georgia suffered civil war in the following years, only beginning to stabilize in 1994. The economic collapse was severe even by FSU standards, with GDP in 1994 standing at only 30% of 1990 levels. Private sector wages fell nearly 90% to about \$40 per month – government workers earned less than half that much.

Following the end of Georgia's civil war, the country's fortunes began to improve. Free elections were held in 1995, with former Soviet Foreign Minister Eduard Shevardnadze re-elected as President. IMF and World Bank assistance, plus a commitment to reform helped improve Georgia's economy. A new currency introduced in 1995, helped stem hyperinflation, and GDP growth reached double-digit levels in 1996. Nevertheless, in 1997 Georgia still had roughly 250,000 internally displaced people (as a result of the civil war) and unemployment estimated at 21%. Net migration was nearly negative one per cent, and per capita GDP was estimated at \$440. Short-term interest rates had declined somewhat, but remained above 30% in local currency.

An Old Brand in New Hands

Borjomi spring water

Borjomi mineral water was extracted from natural springs in the Borjomi Valley two hours drive from Tbilisi. At the height of the Soviet Union's power Borjomi water was one of Georgia's leading exports, with over 450 million half-liter bottles of Borjomi water consumed each year. Since then, however, the equipment for extracting and bottling the water had deteriorated, production had declined sharply and counterfeiting had increased. By 1994 less than five million bottles were sold by the government-owned mineral water company and by 1995 production had fallen to an annualized

rate of roughly one million. Nevertheless, the brand was well-known throughout the FSU, with recognition levels comparable to those commanded in the West by Coca-Cola.

Borjomi water was widely believed within the FSU to have almost magical curative properties, serving as a remedy for ills ranging from upset stomachs to the most severe hangovers. High levels of minerals gave it a very distinctive taste quite different from the mineral waters of the West, but which its customers believed indicated its medicinal value.

Mamouka Khazaradze

Mamouka Khazaradze was born in Tbilisi in 1967. As a young man he became the leader of Georgia's Young Communists at his university, which enabled him to mobilize resources for planning events and community activities. Khazaradze had always been full of energy. With the collapse of the Soviet Union he began looking for opportunities outside of politics. In 1991, he decided to go into business for himself, buying 1.2 million cans of American beer and trying to sell them in Russia.

In St. Petersburg Khazaradze met Bob Meijer, a Dutch venture capitalist who was known for his love of antique cars. Meijer, who spent a lot of time touring Europe in his old Bugatti, was visiting Russia and heard about Khazaradze from some business partners who had bought Khazaradze's beer. The enthusiastic young Georgian intrigued Meijer, and the two men became friends. Meijer promised to visit him in Georgia. In 1993, Meijer kept his promise, and decided to invest in two of Khazaradze's Georgian ventures, an outdoor advertising company and a small supermarket chain.

In 1995, Khazaradze, Meijer and other European partners, including Fred Zimmer, a former C.E.O of Perrier International, who had substantial experience in the mineral water business in the US and Europe, formed GGMW. Raising \$2.6 million, in part from groups of French and Dutch investors, they bought a glass bottle plant for \$1 million in addition to assuming plant liabilities of \$1.5 million. A further \$900,000 of investment was required to repair and update the plant's equipment. GGMW hoped to work in partnership with two recently privatized bottlers, providing bottles and some equity in exchange for use of bottling capacity.

Shortly thereafter, however, the Georgian government renationalized the bottling plants, citing illegalities in the original privatization as well as evidence that the factory owners were violating the laws of Georgia. The bottling factory owners were arrested, and GGMW had to enter into a new agreement with the state-owned factories.

In October 1995, GGMW signed a contract with the bottling operation, but there were serious problems. Up to 13% of all empty bottles were lost due to "breakage." GGMW believed that much of this breakage actually reflected theft. Mamouka explained the extent of the corruption problem:

For example, a Soviet-era director who we fired paid a substantial amount of money in bribes to become a director earning sixty dollars a month. He made back his money by withholding from employees or stealing from the company. This system was ingrained during the Soviet era. Theft isn't difficult to fight when all the companies are under private ownership, but when one is State-owned it is almost impossible.

