

Provide an analysis
of the uk brewing
industry



Introduction

The world's economy is facing so much recession nowadays. The ever increasing population, the resultant boost to the demands, the decrease of the sources, the resultant raise in inflation as well as other external and natural factors are causing mayhem to the international markets. Brewing industry is the one that has been affected from this downfall the most. Being regarded as a luxury and wastage of needed money, many people are discarding its consumption. To add to it, anti-addiction agencies across the world are trying their best to make people believe that alcohol consumption will cause their health, senses and themselves great loss. Further, the governments are charging more and more taxes on this industry to regulate the monetary crisis. UK beer industry is no exception at all, and has been facing sheer fall today.

UK Beer Industry

Beer is called the national drink of UK. However, the present statistics have reported that beer consumption has decreased in UK by 3. 1% in last 12 months (BBPA, 2008, p. 3). This reduction in the beer usage is causing UK brewing industries to downsize, and even close, the brewing factories. There are a number of key factors that are causing such decrease which can be divided under the following categories: change in trends and financial issues.

Factors affecting UK beer industry

Change of trends

The change in trends has also affected the rate of beer consumption in UK. “ Since 1979, per capita consumption of beer has fallen by 33 per cent” (BBPA,

2008, p. 3). According to an approximate ratio “ men fell from 17. 2 units a week in 1998 to 14. 9 in 2006. By women, it fell from 6. 5 units to 6. 3, having been at 7. 6 in 2002” (BBPA, 2008, p. 8). The reasons for such a drastic fall to the brewing industries include:

Introduction of Carbonated and Soft Drinks

The change in people’s taste is a major contributing factor in the low sales of the beers nowadays. It used to be a main drink a century ago, but today the introduction of sodas, various juices and drinks have lessened its charm and popularity.

Demographic Shift

The migration and settlement of people from all over the world in UK can also be regarded an important factor in lowering the beer consumption rates. Especially the settlement of people following religions like Islam which forbid the alcohol usage strictly has caused the demand of the alcoholic drinks to decrease.

Ban

The ban on the drinking of alcohol in the working environment, especially while travelling, is also affecting the sale of beer. Though there are toasts raised and wines served in social gatherings and business parties, but the average decrease is quite prominent. People prefer to remain in their senses for which they tend to avoid much beer.

Health Consciousness

The increase in the health consciousness is also causing people to avoid drinking alcohol. It is further promoted by anti drug agencies and

nutritionists who regard alcohol drinking as a thing that not only affects one's financial sources, one's senses, but also one's beauty. The new diet plans do not include beer or wine at all.

Financial issues

Other than the changing trends, financial issues are the macro factors affecting the brewing industry badly. People have found things more important to buy than a pint of beer. It has become a luxury today and the new policies of government are adding to these issues more and more.

These basic factors include:

Rise in Prices of Beer

The most important factor in this regard is the constant rise in the price of beers. Bread and other edibles are cheaper than beer, and that is why people prefer to buy other things than alcohol. Commenting upon this continuous rise in the prices of beer in UK, Hammond argues, “£6. 50 for a loaf of bread, £7 for a bag of pasta and £18 for a pint of lager – this is what the future looks like in Britain if we don't prevent dangerous climate change” (Greenbang, 2009).

Now the question arises, why the brewing companies are increasing prices knowing that this will decrease their customer base? The answer to it lies in the increasing taxation and excise duties implemented by the government on beers (Heimbuch, 2008,).

Unemployment

According to a report, the percentage of unemployment in developed countries is 2. 5. With this much number of the people jobless, who will want

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to spend on a pint of beer than necessities of life. Thus, the sale of beer is decreasing with the increasing rate of unemployment.

Rising Inflation

The rise in the prices of other things is also causing a decrease in the demand of beers, as people need to buy their daily necessities before spending on luxury. Obviously beer cannot be replaced by bread in any case.

Conclusion

To summarize, UK beer industry is facing downfall due to financial crisis mainly. The rise in the ration of unemployment, the rise in price of beers and other necessities of life, the newer trends towards health consciousness, ban on alcohol consumption while travelling, and migration of alcohol-prohibited people are causing brewing industries to shut down.

