**OBM 4407 STRATEGIC MANAGEMENT**

**Individual Assignment 1**

**Global forces and the Western European Brewing Industry**

In the early years of the 21st century, European brewers faced a surprising paradox. The traditional centre of the best industry worldwide and home to the world’s largest brewing companies, /Europe was turning off beer. Beer consumption was falling in the largest markets of Germany, and the United Kingdom, while burgeoning in emerging markets around the world. In 2008, Europe’s largest market, Germany, ranked only 5th in the world, behind China, the United States, Brazil and Russia. China, with 12% annual growth between 2003 and 2008, had become the largest single market by volume, alone accounting for 23% of world consumption (Euromonitor, 2010).

The decline of beer consumption in Europe has been to several factors:

1. Governments are campaigning strongly against drunken driving, affecting the propensity to drink beer in restaurants, pubs and bars.
2. There is increasing awareness of the effects of alcohol on health and fitness.
3. There is increasing hostility to so-called “binge-drinking’, , excessive alcohol consumption in pubs and clubs.
4. Wines have also become increasingly popular in Northern European markets.
5. Beer consumption per capital varies widely between countries, being four times higher in Germany than in Italy, for example.
6. Some low consumption European markets have been showing good growth.
7. The drive against drunken driving and binge drinking has helped shift sales from the on-trade (beer consumed on the premises, as in pubs or restaurants) to the off trade (retail).
8. Worldwide, the off-trade increased from 63% of volume in 2000 to 67% in 2008.
9. The off-trade is increasingly dominated by supermarket chains such Tesco or Carrefour, who often use cut-price offers on beer in order to lure people into their shops.
10. More than one fifth of beer volume is now sold through supermarkets. German retailers such as Aidi and Lidi have had considerable success with their own private-label (rather than brewery-branded) beers.
11. Pubs have suffered in the United Kingdom, an estimated 50 pubs closed per week during the recessionary year 2009.
12. However, although on-trade volumes are falling in Europe, the sales values are generally rising, as brewers introduce higher-priced premium products such as non-alcoholic beers, extra cold lagers or fruit-flavoured beers.
13. However, a good deal of this increasing demand for premium products is being satisfied by the import of apparently exotic beers from overseas.

Brewers main purchasing costs are packaging (accounting for around half of non-labour costs), raw material such barley, and energy. The European packaging industry is highly concentrated, dominated by international companies such as Crown in cans and Owens Illinois in glass bottles. In the United Kingdom, for example, there are just three can makers: Bail Packaging Europe, Crown Bevcan and REXAM.

Acquisition, licensing and strategic alliances have all occurred as the leading brewers battle to control the market. There are global pressures for consolidation due to over-capacity within the industry, the need to contain costs and benefits of leveraging strong brands. For example, in 2004, Belgian brewer interbrew merged with Am Bev, the Brazilian brewery group, to create the largest brewer in the world, InBev. In 2008, the new Inbev bought the second largest brewer, the American Anheuser-Busch, giving it nearly 20%of the world market. In 2002, South African Breweries acquired the Mi9ller Group (USA) and Pilsner Uruquell in the Czech Republic, becoming SABMiller. SABMiller in turn bought Dutch specialist Grolsch in 2007. Smaller players in the fast-growing Chinese and Latin American markets are being sm\napped up by the large international brewers too: in 20110, Dutch Heineken bought Mexico’s second largest brewery, FEMSA. On the other hand, medium sized Australian brewer Fosters has withdrawn from the European market. The European Commission fined Heineken and Kronenbourg in 2004 for price-fixing in France and Heineken, Grolsch and Bavaria in 2007 for a price-fixing cartel in the Dutch market.

In 2009, 10 companies accounted for about 60% of world beer volume.

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| 2009 |  |
| CompanyA-B in Bev (Belgium)SABMiller (UK)Heineken (Dutch)Carlsberg (Danish)China Resourcess (China)Tsingian (China)Modelo (Mexico)Moison Coors (US)Beijing Yanjing (China)FEMSA (Mexico) | Share global volume %19.59.56.95.94.53.12.92.82.52.3 |

Three Brewing Companies

The European market contains many very different kinds of competitor: this section introduces the world’s largest brewer and two outliers.