GGMW knew that it would always struggle to become profitable under current conditions. Eventually the government decided a limited privatization of the bottling factories by international tender, including exclusive rights to use the Borjomi name. While the factories would remain state-

owned, the management rights would be sold in what was effectively a several-year concession. GGMW won the tender. Mamuka stated:

It was not a perfect deal, but we had no choice. We needed the bottling facilities and the Borjomi brand. Unfortunately, several, local and Russian financial investors and International Mineral water operators also bid for them. If they had won they would have had a lot of leverage against us, and might have shut us out completely, preventing us from using our bottling plant.

GGMW resolved to reorganize the operation so that as much as possible remained under their control. Bottling would be done at the plant, but shipping, marketing and distribution would be arranged centrally by GGMW.

GGMW had needed to raise additional capital to improve the bottling operation. They turned to ING Barings, a Dutch investment bank, which has recently raised a dedicated fund for investing in Eastern Europe. ING invested \$2 million in 1996, but made it clear they would not invest more unless GGMW committed to bringing in a professional management team, including a CEO and CFO. Mamuka explained:

Up to that point, we had tried to run the company among the four of us [Mamuka, Meijer, Zimmer and Jean Patrick, one of the French investors], with each of us in different cities across Europe, trying to agree on things on our cell phones. By the time we took over management of the bottling factories, we realized we couldn't run the company like that.

GGMW began looking for an outside CEO who could lead the company forward. In February 1997, they brought to Georgia their leading candidate for the position: Jacques Fleury. Fleury had established a strong track record in managing businesses in the Middle-East and Western Europe (see **Exhibit 3** for Jacques Fleury's resume), but had never been to Georgia. He recalled his initial experience:

I found myself captivated by this beautiful country and its sense of history. On my second day here, we went to visit the Djvari Church (Church of the Cross), which lies between Tbilisi and Borjomi. It is from the 5th century, one of the oldest remaining Christian churches, and it stands atop a hillside overlooking the countryside.

Of course, there are drawbacks to living here, too. My family lives in Paris, so I don't see them as often as I would like. Also, in the West we take certain things for granted, like saving food in our freezers. Freezers are available in Georgia, but the electricity fails almost daily, so you can't really store food for long with any reliability. So, you have to learn to live without some basic amenities.

The Opportunity – the Perrier of Eastern Europe?

Fleury's excitement for the business opportunity, however, even exceeded his excitement for the country. To chart the course of a brand which, despite its many problems, was recognized throughout the FSU was a rare opportunity. While the challenges might prove daunting, the prize for success was high. Fleury explained the potential:

At its peak, Borjomi sold over 400 million bottles per year. We can cover our fixed costs at 40 million bottles, and probably less as our costs come down. Each bottle generates thirty cents [of ex-factory revenues] for us with a gross margin of

50%. Shipping costs are added on to our price, so that doesn't come out of the thirty cents. If we can solve the company's problems we could be profitable in 1998 and very profitable by the end of the century.

Historic behavior and some limited market research suggested that the brand had retained a high degree of loyalty. Despite the much lower living standards in Georgia compared with the West, Borjomi was priced at a level comparable to Western brands such as Evian, Vichy and Poland Springs. (See **Exhibit 4.**) Moreover, during recent economic crises, consumption of Borjomi in Georgia and Russia fell less than that of well-known soft drink brands such as Coca-Cola. Fleury saw no reason that Borjomi could not ultimately reclaim its former position and sales level. About a month after his arrival in Tbilisi Airport, Fleury agreed to become GGMW's CEO.

