Heineken company case study

Heineken is the world 3th largest beer company based on Netherlands. It has raised significant sales throughout European countries, also their products are sold in nearly almost all countries. It has breweries in 65 countries. It bought foreign breweries or acquired licensing to cut manufacturing cost, expand product line, and facilitate local distribution. For the special case, Heineken didn`t establish it`s breweries in the united states because it considered to keep images for ‘ import beer.’ On the other hand, it invested in new- internet based technique to manage international distribution system efficiently. Heineken has been growing up continuously by using a joint venture with big competitors to expand into a new market. To raise global market share, it also plan special strategies for each countries.

Many government leaders strongly recommend domestic firms to go international in order to create jobs and economic growth. However, some companies have trouble advancing into overseas market because of a lack of knowledge about the foreign market.

1) Economic issues – directly connected to the profit (sales)

â‘ Population: The potential customer population of the target market quite depends on type of the product or service (that a company is marketing). To a B2B firm, for example, the number of people in the country is not a good indicator of how large the market is. Also, B2C firms usually consider the targeted population instead of the number of the whole population. Age and gender are generally considered as main variables for assessing foreign markets. Consideration about households such as average family size in that country could be also a good indicator. However, it is hard to foresee the future and compare with other markets only with simple factors such as age and sex. It could be a good way of understanding foreign markets to pay attention to population distribution using tools like population pyramids.

â‘¡ Income: A critical economic factor to look into the target market is income level of the nation. Companies trying to go into foreign markets can measure the market potential through GNI or GDP. Also, they can decide which indicator to use according to the market or product type; for example GNI per capita can be a clear index to grasp the population’s standard of living. Nevertheless, average values about income such as GNI, GDP are insufficient to figure out income level of the whole population. In most nations, income isn’t fairly distributed among the entire population of each country; also there is no certain correlation between income level per capita and degree of income inequality. In short, using income indictors without information of income distribution can distort the result of market research.

2) Non-economic issues

â‘ Cultural issues: Cultural factors such as language, race, religion, historical background, which reflect attitudes, values, and beliefs, vary among countries. Going into global market without understanding of the target market’s culture brings about the failure. It is quite important for firm leaders to figure out how managers manage the firm, how employees behave and how consumers response according to each country’s cultural background.

â‘¡ Government regulations: Each nation has its regulation and taxation on foreign trade. For alcoholic beverage firms, government regulations might be stricter in some countries that are especially sensitive about alcohol consumption of their people. Additionally, taxation on alcoholic beverages varies among different countries. For example, Islamic countries such as Egypt may give a harsh control to their alcoholic beverage import.

Q2. Discuss the advantages or disadvantages for Heineken of exporting its beer from one country to another.

Advantages

â‘ Expand Sales: expanding into international market gives various chances to get profit for

Heineken. The long term relationship with international market lasts, export development cost can be covered and they increase their additional sales through the market. Also, company can further create economies of scale to decrease producing cost.

â‘¡ Acquire Resources and Compete with Rivals: Heineken can acquire resources by sharing and learning knowledge and experience with new marketing technique and foreign competitors. Consequently, Heineken will improve quality of products, and it can gain more market share in international market.

â‘¢ Minimize Risk: Beer is sold certain seasons: especially summer. Thus, Heineken can utilize and avoid seasonal factors during different season in foreign countries. Also, selling product to multiple markets allows Heineken to diversify their business and spread risk.

Disadvantages

â‘ Complexity in Operations: Heineken need to plan various marketing strategies to meet different needs for each country. Thus, it causes increase in product cost. Also, there are a lot of unpredictable situations for Heineken such as establishment regulation to limit alcohol, natural disaster etc. Heineken has no choice but to be dependent on fluctuation other countries` situations.

â‘¡ Cultural Collision: multinational companies have to consider various cultural differences among different countries. For instance, religion, customs, purchasing behaviors are things to consider. Consumption of alcohol is a sensitive matter in this sense to many countries and can cause numerous social problems.

Q3. What are the key issues facing Heineken insofar as international licensing is concerned?

License, is a grant by the holder of a copyright or patent to another of any of the rights embodied in the copyright or patent short of an assignment of all rights.

