

Analysis of submillers direction commerce essay



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Over the past century, the world's demand for beer increased significantly due to economic growth. Meanwhile, the following competitive pressure and challenges the breweries facing are becoming the big challenge in developing markets. SABMiller has already become one of the world's leading brewers with more than 200 beer brands and some 70, 000 employees in over 75 countries. However, it still faced both opportunities and threats. It may needs to reconsider the positions and establish competitive advantages accordingly.

1. Analysis of SABMiller's direction

SABMiller's strategic priorities (Johnson, Whittington, Scholes, 2011) showed that higher market share and greater influence of brand portfolios extension are the most important directions of SABMiller's strategies. It can be presented by the following contents.

1. 1 Direction of strategy chosen

According to the introduction of Johnson (2011), Ansoff's matrix of corporate strategy directions can display SABMiller's strategic direction.

Ansoff (1988) provides four zones, which is market penetration, new products and services, market development and conglomerate diversification, being used in existing and new market with existing and new products and service, respectively.

SABMiller's direction mainly included the B zone and C zone. B zone means developing new products for its existing markets, as SABMiller acquired amount of premium and local brands to make new and strong brand portfolios in Europe and America market. C zone shows bringing existing

products into new market. As it can be seen in SABMiller's 2000 report, SAB caught the opportunities to create a profitable and fast-expanding business in undeveloped world through providing high quality beer and taking a share with local partners.(As shown in Figure 1)

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Figure 1 corporate strategy directions

Products/services

Existing New

A. Market

penetration

B. New products

and services

C. Market

development

D. Conglomerate diversification

Existing

Market

New

Source: Johnson, Whittington, Scholes, (2011)

Overall, the directions of strategy are around the different markets and brand portfolios. SABMiller used the right decision to create new profits and consolidate their position in the world market.

1. 2 Means of growth

The growth of SABMiller over the time period concentrated on the key of M&A (merger and acquisition) and strategic alliance, according to the different markets and consumers.

In the developed world, in order to catering to the increasing high-end market and consumers, SABMiller set out the strong, relevant brand portfolios in the local market. Affluent consumers were varying their choices and becoming more interested in speciality brands, craft beers and foreign imports. (Johnson, Whittington, Scholes, 2011)

In the less developed world, SABMiller improved market share with taking a share in a brewery with local partners, remaining the brand which has been acquired and providing high-quality beer in proper price. Therefore, SABMiller tried its best to control the fragmentation absolutely.

The main method it carried out are:

Page 2 of 101. Alliance. Joint venture is cooperation of two or more individuals or businesses in which each agrees to share profit, loss, and control in the specific of enterprise. (Johnson, Whittington, Scholes, 2011)

Such as SABMiller formed a joint venture with Chinese Snow Breweries to enrich its portfolio so that it can enter the Chinese brewery market. (The Business Journal, 2006)

2. Acquisition. One firm takes over the ownership of another. (Johnson, Whittington, Scholes, 2011) For example, SABMiller has already controlled 99 percent of the market in South Africa (Economist 2005) and the acquisition of the Forster's business and Miller. (Economist, 2011)

3. Merger. The combination of two previously separates organizations, typically as more or less equal partners. (Johnson, Whittington, Scholes, 2011) For instance, SABMiller and Molson Coors, the nation's No. 2 and No. 3 brewers, merge their operations in the United States and Puerto Rico.(The New York Times, 2007)

1. 3 Strategic rationale

The initial rationale surrounding acquisition was that the deal would enhance SABMiller market share in the beer market. SABMiller's motivation in the deal was to exploit the potential of the brand extensions in international markets, both in native, established areas (south Africa, Europe and America), as well as in burgeoning emerging markets. However, the company envisioned significant additional potential for the acquired brand across the world, where the premium segment was and is still in its infancy as the emerging market in mid-1990s.

Europe, the traditional central market of the beer industry, has recovered from turning off beer through the off-trade from 2000 to 2010. A good deal of this increasing demand for premium products is being satisfied by the import from overseas apparently. (As shown in Table 1)

Table 1: Imports of beer by country

country

Imports 2002(%)

Imports 2008(%)

United Kingdom

Belgium

Denmark

Finland

France

Germany

Italy

10.9

4.74

2.6

2.3

23

3.1

27.2

17. 7

12. 8

10. 5

10. 1

31. 4

7. 6

33. 5

Source: Johnson, Whittington, Scholes, (2011)

Page 3 of 10 SABMiller found the upward tendency and responded by buying Dutch specialist Grolsch in 2007. (Ewing, 2007) This acquisition of Grolsch not only replaced Amstel in the South African portfolios, but also filled a large gap in SABMiller's international brand portfolios. The strategies SABMiller used make sense that their overall strength were consolidated and made profit from its financial report.