Five forces analysis

Porter's Five Forces analysis is carried out to determine whether a certain market/industry holds potential for a company that is deciding to enter it. It is therefore, carried out to determine the structural attractiveness of an industry and also to determine whether it allows a company to fit in the industry or not. The structural attractiveness of an industry is verified by a set of five forces as mentioned by Porter that are the barriers in an industry that exist to prevent new entrants into the market, the bargaining power that buyers exercise over suppliers, the intensity rivalry between existing competitors, pressures that suppliers put on buyers in terms of bargaining powers and the threats posed by the substitutes of the products in the

specific industry. A comprehensive analysis of the competitive environment of UK's beer industry is presented below using Porter's Five Forces analysis.

Bargaining Power of Buyers

The beer industry of UK is experiencing a higher bargaining power of buyers as more and more people have switched from beer and thus very few consumers are left in the market. This has also happened because the industry is facing low switching costs and buyers find it easy now to switch from beer to other substitutes. An increase in the bargaining power can also be attributed to the standardization of the product as beer is not, and cannot be, differentiated much from its substitutes.

Bargaining Power of Suppliers

It would not be wrong to suggest that the suppliers of beer have also faced a decrease in the power to bargain. Despite many players of the industry exiting the arena, the existing suppliers cannot maintain a strong hand over the consumers. The main reason behind the inability to increase prices to increase profitability is the overall increase in prices resulting from government taxes. This has already caused many consumers to switch to substitutes and any further increase in price would do nothing but to cause a greater decline in the number of consumers and thus further deteriorate profitability levels. Beer itself is not much of a differentiated product and thus suppliers are unable to charge consumers exceptionally high for it. A resulting decrease in the switching costs of beer has worsened the conditions of the industry and has minimized the bargaining power of buyers.

Existing Rivalry

The beer industry of UK is facing a high intensity of rivalry among competitors as these competitors are now fighting to gain a larger share of the ever shrinking profitability pool as the industry is now in the declining stage of the life cycle. The existing players in the market will do every possible thing to stop any company entering into the industry to prevent sharing of profits. The main players of the industry are almost equal in terms of strength and period of existence in market and will therefore pose serious threats to new entrants. The existing rivals face cut-throat competition from each other as they all fight to gain a greater share of the market.

Barriers to Entry

UK's beer industry presents high barriers to entry for any company that wishes to enter the market of UK. The restrictions are majorly imposed by the government as it has levied higher taxes and regulatory costs on beer that have made it more costly for suppliers and thus lead to an overall high price of beer. The barriers are high also because existing breweries enjoy significant economies of scale as they are well-established and have been brewing beer over a considerable period that allows them to minimize their costs that is they enjoy cost advantages that are independent of scale of production. Customers and businesses that buy beer from these breweries have developed loyalty to their brands and thus are not willing to purchase beer manufactured by a new brewery.

The Brewing industry of UK has also faced significant drops in the profit margins as the government's taxes and regulations have reduced the profit margin considerably. The fall in profits also acts as a barrier to entry as

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breweries would prefer not to enter a market that promises very little profit. Lower profitability has also resulted due to a considerable fall in the consumption of alcoholic drinks by both males and females. A hike in the prices of materials required for brewing is also having a negative effect on breweries considering UK as their new market.

Availability of Substitutes

Substitutes are classified into three categories namely close substitutes, distant substitutes and non-usage of the product. Analysis of all three types of substitutes is given in detail as follows along with an analysis of the effects of these substitutes.

Close Substitutes

Close substitutes of beer comprise of non-alcoholic beers, spirit categories such as vodka, gin and rum (BBC, 2007), cider and wine. An overall increase in the number of people shifting to these substitutes over the past few years has resulted in deterioration and thus the decrease in profits for the beer industry. This renders the industry unattractive for breweries as the beer industry is constantly facing a decrease in the number of consumers who are shifting to substitutes of beer and thus decreasing the profitability pie of the said industry.

Distant Substitutes

An increase in the awareness about the cons of alcohol consumption has led to a shift from alcoholic drinks to soft drinks. Soft drinks, as well as, fruit juices are going to become close substitutes for beer in the future as the

ever increasing efforts of alcohol rehabilitation centres increases resulting in the rise of more awareness and health concern among beer consumers.

Non-usage of Product

It is apparent from the overall trends of beer consumption that the industry is going to face a huge decline in the demand for beer in near future. This, as mentioned earlier, will be greatly due to the hike in prices of beer, decrease in purchasing power of buyers, greater awareness among consumers and the increase in promotional efforts of beer's close and distant substitutes (Dinkhoff, 2007).