1. Anhesuer-Busch InBev (Belgium)

A-B InBev has roots going back to 1366, but has transformed itself in the last decade with a series of spectacular mergers. First, InBev was created in 2004 from the merger of Belgian InterBrev and Brazilian AmBev. As well as making it the second largest brewing company in the world, this merger gave it a significant position in the Latin American soft drinks market. Then in 2008 InBev acquired the leading American brewer Anheuser-Busch for $52bn, making the company indisputably the world leader. The company now has nearly 300 brands, led by such well-known international beers as Beck’s, Budweiser and Stella Artois. The company has nearly 50% share of the US market, and owns 50% of Mexico’s leading brewer, Modelo, famous for its global Corona brand. In 2008, the new A-N InBev had four of the top ten selling beers in the world, and a number one or number two position in over 20 national markets. However, the company has been reducing its stake in the Chinese market in order to raise funds to pay for the Anheuser-Busch acquisition and to meet local monopoly authority concerns. It also sold its Central and Eastern beer operations in 2009.

The company is frank about its strategy: to transform itself from the biggest brewing company in the world to the best. It aims to do this by building strong global brands and increasing efficiency. Efficiency gains will come from more central coordination of purchasing, including media and IT; from the optimisation of its inherited network of breweries; and form the sharing of best practice across sites internationally. A-B InBev is now emphasising organic growth and improved margins from its existing business. Its declared intention is to be ‘The Best Beer Company in the Better World”.

2. Greene King (United Kingdom)

Established in 1799, Greene King is now the largest domestic British brewer, owner of famour\s brands such as Abbot, IPA and Old Speckled Hen. It has expanded through a series of acquisitions including Ruddles (1995), Morland (1999) and Hardys and Hansons (2006).

Acquisition is typically followed by the closure of the acquired brewery, the termination of minor brands and the transfer of major brand production to its main brewery in Bury St. Edmunds. This strategy has led to critics calling the company “Greedy King”. IPA is the UK’s top cask ale, with over 20% of the on-trade market and Old Speckled Hen is the top premium UK ale with more than one eighth of the multiple retailer market. Greene King is unusual amongst contemporary breweries in operating many of its own pubs, having added to its original chain several acquisitions (notably Laurels with 432 pubs and Belhaven with 271). Greene King now operates nearly 2000 pubs across the United Kingdom with a particulary dominant position in its home region of East Anglia. The company is also active in restaurants. Business is effectively confined to the UK market. In 2009, Greene King raised ₤207 million on the financial markets in order to fund further acquisitions . Greene King explains its success formula in brewing thus : “The Brewing Company’s continued out-performance is driven by a consistent, focused strategy : most importantly, we brew high quality beer from an efficient, single-site brewery; (and) we have a focused brand portfolio, minimising the complexity and cost of a multibrand strategy.”

3. Tsingtao (China)

Tsingtao Brewery was founded in 1903 by German settlers in China. After state ownership under Communism, Tsingtao was privatised in the 1990s and listed on the Hong Kong Stock Exchange in 1993. In 2009, the Japanese Asahi Breweries held 19.9% of the shares, purchased from A-B Inbev (which also sold the remainder of its original stake - 7% - to a Chinese private investor). Tsingtao has 13% market share of its home market but has long had an export orientation, accounting for more than 50% of China’s beer exports. Tsingtao Beer was introduced to the United States in 1972 and is the Chinese brand-leader in the US market. A bottle of Tsingtao appeared in the 1982 science fiction film Blade Runner. Tsingtao set up its European office in 1992 and its beer is now sold in 62 countries. The company has described its ambition thus: “to promote the continuous growth of the sales volume and income to step forward the target of becoming an international great company.”

Questions

1. Using the data from the case (and any other sources available), carry out for the
Western European brewing industry (i) a PESTEL analysis and (ii) a five forces analysis. What do you conclude?
2. For the three breweries outlined above (or breweries of your own choice) explain:

(a) how these trends will impact differently on these different companies, and

(b) the relative strengths and weaknesses of each company.

Instructions

1. Ensure you have the cover page for the individual assignment attached to your report.
2. Use front sixe 12 and the line spacing 1.5.
3. The report must be submitted in the **2nd week.**
4. Any delay in the submission of the report, marks will be deducted at the rated of 10% per day.
5. Plagiarism, if detected will lead to an immediate “fail grade”

 **Marking Sheet**

Student Name: ........................................ Student Number: .......................................

 Lecturer: .....................................................

Topic: Global Forces and the Western European Brewing Industry

Marking Scheme

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| --- | --- | --- | --- |
| No |  Assessment Criteria  |  Comments |  Marks |
| 1 | The extent to which the student has addressed the issues contained within the questions.  (20%) |  |  |
| 2 | Degree of underpinning knowledge of the theories that relate to each of the questions  (20%). |  |  |
| 3 | The use of relevant case study material and other sources of relevant information, data and company examples gathered independently for substantiation purposes  (25%). |  |  |
| 4 | Degree of analysis and evaluation in developing the arguments. (25%). |  |  |
| 5 | Format, structure and readability of the answer’ (10%). |  |  |
|  |  Total marks |  |  |

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