Some Unconventional Challenges

Building a brand without operational consistency

Despite his enthusiasm about Borjomi's potential, Fleury knew his task would not be easy. The company's newly acquired bottling operation needed upgrading, not just to increase volume but also to ensure product quality. Fleury was blunt about the company's starting point: "Our capacity to produce garbage was high, but our capacity to produce a consistent product was low. Without a stable, quality product, we could not hope to re-establish the Borjomi brand."

Competition

Building brand value was further complicated by the fact that GGMW's competitors included both counterfeiters, who claimed to be selling Borjomi water, and other companies who were also temporarily authorized to bottle the water. Khazaradze explained how GGMW's exclusivity had been eroded:

When GGMW won exclusivity for the Borjomi name, we developed a plan that would have gradually increased production. Sources had been over exploited in the past, and this had reduced quality. So, our plan didn't use all of the capacity available at first in order to ensure product quality so we could build the brand. But the government ministers don't understand marketing or quality or even the notion of a brand – to them it was just a question of unused capacity. So even though we had been awarded exclusivity, they authorized fifteen other companies to bottle the Borjomi water for a temporary period of one year, leaving us the responsibility to sub-license the use of the name.

Counterfeiters came in two forms. Some small operators, often individuals, used recycled bottles to hold genuine Borjomi water, which they siphoned illegally from one of the water pipelines. Often this water was bottled under unsanitary conditions. Other, larger counterfeiters, especially in far away metropolitan areas of Russia, simply used tap water to fill bottles, which they then claimed to contain Borjomi water. Stores had an incentive to stock counterfeit Borjomi as it was considerably cheaper but could be sold at the same price as GGMW's product. GGMW had estimated that up to 90% of water sold as Borjomi in Russia during 1996 was counterfeit.

Both counterfeiters and legitimate rivals presented Borjomi with challenges Western brand managers seldom had to face. How could they build loyalty to a brand that they could not control and which often represented an inferior or even dangerous product? And, if they succeeded in reestablishing Borjomi as a premium product, how could they capture the value they had created? Consumers in Russia and Georgia knew that a lot of "fake" Borjomi was on the market, but the

company needed a way to establish their product as “real” Borjomi as well as to make it difficult to copy.

Legitimate competition in Russia for “Health water” came from rival mineral water brands Narzan and Essentuki. GGMW believed Borjomi water was still the number one brand, with coverage of 80% of retail outlets in Moscow compared to 70% and 30%, respectively, for Narzan and Essentuki. Borjomi had by far the highest brand awareness rate (90%) of all mineral waters in Russia (Gallup Media Russia 1996) and was still showing gains in consumption and awareness. Nevertheless, heavy counterfeiting had somewhat damaged the value of all famous traditional mineral waters including Borjomi, Narzan and Essentuki. At the other end of the market (low mineralised waters) new comers were appearing, challenging the positions of the traditional brands. St. Springs was a brand that Fleury would initially classify in the “tap water substitution” category. He explained:

St. Springs is just purified well water, but a Bishop in the Russian Orthodox Church somehow blessed it. Consumers may feel they are drinking a ‘Holy water’. It’s not really spring water, but since ‘Spring’ is part of the commercial name customers infer that it is. This is a very smart marketing move.

In Georgia, GGMW’s most significant rival was B.I.G, one of the firms with a temporary license to bottle the Borjomi water that had exploited the demand for plastic containers left unfulfilled by GGMW initial strategy to restore the product image in glass containers. Other legitimate producers included GMW, Murgoni and Peritsix, very minor operators, the rest of the 15 companies with temporary licenses not having really started to operate at all. GGMW believed it had a larger market share than any of its rivals, as well as superior financial resources and longer term strategy. (See Exhibit 5 for estimated market shares of legitimate Borjomi bottlers.) Counterfeiters had smaller market shares and were problematic more for their potential to erode the value of “real” Borjomi water than for their market positions.