The demand for beer is price elastic. The increasing prices of beer have, therefore, resulted in a decline in the demand for beer. This is mostly because consumers deem it more appropriate to spend money on more necessities than to waste it on beer. An increase in awareness about the adverse effects of alcohol consumption has also led to a decrease in the switching cost of beer as consumers now find it easier to turn to substitutes. Lower switching costs have also resulted from an increase in the promotional efforts of companies that produce beer's substitutes and the change in the fashion that depicts drinking non-alcoholic drinks as more fashionable (Dinkoff, 2007).

Strategic directions chosen by Adnam

Introduction

The present UK brewing industry is facing a great decline due to economical and social factors. The prices of beer along with every other thing have raised a lot and the people prefer to fulfil their other needs before a pint of

beer. The government is proposing more and more taxes on each pint that is not only causing brewing industries a lot, the sale is also decreasing day by day. As a result, UK brewing industries and pubs are closing on a regular basis. According to the report of BBPA, " From 2000 to 2005, pubs were closing at a rate of two per week...This has now accelerated to 35 per week" (2008, p. 6). This downsizing is causing people to lose their jobs and finding other means to earn their breads. In such a bad time for brewers, Adnams has managed to stay intact and prosperous by introducing various revolutionary strategies.

Adnams: Company Profile

Adnams PLC is a regional brewery company of the Great Britain. George and Ernest Adnams had founded it in 1890 in Southwold, Suffolk, England. The company mostly produces barrel ale and pasteurised bottles of beers. Its production is up to 85, 000 barrels a year. The establishment of the Copper House Distillery in 2010 has started the production of vodka, gin and whisky. The company is making new changes to make its sale and business more and more progressive each day.

Adnams: Yearly Progress

The annual progress of Adnams is quite impressive.

Adnams: Business Strategies

It is said that the strength of Adnams lies in its revolutionary and unique business strategies that indicate the presence of intelligent minds behind it. The eco-friendliness, pub-promotion and support deals and the relatively

cheaper rates are all that make Adnams a name well desired. The fortune making strategies adopted by Adnams are as follows:

Social Tag

Adnams loves to bear social tag upon its name. It contributes into various social activities to make its presence acknowledge and appreciated.

Moreover, it also

Events

Eco-Friendly

Tours

Online Sale and Promotion

Internal Financial Control

It arranges tours to brewery, holds events and invests into various national programs to compensate the government taxes.

There are numerous amazing strategies that have made Adnams' name IS that of someone trusted and liked all over the country.

Conclusion

“ Being a responsible business is a priority for Adnams and the company firmly believes that a small investment of time and resources into ‘ doing things right’ can make a significant impact, resulting in better relationships with the local community, suppliers and employees.” (Green Marketing Conference 2010)

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“ The balance of strategic direction with practical management has established Adnams online as a key contributor to the commercial success of Adnams Retail.” (Andy Wood, Managing Director Adnams PLC)

“ As a result our online performance has improved markedly. Online sales of wine and gifts have increased by 20% and visits to the site are up by 90%”.

Organizing events: race “ All runners receive a free bottle of Adnams beer for taking part.” (Howard, 2010)

Buying shares in other things to minimize the financial needs

Investment in other plans to fight the effects of government taxes and to avoid rise in price

Partnership Agreement

Close cooperation with pubs: “ We meet them regularly to discuss what’s happening in their business and offer advice, training and support. Recently we conducted a survey to gauge opinions on more general issues.” (2009)

Internal financial control

The Board acknowledges its responsibility for maintaining a system of internal control which can provide reasonable, albeit not absolute, assurance against mis-statement or loss. To meet this responsibility, the Board relies upon:

an organisation structure with clearly defined lines of authority and responsibility, limits for authorisation of transactions and segregation of duties

the production and review of regular monthly management information to agreed timescales

the identification of key performance indicators with explanations of variances

a formalised process for reviewing all company activities during the year

detailed annual operating budgets for all businesses

Formal authorisation procedures for all investment and capital expenditure.

The Audit Committee considers that the system of internal financial control operated effectively during the year.

Directors' responsibilities in respect of the accounts. The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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select suitable accounting policies and then apply them consistently

make judgments and estimates that are reasonable and prudent

state whether applicable UK Accounting Standards have been followed,

subject to any material departures disclosed and explained in the financial statements

Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in the business.

The directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.