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## **Bánffi Soda Limited Partnership<sup>1</sup>**

### **Tradition, innovation, and culture ~ past, present, and future**

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#### **Abstract**

The Bánffi Soda Limited Partnership (Bánffi) case describes a small, family-owned Hungarian soda water producer. The company faces several challenges, including declining industry sales, changing market structure, and increasingly popular substitute products. The case challenges students to work with the limited company, market, and industry information that is typically available to small businesses. Students are asked to summarize the competitive situation for the company and develop and analyze several alternatives to help the company improve profitability.

**Keywords:** strategy, competitor analysis, soda water, Hungary

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## **Bánffi Soda Limited Partnership**

**Tradition, innovation, and culture ~ past, present, and future**

### **Motto:**

*"Because soda water is no mineral water, we should not forget that. Soda water means a civilized world, it is true, but the experience of generations and centuries was needed before Hungarians invented fröccs [spritzer], the secret of long life."*

*Sándor Márai (Kiss, 2008)*

### **Introduction**

István Bánffi, owner and Managing Director of Bánffi Soda Limited Partnership (Bánffi), sat in his office in the company's new manufacturing plant reviewing the financial results for 2008. The company had just made a significant investment in the plant and equipment and he was hopeful that he could someday turn the company over to his 22-year-old son, Ádám. However, he faces many challenges in the years ahead, first among them rapidly declining industry sales. While his industry is heavily influenced by tradition, he wonders if it is time for a new direction.

### **Soda Water and Culture**

Soda water occupies an important place in the history of Hungarian gastronomic culture. It is enjoyed equally by both wealthy and middle-class citizens and may be found on the tables of households, restaurants, evening parties and wedding receptions. Soda water is consumed directly to quench people's thirst and mixed with wine to make a drink known as a spritzer. In Hungary, a special culture has evolved around the consumption of the spritzer. When properly mixed, the wine preserves its original taste and flavor while the soda water reduces the alcoholic content. Hungarian writer, Sándor Márai, wrote that "Hungarians showed a profound understanding of life when they invented this miraculous, sagacious and prudent potion, concentrated enough to kindle the wine-drinker's imagination but not so fierce as to harm the noble organs." Wine and soda water mixtures of various proportions are known by different names such as, "Minor Spritzer" (kisfröccs), "Major Spritzer" (nagyfröccs), and "Long Stride" (hosszúlépés), with more than thirty recognized spritzer mixtures. Spritzers have appeared prominently in plays, books, and paintings in Hungary and throughout the world.

### **History of Soda Water Production**

Soda water, also known as seltzer, is created by aerating drinking water with carbon dioxide. Soda siphons equipped with a special nozzle are filled with the soda water, maintaining a high pressure by means of a closed system technology. Among the carbonated beverages, soda water has the highest carbon dioxide content at 7 to 8 grams carbon dioxide per liter. Due to the closed system and nozzle, the last drop of soda water has the same bubbly appearance as the first. Furthermore, the closed filling system protects the soda water from contamination.

Joseph Priestly, a British clergyman and scientist is credited with being the first to mix carbon dioxide with water in 1767. He was followed by Jacob Schweppe of Geneva, who, in 1783, invented an efficient but jealously guarded secret process for the commercial manufacture of artificial mineral water. In 1813 Charles Plinth constructed and patented the soda water dispensing fountain or siphon.

Other innovations soon followed, leading to the beginning of the soda water industry in Hungary. In 1829, the Hungarian Ányos Jedlik (inventor of the electric dynamo) developed an inexpensive means of saturating water with carbon dioxide. He built Hungary's first small scale soda water manufacturing plant in 1841, launching the soda water industry in Hungary. By 1869, the production of soda water became so widespread in Hungary that the government began regulating the industry.

At the end of the 19th century, Hungary had between 4,500 and 5,000 soda water manufacturing plants. Supporting industries, including glass and equipment manufacturers aided the development of the industry. Other major advances included the separate production of carbon dioxide, storage of carbon dioxide in steel containers, and motorized equipment, which replaced manually operated machines.