“Leakage” and legal issues

Theft and corruption had been a normal, even a necessary way of life for many under Soviet rule and remained a constant challenge for the managers of GGMW. Security costs at the two factories ran as high as \$200,000 per year, despite low labor costs, and GGMW still had a substantial problem with what they referred to as product “leakage.” In some instances, theft was not limited to pilfered bottles or small pieces of equipment. Khazaradze recalled an incident from late 1996:

The manager of the glass bottle plant called me and said that our container of heavy fuel was nearly empty and that there was a risk of shutting down the glass furnace with all consequences. He had contacted a black market operator that could deliver the fuel providing he could be paid by undeclared cash. We needed the fuel, but we suspected that the manager himself was behind the story, and the unexpected level of fuel consumption surprised us, so we told him that if he delivered it we would pay and waited to see what happened.

He told us he had arranged to have the fuel delivered. The morning after the fuel was scheduled to be returned he described how it had arrived in the early morning hours by train and had been unloaded into our container before the first shift arrived for work. We congratulated him and asked him to come into the office to meet with us. When he arrived, thinking we were going to hand him a sack of money, we told him he had a choice – sign the resignation letter we had typed up for him or face the police.

You have to understand that to unload the fuel would take maybe twelve hours—certainly much longer than he had describe. We had also taken care to mobilize surveillance during the whole night but of course did not even hear of the noise of a train. The whole story was preposterous. Later we found out that he had simply pumped the fuel into an adjacent storage tank that was generally unused. I can only think that he was used to dealing with people who knew nothing and didn't care so he thought he could get away with it.

As unusual as such incidents seemed to Fleury, they were perhaps less serious than claims made by old creditors—claims with little or no legal basis, but which consumed considerable resources. Fleury explained:

When GGMW won the management rights to the bottling plant, our contract stipulated that we would not be liable for any debts or obligations arising prior to our taking over. We had to have this guarantee because we knew that the previous owners had not paid a lot of people what they owed them and it would be impossible for us to be profitable or even to estimate how much we had to pay.

Suddenly, after I arrive and we have some investor money, a line of people appears at our door, each of them with some old claim. Legally, they have nothing, but unfortunately sometimes justice is a question of what someone is willing to pay the judge! Georgia's legal system is still young. The quality and integrity of judges is improving rapidly and much better than it used to be but there are still some corrupt judges who will ignore the law if someone promises to share their claim.

Fleury soon found that nearly half of his time was taken up dealing with past creditors of the bottling plants. It quickly became clear that these claims were going to be costly to GGMW financially as well, either through settling with claimants or through high court costs.

The Russian winter

Russia was GGMW's single largest market, accounting for 70% of sales. However, harsh winter conditions caused transportation costs per bottle to increase from \$0.08 per bottle in the warmer months to \$0.20 per bottle between the months of January and April because they would have to use expensive, insulated railroad equipment. By comparison, bottles shipped during the warmer months could be stored in Russia for roughly \$0.04 per bottle, keeping Borjomi on the market year-round. Fleury estimated that ten to fifteen million bottles could be sold in Russia during the winter if they were shipped early.

Looking for Answers

Fleury knew he would have to address these challenges quickly if GGMW was to get back onto a successful path. Nor did he think he could deal with the issues in isolation, since they were interconnected; any impact on quality or volume through renovation of the lines would have consequences for GGMW's options for building brand awareness or shipping to Russia.

When Fleury had been recruited, GGMW's management had indicated that at least \$3 million would need to be spent renovating the bottling lines. Much of the existing equipment was unreliable and expensive to maintain. The company's shareholders were aware of the need and would undoubtedly support the investment. However, Fleury felt that a somewhat larger investment might be needed. As part of his efforts to distinguish between GGMW's real Borjomi water and "fake" Borjomi, Fleury thought it might be effective to "brand" the glass bottles GGMW sold its water in. This would require buying new molds for the bottle manufacturing plant. Fleury also wanted to

shrink-wrap cases of bottles (both empty and full ones) as soon as possible in the production process – not only for ease of shipping but also to reduce the ease with which employees could take “loose” bottles home with them. All told, the necessary investment could run almost as high as \$4 million.

