**Individual Assignment 2**

**SOUTH AFRICA Brewery (SAB)**

SAB was incorporated in 1895 and was listed in the Johannesburg Stock Exchange in 1897 and then on the London Stock Exchange in 1898. In the period ***1948-1994,*** the South Africa government introduced the racist system of apartheid where the black people were separated from the white people. The rest of the world imposed economic sanction on South Africa where no country could trade with South Africa and no South Africa business could trade in the international market.

During this period of apartheid, SAB focused its business only in South Africa and became fully incorporated in South Africa in 1970. Next the South Africa government imposed heavy tax on beer and the black Africans were prohibited from consuming beer. Subsequent to these developments, SAB was concerned to dominate the domestic beer production by acquiring the competitors and then rationalised the production and distribution facilities.

SAB obtained licenses to brew locally Guinness, Amstel and Carling Black Label.

SAB also diversified into other businesses such as hotels and gambling by acquiring the Sun City casino resort, and through joint-ventures involved in businesses involving food, property, retail, clothing and footwear and manufacturing of safety matches (1987). In 1994 the Government of Tanzania invited Sab to revitalise its brewing industry and this was followed by Zambia, Mozambique and Angola.

By 1997 SAB controlled about 99% of the market in South Africa and held commanding position in the nearby states: Swaziland, Lesotho, Rhodesia and Botswana.

In 2000 SAB dominated the beer market in South Africa and there was no space for local expansion especially in alcoholic beverages. The next strategic expansion was to go into global markets.

Actually, in 1993 SAB acquired the largest brewery, Dreker in Hungry and from here, SAB started to move into the beer markets in central European countries - the emerging economies. By 1994, SAB established operations in China by forming a JV with China Resources Enterprise Ltd to add China’s biggest beer brand, SNOW to its portfolio. In 1995 SAB made acquisitions of beer operations in Eastern European countries like Poland, Romania, Slovakia and the Czech Republic and the central Russia in 1998 through establishing a ‘green field’ brewing near Moscow.

The success of SAB entry into the developing economies in Africa, Asia and Europe was due to the fact that the breweries there were fragmented and small in scale, localised and producing low-quality beer. This situation provided the opportunity for SAB to take a share in a brewery with a local partner and transforming the business while retaining the brand, thereby giving the local drinkers a better quality and consistency beer. SAB helped to improve marketing and distribution and productivity and capacity. The market expanded from regional basis to national level. SAB had applied its k\skills it had acquired over 100 years operating in South Africa. Its management structure was basically decentralised, reflecting the local nature of best branding and distribution. It was able to attain efficiency in operations and distribution of beer and reduced the costs. This approach worked well in developing economies but not in developed countries. SABMiller realised that it has the ability to tap into deep local insights and win over the market. They do it by working alongside with the retailers to help them grow their beer category and creating the beer that meets the local taste.

By 2002, SAB owned more than 100 breweries in 24 countries and accounted for about 14% of annual revenues. Most of the company’s brands were only sold on a local or regional basis but none had reached the global market like Heineken, Amstel or Guinness. Furthermore the South African money, the rank, was quite volatile.

In 2002, SAB acquired Miller Brewery in USA and created SABMiller and became world’s number 3 brewer in terms of production volume. Miller operates 9 breweries in the USA.

 In 2005, SABMiller merged with Grupo Empresarial Bavaria, the second largest brewer in South America. In 2008, SABMiller had a JV with Molson Coors in North America to gain more market share in the US beer industry.

In 2011 SABMiller acquired the Australian Beer Group Fosters and became the second largest brewer by volume and profits in the world.

By 2015, SABMiller’s market share was 12% and its brands portfolio included international brands such as Pilsner Urquell, Peroni Nastro Azzurro, Miller Genuine Draft and Grolsch along with local country brands such as Aguila, Castie Lager, Miller Lite, VB, Snow and Tyskie.

Three of SABMiller’s main global competitors, Anheuser Busch, Interbrew and Ambev had merged in 2008, to form AB InBev, to claim market leadership with a consolidated 25% of global market share. In 2014 SABMiller attempted to takeover Heineken, a Dutch company but its bid was rejected. However in 2015 SABMiller received an offer from AB Inbev and SABMiller had agreed to the deal.

SABMiller, considered their position and re-examined its four strategic priorities that were synthesized from what the company had learnt over its 100 years history and set out in 2010.

SABMiller’s strategic priorities

|  |  |
| --- | --- |
| 1. Creating a balanced and  attractive global spread  of businesses | Our acquisitions in recent years have given us a wide geographical spread with good exposure to emerging markets, without being over-reliant on any single region. This allows us to capture new growth in developing markets.  |
| 2. Developing strong,  relevant brand  portfolios in the local  market | Our aim is to develop an attractive brand portfolio that meets consumers’ needs in each of our markets. In many markets, growth is fastest at the top end, as shown by the increasing popularity of our international premium brands. Another rising consumer trend is the shift towards fragmentation. Affluent consumers are varying their choices and becoming more interested in speciality brands, craft beers, foreign imports and other subdivisions of the premium segment. And a third trend is the growing importance of female consumers. |
| 3. Constantly raising the  performance of local  businesses | In order to raise our performance, we need to become more efficient, especially in our manufacturing processes. Efficiency is part of our day-to-day management and the rise in commodity costs compels us to do whatever we can to counteract the squeeze on our margins. All SABMiller operations strive to improve our products’ route to market, to remove costs and to ensure that the right products reach the right outlets in the right condition. |
| 4. Leveraging our global  scale | As a global organisation we are constantly seeking to use the benefits of our scale while recognising that beer is essentially a local business and that local managers are in the best position to identify and exploit local opportunities. Our aim is to generate maximum value and advantage from our size without becoming over-centralised and losing our relevance and responsiveness in each market. |

 Global beer consumption by region in 2013

|  |  |
| --- | --- |
| Region | Beer Consumption in % |
| Middle East |  0.8 |
| Oceania  |  1.2 |
| Africa |  6.4 |
| North America | 13.9 |
| South America | 16.2 |
| Europe | 27.0 |
| Asia | 34.8 |

 Competitor share of global $33bn profit pool (2014)

|  |  |
| --- | --- |
| Company | Percentage share |
| AB In Bev | 39.0 |
| SABMiller | 17.9 |
| Heineken | 11.6 |
| Carlsberg |  4.6 |
| Asahi |  3.1 |
| Moison Coors |  2.9 |
| Others | 20.0 |

What next?