In 1901, the soda water manufacturers formed an alliance establishing a trade association, which produced a monthly journal entitled "Soda Water Industry." Following the nationalization of many industries that occurred at the end of World War II, the soda water manufacturers became members of the National Craftsmen's Organization. After the political transition in Hungary (1989-1990), the National Trade Association of Soda Water Makers (or MOSZI, its Hungarian acronym) was reestablished in 1990, building on the intellectual heritage of the old trade association. During the transition to a market economy, MOSZI strove to meet the challenges of the modern era under the leadership of the late Ferenc Zoltai. Between 2000 and 2008, László Deák, , led the association of nearly 500 members as its president.

During the 1970s and 1980s, soda water trade experienced a Renaissance in Hungary, with approximately 3500 producers. Most of these operations were small family businesses where the trade was passed down from father to son. Prior to Hungary's entering the EU, there was great uncertainty concerning the future of soda water production in Hungary. The EU had no regulations for soda water and rumors circulated that soda water production would be banned upon Hungary's entry into the EU. Fueled by these fears, soda water manufacturers developed and implemented a HACCP food safety system, replacing older equipment with modern machinery. Today, soda water is filled into reusable, hygienic, and environmentally friendly plastic bottles and steel canisters. It is manufactured in about 1,500 plants employing nearly 10,000 people. Before Hungary entered the EU in 2004, traditional soda water earned the Hungarian classification of "Guaranteed Traditional and Special Product," the only product in Hungary to receive such a designation. MOSZI is currently pursuing the EU designation of "Traditional Special Products (TSG)" defined under Regulation (EC) No 509/2006.

## **Bánffi Soda Limited Partnership**

### *History of the Bánffi Family and Company*

2008 marked the 100th anniversary of the founding of the company that would eventually become Bánffi Soda Limited Partnership. The company had its beginnings as a soda water plant founded by Mrs. Ferenc Belányi next to her bar in Kistelek, Hungary. While the soda water plant provided a decent living to the family, the Great Depression brought the family to the brink of ruin. The company fell on hard times again during World War II.

After Mrs. Belányi's death in 1941, her daughter, Mrs. Mihály Bánffi, inherited the bar along with the soda water plant. However, in 1944 the Soviets removed all alcoholic beverages from the bar and took the horse used to transport the soda water. The enterprise struggled during the following years until 1950 when many industries were nationalized and the company's assets were confiscated by the state. In 1952, Mrs. Mihály Bánffi bought back her soda water manufacturing machine from the state so she could resume production. During the socialist regime the price of one bottle of soda water was set at 1.10 HUF (U.S. \$0.09) because it was included in the list of essential foodstuffs.

In 1974, Tibor Bánffi, the son of Mrs. Mihály Bánffi, built a new soda water plant in Szeged. The privatization of the restaurant industry allowed the company to grow rapidly. Tibor took advantage of the company's small scale and flexibility and was soon supplying most of the restaurants in Szeged with soda water. Sales volume grew to 120,000 to 150,000 liters per year and the business was highly profitable. After the death of Tibor in 1985, the business was taken over by his son, István Bánffi. István succeeded in contracting with several large companies and producing soda water for them, thereby substantially increasing sales volume and revenue. By the end of the 1980s, production reached 300,000 to 400,000 liters per year. Unfortunately, hard times returned after the collapse of the Soviet Union and competitive pressures made it difficult to compete. Product sales were down in Eastern Europe and demand from Western Europe had not yet developed. Moreover, the appearance of Coca-Cola in restaurants further diminished demand for soda water. Many of the smaller soda water manufacturers went bankrupt.

With sales falling and the industry near collapse, István and his wife Mrs. Éva Andóczy Balogh decided to start collecting relics of soda water manufacturing. They planned to set up a Soda Water History Museum to commemorate the soda water industry. After many years of collecting important artifacts of the industry, the collection was displayed in the Museum of Commerce and Catering in Budapest and later as a travelling exhibition in several of Hungary's largest cities. In 2006, this unique soda water historical collection obtained a permanent place in the restored water tower in St. Stephen Square in Szeged where the Bánffi's 80-year-old soda water manufacturing machine is also exhibited.