Another possibility that had to be considered was offering Borjomi in plastic bottles. Doing so would require additional capital investment of perhaps \$1-2 million, but would offer some long-term cost savings. Fleury worried that producing Borjomi in plastic bottles might confuse their efforts to brand their Borjomi as the only ‘real’ Borjomi by introducing a new format into the market.

Fleury also believed that GGMW had to be realistic about the claims being made against them. Although they had no legal basis, in Georgia’s relatively undeveloped legal environment they were still likely to cost the company a good deal of money. Moreover, the longer GGMW avoided dealing with the issue, the longer its senior managers would spend half their time meeting and arguing with bogus “creditors.” Fleury believed it would require another \$3 to \$4 million to settle the various claims against the company, even though some of these claims could be settled with product or even empty bottles. In addition, GGMW had incurred legitimate debts of roughly \$1 million during 1995 and 1996 that would have to be covered.

Addressing the Russian market would require a significant investment in working capital. GGMW’s marginal cost per bottle was fifteen cents. GGMW would also have to pay the normal shipping rates, although this would later be recovered from distributors. Building up stock to be held in Russia for the winter months would therefore require up to \$3 million in order to cover costs that would be incurred before the bottles could be sold. Fleury described the decision:

We knew that making such an investment in working capital was risky. Russian counterfeiters were aggressively expanding in the market. It was possible that GGMW could spend six months shipping water to Russia that would not have a market because of unfair competition. I felt, however, that the risk could be greater if GGMW was absent during the Russian winter, leaving distributors and retailers in the hands of its ‘competitors’. Doing so might erode what remaining strength the brand had as well as the confidence of GGMW’s distributors.

An alternative to shipping to Russia was to concentrate on the domestic market. GGMW estimated Georgian consumption of Borjomi water, real and fake, at 36 million bottles, more than GGMW was likely to produce in all of 1997. GGMW had de-emphasized the local market because it would only support an ex-factory price of twenty cents. Even with GGMW having to absorb the four cents storage cost, the Russian market was more profitable. Fleury wondered, though, if GGMW’s Borjomi might command a premium price if the company were able to establish its own product as the only “real” Borjomi in the eyes of its customers and the only heir to the famous traditional Soviet mineral water Borjomi. Furthermore, GGMW’s efforts to persuade Russian authorities to crack down on counterfeiters had often been met by arguments that counterfeiting was even more prevalent in Georgia. Stories of Georgian counterfeiting also provided much of the ammunition used by Russian competitors to discredit the brand. Fleury wondered if it would be possible to maintain Borjomi as a leading brand in Russia until it had improved the situation at home.

Fleury knew GGMW would have to set its strategic priorities quickly in order to raise the necessary capital to carry them out. Complicating the issue of how much capital to raise was the short visibility of GGMW’s business conditions. All of Fleury’s estimates of GGMW’s capital needs were for 1997, but the company was unlikely to do much better than break even in 1998. Additional capital beyond what was needed for the current year might well prove necessary, and Fleury suspected it would be prudent to ask for it now rather than waiting for trouble to hit.

Sources of Capital

Based on discussions with GGMW's original investors, Fleury believed they were prepared to invest at least an additional \$2 million. ING, whose insistence on outside management had been a driving force behind Fleury's recruitment, would probably invest another \$5-6 million. If Fleury wanted to raise more capital than that, he would probably have to bring in new investors.

Fleury was reluctant to bring in new financial investors. With so much of the money being used to pay off old debts and with the visibility of the business uncertain, he suspected that new investors might want too large an equity stake. Furthermore, GGMW needed the money quickly in order to begin renovating the bottling plants; Fleury knew that a financial investor would either be alarmed by the rush or would take advantage of it.

There was, however, an alternative to financial investors. GGMW had already made contact with two international financial institutions, the European Bank for Reconstruction and Development (EBRD)¹ and the International Finance Corporation (IFC)². Both organizations could provide capital to a promising company in a developing nation.