SABMiller had agreed to the takeover by AB InBev but whether this was the best strategic option for the company was not clear. It was also important to consider other options in case the bid failed to close due to regulatory t\hurdles, of which there was approximately a 27% chance, and SABMiller remained independent. Nevertheless, assuming the bid did close both SABMiller and AB InBev had to consider what a successful bid might mean for the combined business going forwards. How might SABMiller be integrated effectively into the new group? Would the integration strategy destroy valuable SABMiller heritage or enhance its value? How would the new company compete in the future?

Whilst SABMiller and AB InBev wrestled with satisfying regulators and planning for integration, the beer market seemed to have fewer opportunities for expansion; large transformational deals were hard to find and with lower prospects of high financial returns. The other global brewers were increasingly looking for growth from emerging markets as beer sales slowed in more developed consumer markets. Heineken was pursuing growth in Africa and Carlsberg aimed to expand into Asia. Japanese brewers were also becoming increasingly active in the Asian market. The added complication of the economic recession had also impacted on all beer markets, albeit with different degrees of severity. For all companies there were questions about the emphasis placed on local vs. global brands in their portfolios. Should they consider entering more profitable beverage segments? Could there be yet another market changing deal that should be shaped to win the battle in beer?

SABMiller financial summary (US$m) for years ended 31 March

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2015 | 2014 | 2013 | 2012 | 2011 |
| Income Statements |  |  |  |  |  |
| Group revenue | 33,558 | 34,087 | 34,487 | 31,388 | 28,311 |
| Revenue | 22,130 | 22,311 | 23,213 | 21,760 | 19,408 |
| Operating profit |  4,384 |  4,242 |  4,192 |  5,013 |  3,127 |
| Net finance costs |  -637 |  -645 |  -726 |  -562 |  -525 |
| Share of associates’ and joint venture’ post tax results |  1,083 |  1,226 |  1,213 |  1,152 |  1,024 |
| Taxation |  -1,273 |  -1,173 |  -1,192 |  -1,126 |  -1,069 |
| Minority interests |  -258 |  -269 |  -237 |  -256 |  --149 |
| Profit for the year |  3,299 |  3,381 |  3,250 |  4,221 |  2,408 |
| Adjusted earnings |  3,835 |  3,865 |  3,772 |  3,400 |  3,018 |
|  |  |  |  |  |  |
| Balance Sheets |  |  |  |  |  |
| Non-current assets | 40,552 | 48,366 | 50,588 | 50,998 | 34,870 |
| Current assets | 4,359 |  5,385 |  5,683 |  4,930 |  4,244 |
| **Total assets** | 44,911 | 53,751 | 56,294 | 55,928 | 39,114 |
|  |  |  |  |  |  |
| Derivative financial instruments | -111 |  -115 |  -86 |  -109 |  -130 |
| Borrowings | -12,544 | -17,047 | -18,158 |  19,226 |  -8460 |
| Other liabilities and provisions | -8,012 |  -9,222 |  -10,286 | -10,554 |  -7,760 |
| **Total liabilities** | -20,556 | -26,269 | -26,834 | -29,896 | -18,355 |
|  |  |  |  |  |  |
| **Net assets** | 24,355 | 27,482 | 27,460 | 28,032 | 22,759 |
| Total shareholders’ equity | 23,172 | 26,319 | 26,372 | 25,073 | 22,008 |
| Minority interests in equity | 1,183 |  1,163 |  1,088 |  950 |  751 |
| **Total equity** | 24,355 | 27,482 | 27,460 | 28,032 | 22,759 |
| **Total number of shares in issue (millions)** | 1,675.7 | 1,672.6 | 1,669.7 | 1,664.30 | 1,659 |

1. Explain the government policy of apartheid in South Africa from 1948 -1994.

2. Critically evaluate how South African Brewery (SAB) sustained its business position during that time. Provide five examples of how SAB reacted to the apartheid situation in upholding its strategic position in South Africa.

3. SAB has started to diversify its business in beer brewery from 1993 and by 2011 it has beer brewery operations in Africa, Europe, Asia and Russia, South America, USA and Australia and attained world number 2 position in beer production volume.

 (a) Explain the opportunities that have enabled SAB to succeed in its diversification in the

 developing countries in Europe, Africa, China and South America.

 (b) What would be the possible reasons that SAB could not penetrate the developed

 markets in Germany, Holland/Netherland, England or France?

4. Identify and evaluate the strategies SABMiller applied to expand into other geographical regions. Provide the countries where the strategies have been applied.

5. Evaluate the financial performance of SABMiller for the 5 years from 2011 to 2015 in terms of profitability, liquidity, gearing and efficiency using at least two financial ratios for each situation.

6. Assess the possible strategic market direction SABMiller can take to expand its market to achieve its strategic intent to become world number one in the beer industry and how you can assess the strategy it will take.

**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 **4th 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 Scheme**

|  |  |  |  |
| --- | --- | --- | --- |
| 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 |  |  |