In 1991, Lajos Nagy, an entrepreneur in Püspökladány, patented a plastic bottle with a siphon head and provided the industry with a new opportunity. The Bánffis immediately recognized this opportunity and were among the first firms to sell soda water in these plastic bottles. Production volume rose rapidly starting in 1992. Over the next several years the Bánffi plant was modernized; they bought modern machines and installed water-cooling equipment. Product

quality was improved by a filter system. Two other plants were built and four new delivery trucks were purchased. By 1995, production volume exceeded 2 million liters (25,600,000 HUF or USD \$205,000) reaching 2.3 million liters in 2003 (70 million HUF or \$314,000). With Hungary's entry into the EU came greater access to goods and increased competition. Bánffi's revenues have steadily declined since that time. One bright spot was the previously mentioned designation of "Guaranteed Traditional and Special," which has had a significant positive impact on the industry's marketing efforts.

### *Suppliers*

There are two raw materials used in the production of soda water, drinking water and carbon dioxide. Drinking water is provided by Szeged Water Works, a public utility. The carbon dioxide is purchased from two of the three leading suppliers, Linde Hungary, Ltd. and SIAD, Ltd. Although carbon dioxide is a commodity, Bánffi purchases from both companies in order to have increased bargaining power.

The other two principal inputs are plastic bottles and siphon heads. Both are commodities and may be purchased from several suppliers. Bánffi purchases plastic bottles from the Dutch company, Constar, and siphon heads from a local supplier, Györök Ltd.

### *Production*

Bánffi operates two plants, one built in 1998 and another that was constructed in 2005 to replace an older plant that did not comply with EU regulations. Construction of the newer plant took place over a five-year period and was financed from the company's profits. The new plant has four machines, two with a capacity of 600 liters per hour and two with a capacity of 800 liters per hour. The older plant (1998) contains three production lines, each with a capacity of 600 1.5 liter bottles per hour.

Other major physical assets owned by Bánffi include six bottling machines, two industrial cooling units for cooling water during production, and four delivery trucks.

With the newly designed plant, product flows smoothly from room to room. Empty bottles are returned by customers and stored in a separate room. From there the bottles are moved to another room where they are cleaned and, if needed, repaired. Both the bottles and labels must be clean and intact before refilling. A "best used before date" is added to the label. Next, the bottles are moved to a room containing equipment for filling the plastic bottles and stainless steel canisters. Once filled, the bottles are moved to a storage room where they await delivery to the customer.

Bánffi employs nine people, including the Managing Director, a Production Manager, a Deputy Production Manager, three bottling workers, and three delivery drivers. A family-like atmosphere prevails in the workplace, consistent with the small size of the company. Bánffi also contracts with three people, one who is responsible for marketing activities, another person who is in charge of managing suppliers, and a bookkeeper.

Production of the soda water is conducted using the HACCP system, whose regulations and standards are applied throughout the entire manufacturing process to ensure a high quality product. Great emphasis is placed on preventing work accidents; all workers are required to wear protective gear.

### *Marketing*

**Products:** Bánffi's main product is soda water, sold in 1.5 liter bottles and 21.5 liter pressurized stainless steel canisters. To offset declining sales, Bánffi introduced a new filtered drinking water product called Aquamarin in 2008. Aquamarin is available in 5- and 19-liter bottles. In addition to the consumer market, this product is sold to companies for consumption by their workers, including CORA (a supermarket chain based in Belgium with operations in Hungary) and the Szeged Crude Oil Refinery.

**Pricing:** Prices for soda water are €0.2 and €2.3 for 1.5 liters and 21.5 liters, respectively. Filtered water is priced at €0.9 and €3.4 for 5 and 19 liters, respectively. Both soda and filtered waters are essentially commodities. There is little product differentiation, and pricing among competitors, both large and small, is similar. Bánffi prices its products slightly below that of its competitors.