2. SABMiller's industry competitive

For the industry situation, it is necessary for SABMiller to analyse its competitive advantages as well as the core resource and competence.

2. 1 Competitive advantages

According to the theory of Porter's generic strategies (1985), ' cost leadership' strategy means the company's cost is the lowest in the industry and hence get much higher profit compared to competitors from the market

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price. ' Differentiation' strategy means the company's product or service is not available from its competitors. The company can set a much higher price for its uniqueness and cover its higher costs. ' Focus' strategy includes ' cost focus' and ' differentiation focus.' Both of which target a narrow segment market and try to meet their specific needs respectively. (As shown in Figure 2) The strategy adopted by SABMiller is differentiation focus strategy, which could be observed from the first characteristic.

Figure 2: Porter's Generic Strategies

Target segment

1

Cost leadership

2

Differentiation

3a

Cost focus

3b

Differentiation

Focus

Broad target

Narrow target

Low High Cost

Page 4 of 10 Source: adapt from Johnson, Whittington, Scholes, (2011)

Firstly, it is no doubt that developing the local and international brands or brand

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Page 4 of 10 portfolios that are the first choice of consumers so that they can create more attractive value is the one of the four priorities (Johnson, Whittington, Scholes, 2011) in different markets. It means that the superior products provided by SABMiller are allowed to give a higher price than rivals. This is apparently in accordance with the definition of the differentiation advantage. Based on this, it is SABMiller's competitive advantage that to own and nurture those attractive local and global brand portfolios that made more profits for it.

Secondly, cost (related to cost leadership) and geographic advantage of SABMiller are in favor of its development. Acquisition and Alliance around the world have already help SABMiller to acquire numbers of factories and

facilities and exploit the market so that it can cut down the investment on those projects in other countries. (Schoenberg, 2005)

Thirdly, SABMiller succeeds because it attracts, develop and reward employees who have the passion to make a significant contribution to the continued growth of its business. Norman Adami, previously head of its South Africa Beer business, was appointed as Head of Miller, helped Miller to avoid exposing weakness and exploiting its strength. (SABMiller, 2012)

2. 2 Management of threshold

Threshold capabilities are those needed for an organization to meet the necessary requirements to compete in a given market and achieve parity with competitors in that market. (Johnson, Whittington, Scholes, 2011)

The beer industry is easy to enter and the competition in this industry is also cut-throat. The threshold resources are required to meet minimum customers' requirements and the capabilities deployed resources so as to meet customers' requirements and support particular strategies. SABMiller improved the threshold through a series of acquisition and owned amount of resources and competences to proceed the next strategic step such as consolidation and extension of different levels of markets. For instance, the SABMiller has the plenty of funds to acquisition the company which have the rest value for it to use.

2. 3 Core resource and competence

There are two components of strategic capability: resources and competences. Resources are the assets that organisations have or can call

upon. Competences are the ways those assets are used or deployed effectively. Table 2 shows the SABMiller's resources and competences

Table 2 Components of strategic capability

Strategic capability

Resources

Categories

Competences

Wide range of brand portfolios

Factories with super equipment

Experience and operating practices

Physical

Diversification of products

Improving the market share in geographically

Being Familiar with the operating in this industry

Plenty of funds to support acquisition

Financial

Giving the access into the world market more confidentially

Well trained staffs

experienced managers

Human

high efficiency

influence of decision

Source: Adapt from (Johnson, Whittington, Scholes, 2011)

The physical resources are basic for producers. According to the different markets and sales experience, SABMiller launched the famous brand portfolios by acquiring and alliance to account for a space in the industry.

SABMiller has the strong funds support from its shareholders. By contrast to 2007, the investment in subsidiaries went up to 13, 429 in March 2008. In addition, the performance of SABMiller was also great. The increasing of both revenue and profit before tax was over 16% from 2007 to 2008. (SABMiller, 2012)

Page 6 of 10In terms of the human resource, excellent staffs and management acquired a significant boost in effectiveness. Especially, a decision maker who has the political courage and strong judiciary has the important impact on company as the Norman Adami, who is the key leader in management of Miller.