In the case of a beer company as Heineken, this would mean to license a brewery in a country they wish to enter. The licensed local brewery then would produce Heineken branded beer with Heineken's unique recipe. This way, Heineken does not need to personally build a new brewery in that area which saves time and money. Heineken has used licensing as a way to expand its business internationally.

Although this business of licensing may sound like a complete win-win situation, at times there are side effects that come along with it. For instance, despite the advantages of licensing, Heineken has otherwise restrained itself from licensing a local brewery in markets such like the US. This was for reasons that had to do with the fact that Heineken was a beer company. Reasons that people consume a certain brand of beer can be various but simply to name the two main reasons would be because first, a consumer is simply loyal to that brand because they grew up with it or, for a second reason, to drink a particular brand of beer gives the consumer a sense of exoticness. The first reason usually goes for local brands, and the second reason goes for foreign brands. Thus, to produce a beer that people drink mainly because it is a foreign brand in a local brewery would definitely drive consumers away. Moreover because consumers believe that the “ real” Heineken beer comes from Dutch breweries, Heineken is able to charge double for Dutch made beers.

The case of Hoegaarden illustrates the difference of perception on locally-made beer and imported beer. After Korean consumers found out that Hoegaarden, a Belgian beer was being locally produced, many complained that the taste was different. Some even started calling the beer O-garden, referring to that fact that it was licensed to Korean beer company OB.

Q4. Compare the FDI between Heineken and Anheuser-Busch

Anheuser-Busch has FDIs in usually large emerging markets such as China and Mexico. It invests heavily in these markets through large local companies. In China for instance, Anheuser-Busch paid $700 million for the Harbin Brewery and in the case of Mexico, Anheuser-Busch owns 50 percent of Modelo, the maker of Corona.

Heineken who was the pioneer of entering international markets for beer companies, has slightly smaller scaled FDIs. Apart from the size of the FDIs, Heineken usually entered countries that were neighboring or African countries that had historical relations with European countries.

Conclusion

1. Alternatives

1) The current situation: Heineken has refused to establish a brewery in the United States, instead, they keep shipping its beer to the U. S. That’s because customers in the U. S. don’t accept the fact that the beer, which is made in a brewery in there, is the same with what Heineken export from its home country.

2) Alternatives

We recommend not to ship Heineken beers into the U. S. but to set up a brewery in the U. S. In the case of Asahi beer, which is the top Japanese beer, they increased in sales, using FDI when they go into the foreign market. Penetrating into the U. S. market with FDI, which is distinguished from licensing, would help American customers notice there is no difference between beer from Netherlands and from its own country. For using this strategy in the U. S. market, we suggest a couple of effective ways to cope with the potential risk.

â‘ Positive marketing: The failure that Heineken experienced previously results from customers’ recognition. In order to make this tactic successful, therefore, Heineken has to give customers perception that beer from the U.

S. brewery has no difference from the original one. Heineken could actively use various marketing strategies such as blind tasting.

â‘¡ Pricing: It has high risk for Heineken to suddenly switch its distribution channel. There is possibility to bring about the same failure with before, so they can use a gradual way to relieve risks. Pricing is a good way. At the beginning, Heineken maintain the original exported beer at the same time produce beer in the U. S. brewery. Then they differentiate the price between two kinds of beer, even if there is no change in the recipe. The original exported beer would have higher price than the other. Thus, we can expect for customers in the U. S. to make a choice between Heineken beers, not another brand.

2. Recommendation

Actually, Heineken is doing a quite good job in the global market, but they tend to pursue only safe way in their marketing. Therefore, we could recommend some ways to improve their state in the international market which is getting tough.

First of all, we give a recommendation of growing in the U. S. market. Even though other markets of developing countries, such as BRICs, are arising, the U. S. market is still one of the largest markets worldwide. So, it would be better for Heineken to penetrate the U. S. market more positively

Secondly, it would be important for Heineken to sustain and extend its global market share. Do not stop raising the number of its worldwide breweries and the reputation in each nation.

Last but not least, more aggressive and innovative advertising about its product might help to improve its sales and status in the industry. It seems that the main target of Heineken cannot include young people, so it can have a chance to capture the young who would be its large target. Additionally, Heineken needs to grasp trends such as well-being. It should lead as well as follow the trend; they can introduce low-calorie and healthy beer to follow well-being trend.