**Distribution:** Hungary has seen significant growth in modern retail channels, including supermarkets, shopping centers, and hypermarkets. Nonetheless, soda water is still sold primarily through small corner shops, which have experienced substantial sales declines in recent years. Despite the declining sales, Bánffi enjoys substantial loyalty among its customers. Bánffi's soda water is also sold through some Hungarian chain stores, including CBA and COOP. However, the large national supermarket chains have been unwilling to distribute local soda water, largely due to the effort involved in collecting and returning refillable containers to the producer. Furthermore, soda water producers have been reluctant to pay fees, such as slotting allowances, to access shelf space from the national chains. In order to offset declining sales, many of the small corner shops have increased their margins, making the product increasingly expensive for consumers. As a result, Bánffi has returned to the old way of selling soda water through home delivery and selling through small shops.

**Promotion:** Bánffi's products are promoted through the use of flyers, television advertising, and on its delivery trucks. Flyers are developed each year and distributed throughout the principal sales season lasting approximately from Easter through the end of September. Flyers are distributed directly to residents' homes using a student labor company. Bánffi participates in several regional exhibitions and fairs, such as the Szeged Festival of Hungarian Products and Beauty and Health Exhibition. Information is also available on the company's website, [www.banffiszoda.hu](http://www.banffiszoda.hu). Total spending on promotion is about €2,000 per year.

### *Competition*

There are numerous competitors in the market and practically every city and village in Hungary has a soda water plant. The industry is made up of 1,200 companies and employs approximately 10,000 employees when direct suppliers to the industry are included.

Greater Szeged has a population of approximately 170,000. The market for soda water is dominated by two companies, Bánffi and COMIX. Bánffi is the market leader with a market share of 60%, followed by COMIX with a market share of 30%. Five smaller firms account for the remaining 10% market share. Bánffi entered the market for filtered water in 2008 and has grown its market share to 20% in less than two years. In 2008 they produced 2014 19-liter bottles of filtered water. Production more than doubled in 2009 to 4236 bottles.

Bánffi's main competitor, COMIX, is a franchise-based enterprise that produces both soda water and oxygenated drinking water. COMIX obtained an industrial design protection by the Hungarian Patent Office, granting them legal protection for the appearance of their product, in this case the plastic bottle. COMIX holds exclusive rights to this bottle, which can be licensed to its franchisees. The introduction of COMIX's oxygenated drinking water has been very successful and the product has shown consistent growth over the last several years.

### *Consumption*

There are numerous substitute products on the market, including mineral water (carbonated), filtered water, and soft drinks (Exhibit 1, see Appendix I). These substitute products are more widely available than soda water and sold in shopping centers and supermarkets. They are sold in disposable containers and attractively priced. For example, mineral water is priced comparably to soda water at about €0.2 for a 1.5 liter bottle.

Several products have experienced rapid growth in sales over the last decade, led by mineral water and fruit juices. This growth has come largely at the expense of soda water sales, which have experienced a decline of per capita consumption of almost 50% since 2000. The growth in mineral water sales has been helped by a flood of new, innovative products, including mildly carbonated mineral water, flavored mineral water, and iced tea-based mineral water. Similarly, sales of fruit juices have experienced rapid growth over the last decade while soft drink sales have remained relatively flat.

The principal drivers of these trends are higher incomes and greater health consciousness among consumers. This is particularly true for natural fruit juices. Mineral water sales have also benefited as it is perceived as both healthful and fashionable. Moreover, many consumers have chosen to substitute poor quality tap water with mineral water that is sold in convenient, disposable plastic bottles.

### *Financial Information*

The company's assets total approximately €485,000 with the land and buildings valued at €450,000. Equipment and vehicles are valued at €35,000. The firm has no debt.