3. Strategic position and option

SABMiller still has some disadvantages at present. According to the analysis above and the position of SABMiller in the industry, options are analysed before recommendation.

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3. 1 Consideration of the strategic option

At the end of the case the SAB Mill faced how the group could continue to sustain its historical growth rate and performance going forward. Meanwhile, global competitors have already fought vigorously for market share. Even there are comments about AB InBev will have a bid for SABMiller. (Lucas, 2011) The tendency was really against the development of SABMiller. At the same time, its brand development and capital control and utilization problems should be resolved. With the beer industry consolidated rapidly, SABMiller should take into account some aspects as following:

1. Cost of acquisition and alliances

The business of SABMiller is internationalisation. SABMiller made the use of assets which are acquired by acquisition and alliance in both developed and undeveloped countries. SABMiller needed to occupy the premium beer market and keep the growing sales volumes to make more profits. Therefore, financial support played a key role in the series of measures. When SABMiller would be able to recover the investments and the cost of operating capital had to be considered carefully.

2. Market modification

In the future world market, the ABI will be concentrated on USA, which is one of the most important traditional markets. Plus, Heineken and Carlsberg were invested heavily in Africa and Russia, respectively. Meanwhile Japanese brewers are developing very rapidly in emerging Asia market. The more new brewers come into the industry, the fiercer competition will be among them. Therefore, the SABMiller should pay more attention to keep up with the

market changing and take measures quickly. It needs to consolidate the original position in constant areas and permeate gradually through the emerging market.

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3. 2. Strategic position

In 2012, SABMiller is operating in a complex political, economic, social and technological world. To evaluate the strategic position of SABMiller and give the recommendation, it is better to analyse macro-environment, through which, the critical environmental factors can be identified. This could be done by Table 3 analysis, which provides a comprehensive list of influences on the possible success or failure of particular strategies.

Table 3: PESTEL analysis

Political

Sensitivity of government

Domestic protection policy

Economic

Exchange risk

The growth of demand

Ingredient price

Consolidation in the industry

Social

Lifestyle change (more entertainment party and club)

Disease influence

Technological

New product

Brand portfolio

Environment

The climate issues (lead to the lack of water)

Legal

Due to the local law, takeover attempts may generate problems

Source: adapt from (Johnson, Whittington, Scholes, 2011)

Through PESTEL analysis(Tomas, 2007), it is obvious that the tougher political and legal factors combined with stricter environmental regulations give the SABMiller some challenges in the process of reducing operational cost, although there's some help provide by the technological factors. In addition, the unpredictable exchange risk (soft currency) and climate issues (water risk) make the challenges' scale extended. In another side, the social lifestyle change in premium market gives the SABMiller a chance to compete with other competitors in the aspect of sale volumes.

3.3 Strategic pursuit

Through the analysis above, we can use SWOT (Jacob, Shepherd, Johnson, 1998) to conclude the whole situation of SABMiller:

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1. Strengths:

The competitive advantages, core resources and competence are the most important parts of SABMiller that include local and international brands and super equipments.

2. Weakness:

SABMiller needs to control the financial management better rather than overusing them to purchasing power to force down ingredient prices.

3. Opportunities:

With the development of economics, the consumption level of individuals is rising rapidly so that the market outlook is becoming more and more prospective.

4. Threats:

In this industry, marketing competition is fierce and cruel. Especially, the key competitor, ABInbev, which is the largest brewery in the world, has the stronger power than SABMiller.

SABMiller has to exploit its advantages and control the weakness. The first step before expansion is to maintain the current scale of the business. The

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investors' benefits should be ensured so that it can acquire support from them. What is more, SABMiller should try its best to keep the market share, the quality and quantity of products and service. In addition, the financial management is another factor which is difficult to control such as exchanged rate and currency liquidity. Even though expending world market is really efficient, it has to keep the position within the industry urgently.

Conclusion

SABMiller is a company which developed through the acquisition of other businesses, meanwhile, to achieve such performance is not easy in a short period of time. In the case of the intensity of rivalry in the beer industry, it still needs strong and effective strategic decisions for future target plans. Through this analysis, SABMiller groundbreaking own brand positioning and operations of the acquired businesses as well as cash flow management.