Khazaradze and Meijer had first approached the EBRD in 1995, shortly before the company was formerly incorporated. At the time they did not actively seek a loan, although the Bank had been interested in the Borjomi story. There had been little further contact between GGMW and the EBRD since then. Fleury believed the odds were good that the EBRD would provide a loan as part of a financing deal, but he didn't know under what terms or how much could be borrowed.

The IFC, by contrast, had already done a fair amount of due diligence on GGMW. In 1996, Meijer and Khazaradze had spoken at an ING Barings breakfast on investment opportunities in the FSU. There they met Richard Sobol, managing director of Barings' first NIS fund, as well as Maria Thomas, an investment officer with the IFC. Intrigued by the idea of restoring the brand to its former glory, and the favorable consequences such a development would have on the Georgian economy, she decided to investigate whether GGMW would make a good candidate for an IFC investment. With \$133,000 of grant money from the UK and Dutch governments, the IFC hired consultants to research the market, legal and environmental issues and the company's financial statements. The IFC also met with government officials to discuss issues such as trademark protection and private-sector management of state-owned assets (such as the Borjomi springs).

The IFC had a long due diligence process, in part because although they looked for a financial return on their investments their mandate required them to examine the impact on overall development as well. Fleury knew that whatever IFC investment committee had to approve an equity investment in GGMW would be concerned about the lack of a clear exit strategy. Georgia had no IPO market and while a trade sale was certainly possible it would be impossible to say with confidence when the company would be ready for sale.

There were other concerns as well. Even with a thorough review of GGMW's books it was impossible to determine the factories' true financial position. Many entries were written by hand and it wasn't clear whether or not all of the company's potential liabilities were yet known. Fleury suspected it might be another year before a "true" balance sheet could be constructed.

¹ The EBRD was a multi-national bank established in 1990 with the purpose of fostering the transition towards open market-oriented economies and promoting private and entrepreneurial initiative in central and eastern Europe.

² The IFC, a member of the World Bank Group, was the largest multi-national source of loan and equity capital for private sector projects in the developing world.

Nevertheless, Fleury knew that part of the IFC's charter was to invest in promising companies in developing countries that did not yet have easy access to the world capital markets, provided other partners were also investing. The IFC's due diligence had confirmed the underlying strength of the brand, and GGMW had the potential to be one of Georgia's leading exporters. With no substantial problems being raised during the due diligence, Fleury thought the chances the IFC would want to invest were good.

What Fleury was less confident of were the terms of the new investment. The original partners had invested \$3.5 million to date. ING Barings had invested \$2.5 million. Both would hopefully invest more, but the newer investors would naturally prefer a relatively low valuation while the original shareholders would emphasize the potential of the business. Fleury hoped agreement could be reached smoothly.

A Toast to the Future

As he raised his glass and looked at Khazaradze, Fleury knew that choosing the right toast was the smallest of his challenges. Over the next month or two, he had to oversee the refurbishment of GGMW's bottling operation, set a marketing program that would distinguish GGMW as the only "real" Borjomi in the minds of consumers and decide what emphasis to place on the Russian and Georgian markets. At the same time, he had to persuade both new and existing investors to finance his plans, even if that meant providing considerably more capital than they expected.

Fleury wondered what his priorities should be. The Russian market was more profitable, but could GGMW hope to be known as the only real Borjomi abroad before it had conquered the domestic market? Was that even possible, considering that some of its competitors even if temporary were selling essentially an identical product with full government authority? Fleury knew that if GGMW failed, business students would look back on their effort and proclaim it doomed from the start.

The risks, however, were worth it. If he restored Borjomi to its former sales level, GGMW would be one of the leading companies in the FSU. It was hard to imagine a more exciting challenge. How many Westerners had the opportunity to turn around a former Soviet enterprise with a great brand name in the unpredictable "Wild East"?