**Exhibit 2.** Selected financial information for the period 2000 to 2008\*

<b>Year</b>	<b>Production</b> <i>liters</i>	<b>Gross Revenue</b> <i>euros</i>	<b>Expenses</b> <i>euros</i>	<b>Profit</b> <i>euros</i>
2000	2,264,729	169,000	169,000	34,314
2001	2,302,129	182,346	182,346	39,035
2002	2,366,632	202,564	202,564	39,514
2003	2,309,624	211,350	211,350	35,128
2004	1,925,254	177,253	177,253	28,800
2005	1,657,074	159,785	159,785	24,089
2006	1,444,849	138,835	138,835	21,464
2007	1,130,169	132,775	132,775	18,903
2008	1,153,411	139,696	139,696	5,057

\*Profits declined significantly in 2008 because the firm expensed a major purchase.

### *Access to Capital*

In the current recessionary environment, access to capital is difficult, particularly for small and medium-sized businesses. However, most banks in Hungary have credit opportunities for such companies. Additionally, there are programs available that specifically make credit available to small business, such as the New Hungary Micro Credit Program, which helps strengthen small businesses, and the Nationwide Micro Credit Program, which targets entrepreneurs with distinctive ideas and solid plans for making their businesses more successful. Bánffi could obtain up to €30,000 in short- to medium-term financing (1 to 10 years) at an interest rate of about 8%.

### **SWOT Analysis**

Several in-depth interviews with István Bánffi form the basis of a SWOT (strengths, weaknesses, opportunities and threats) analysis. This analysis, which represents his view of the industry and his company, is presented in Exhibit 3 (Appendix II).

### **Looking to the Future**

István Bánffi ponders the past and future of his company. While the museum project has been very successful, it is a reflection of the company's and industry's past successes. The Bánffi Soda Limited Partnership faces many challenges if it is to be successful in the future. As István's son, Ádám, currently a marketing student at the University of Szeged, enters the business, István hopes that he will bring innovative ideas and the energy to propel the company forward to meet these challenges.

### **Questions**

1. Summarize the key competitive issues and challenges for the Bánffi Soda Limited Partnership. Porter's Five Forces Model provides a framework for analyzing the industry and Bánffi's competitive position.
2. Develop and analyze several alternative strategies that will allow Bánffi to be successful in the future. Specifically, conduct an opportunity analysis (you may want to consider opportunities presented in the SWOT analysis presented in Exhibit 3 as well as other

opportunities). In addition to discussing the pros and cons of each strategy, be sure to address the information needed to analyze each alternative.

3. Recommend a strategy that Bánffi should pursue to improve profitability and address the major threats and opportunities that it faces.

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## Appendix 1

### Exhibit 1. Prices and Consumption Trends of Soda Water, Mineral Water, Carbonated Drinks, and Still Drinks, Hungary, 2000 to 2008

<u>Soda Water</u>				
1. Number of bottling companies: approximately 1,200.				
2. Number of bottled products: hundreds of brands.				
3. Average price: approximately €0.13 per liter.				
4. Bottle size and type: approximately 50% is sold in pressurized refillable 1.5 liter plastic bottles and 50% in 21.5 liter stainless steel pressurized canisters.				
<u>Natural mineral water and other bottled water (excluding soda water)</u>				
1. Number of bottling companies: between 30 and 35.				
2. Number of brands of bottled water: between 55 and 60.				
3. Average price: approximately €0.13 per liter.				
4. Bottle size and type: approximately 80% 1.5 liter, 15% 0.5 liter, and 5% others; 95% PET bottles.				
<u>Carbonated and still drinks</u>				
1. Number of bottling companies: between 18 and 20.				
2. Number of bottled products: hundreds of brands.				
3. Average price: approximately €0.35 per liter.				
4. Bottle size and type: approximately 50% 0.5 liter and 50% 2.0 liter; 95% PET bottles.				
<b>Per capita consumption of non-alcoholic beverages (liters/person)</b>				
	<i>Soda Water</i>	<i>Mineral Water</i>	<i>Carbonated Drinks</i>	<i>Still Drinks</i>
2000	40.0	39.2	68.6	31.8
2001	50.0	42.4	67.6	30.5
2002	50.3	50.0	68.5	35.0
2003	47.0	60.0	70.0	40.0
2004	37.5	60.0	65.2	40.5
2005	33.2	70.0	62.1	40.8
2006	27.1	85.0	67.0	43.4
2007	24.0	105.0	65.9	43.6
2008	22.0	105.0	67.3	34.6
*Source: Hungarian Mineral Water Product Council.				
<u>Environment</u>				
Approximately 95% of non-alcoholic beverages are sold in disposable plastic bottles. The reason for this is that there is little demand for refillable bottles. Over the past 10 to 12, years the proportion of reusable bottles has dropped from about 65% to the current 5%. Companies producing non-alcoholic beverages have had to pay a tax in order to help create and improve a system of segregated waste disposal and recycling. This is also true for soda water manufacturers, although the tax is less since they use refillable bottles.				
According to a study by independent Austrian and German experts, the harmful effects of disposable bottles on the environment are no greater than those of refillable bottles. Refillable bottles require detergent and water to clean the bottles, produce sewage that must be treated, require the construction of large storage depots, necessitate the use of large vehicles for transportation, and require more fuel and produce more air pollution due to transportation than do disposable bottles.				

Source: Hungarian Mineral Water Product Council, Budapest, 2009.

## Appendix 2

### Exhibit 3. SWOT Analysis for Bánffi and the Soda Water Industry

<p><b><u>Industry Strengths</u></b></p> <ul style="list-style-type: none"> <li>• Long industry history</li> <li>• Traditional production methods result in high consumer confidence</li> <li>• Right to use “Guaranteed Traditional and Special” trademark</li> </ul> <p><b><u>Bánffi Strengths</u></b></p> <ul style="list-style-type: none"> <li>• Long history and reputation – more than 100 years</li> <li>• Top quality products</li> <li>• Experienced and disciplined workers</li> <li>• HACCP production system</li> <li>• Strong relationships with many distributors</li> <li>• Successful introduction of home delivery service</li> <li>• Refillable containers are environmentally sound</li> <li>• Small, private nature of the firm results in a flexible firm that can respond quickly to the market</li> </ul>	<p><b><u>Industry Weaknesses</u></b></p> <ul style="list-style-type: none"> <li>• Product sold only in refillable, returnable containers, which many customers find inconvenient</li> <li>• Soda water production is very labor intensive (a large beverage plant could produce about 30,000 bottles with six workers; the equivalent soda water production could be produced in roughly 200 plants employing 400 workers)</li> </ul> <p><b><u>Bánffi Weaknesses</u></b></p> <ul style="list-style-type: none"> <li>• Small-scale venture means that managers find it difficult to be specialists</li> <li>• Distribution limited to Szeged, population 170,000</li> <li>• Distribution is limited to independent retailers as large chain stores require distribution to stores throughout Hungary</li> </ul>
<p><b><u>Industry Opportunities</u></b></p> <ul style="list-style-type: none"> <li>• Soda Water History Museum in Szeged may be exploited to strengthen consumer confidence</li> <li>• New products that can exploit long tradition of soda water industry</li> <li>• Cooperation with the Agrarian Marketing Center and National Trade Association of Soda Water Makers may be utilized to develop promotional materials and to promote products at events, such as fairs and festivals</li> </ul> <p><b><u>Bánffi Opportunities</u></b></p> <ul style="list-style-type: none"> <li>• New products may take advantage of the Bánffi name and reputation</li> </ul>	<p><b><u>Industry Threats</u></b></p> <ul style="list-style-type: none"> <li>• Popular substitute products, including mineral water, carbonated drinks, and still water</li> <li>• Novel products that are heavily marketed provide consumer excitement</li> <li>• Wine producers no longer make wine intended for making spritzers (wine mixed with soda water); Note: mineral water is a poor substitute for soda water in spritzers as the carbon dioxide content declines rapidly due to the high mineral content</li> <li>• Government regulations have contributed greatly to the cost of doing business for smaller firms</li> </ul> <p><b><u>Bánffi Threats</u></b></p> <ul style="list-style-type: none"> <li>• Major competitor introduced a popular oxygenated water product, sold in a disposable bottle</li> </ul>

