

# [Economic factors that affect to beer industry](https://assignbuster.com/economic-factors-that-affect-to-beer-industry/)

[Food & Diet](https://assignbuster.com/essay-subjects/food-n-diet/)

According to Canadean’s latest Global Beer Trends report, global beer consumption will increase 2 billion hectolitres by 2013. However Canadean predicting an average growth rate of 2. 8% between 2009 and 2015. According to Huanshu W., (12-02- 2009), “ the global high-end beer market will reach 65. 5 million kiloliters by 2013, an increase of 74. 7 percent over 2006. In Asia-Pacific, beer production will reach 13. 5 kiloliters, an increase of 125 percent”. Furthermore Huanshu W., (12-02- 2009), notes that the China will be one of the main market for beer industry.

Global Beer Consumption Forecast Growth rate by Region

Source: Canadean Beer Service, http://www. canadean. com/News/Beverage\_Industry\_News. aspx

Heineken Geographic distribution of consolidated beer volume, 2009 – 2008

In thousands of hectolitres

Source: Heineken International (2011), Annual Report (2009), [Online]

According to Heineken International (2011), Annual Report (2009), Heineken has market leadership position in Western Europe. Heineken imported various group brands into several Western Europe markets, affects to increase of the consolidated beer volume in Western Europe. Also Heineken is the largest brewing group in Central and Eastern Europe. Acquisition of Amstel helps to expand brand name of Heineken to success in Central and Eastern Europe. Although Heineken expand distribution in Africa and Middle East by brewing varieties of local brands and export the Heineken and Amstel premier brands across the region. According to Heineken International (2011), Annual Report (2009), Heineken has also built a strong market position in Americas by acquisition of FEMSA in year 2010. This made Heineken the national importer, marketer and seller of FEMSA’s brands and expand distribution of Heineken brands in Americas. Also Heineken expand distribution in Asia pacific by made joint venture with Fraser & Neave, Asia pacific Breweries. Heineken is brewed at several of Asia pacific breweries throughout the region. Also Heineken beer has a dominant market position, especially in Thailand, Vietnam, Australia, New Zealand, Singapore and Taiwan Heineken International (2011), Annual Report (2009).

## Number of rivals in beer industry and their world market share

Based on 2007/2008 Beer volumes estimates

Source: Beer Institute (2011), Research, 2008 Annual Industry Update

According to Beer Institute (2011), Research, 2008 Annual Industry Update, The top 3 brewers are ABI, Miller and Heineken. These brewers now produce over 50% of world’s beer consumption. Although 70% – 80% average beer market share hold in other developed countries.

## Beer Industry Growth in China

According to Heineken International (2011), Currently China is the largest beer market with a sales volume of 291 million hectolitres of beer in 2004 and an annual growth rate of about 15% with a population of 85 million people. China beer market competition is growing at outstanding rate because all the major beer companies try to increase their share of the market. According to AP-Foodtechnology. com, (06-Aug-2004), In China since 1997 total consumption of beer grew by 16. 79 % up to 2003 and reach 24. 87 billion litres, also total expenses on beer has risen by 85. 99 % in current value since 1996. China government economic reform policies affect to growth of China beer market.

## Heineken & Asia Pacific Breweries combine operations in China

According to Heineken International (2011), Heineken and Asia Pacific Breweries (APB) was combining in year 2004. This combine leads Heineken to do production and marketing of beer and other strategic activities such as investments for plants, mergers and acquisition in China. Heineken beer will be locally produced to better fulfil the growing demand for Heineken beer in China.

## Heineken acquired Guangdong Brewery in China

Heineken International (2011) noted that the total acquisition of Guangdong Brewery by Heineken is valued at EUR 57 million. Furthermore Mr Thony Ruys, Chairman of Heineken NV said, “ The Guangdong province is one of the most important beer markets in China. The strong position of Guangdong Breweries in this region offers an excellent platform for further growth of the Heineken brand in china”. Guangdong is the largest and prosperous provincial beer markets in China with an estimated volume of 18 million hectolitres per year. Also the partnership with Guangdong Brewery will strengthen the position of Heineken and Asia Pacific Breweries APB considerably in china.

## Environmental Factors that affect to beer industry

## Recycling Waste

According to Beer Serves America (2009), Beer industry brewers and brewer suppliers improvement of the beer packaging lead to increase of the recycle rate of waste plastic, paper, glass, aluminium and cardboard that are used to package manufactured Beer bottles, beer cans and packs. Recycled glass accounts for more than 30% of the materials used to produce new bottles. Overcome from this problem every major brewer companies are successfully recycling waste packages on their own recycle production units. In addition to their own corporate recycling programs, brewers and brewer suppliers encourage the communities they serve to recycle as well. Heineken International (2011), points out that glass is use 76% as a packaging material for beer in Heineken and they distributed beer’s usually in returnable packaging for reduce waste material environment pollution.

## Water Conservation and Treatment

According to Beer Serves America (2009), Water is the primary ingredient for brewing process. Regular maintenance of faucets and piping allows brewers to quickly identify and repair water leaks; also water meters helps to monitor overall water usage. Some of the brewers in the industry have built on-site water treatment plants for reprocess and purify water for the brewing process. Some brewing industries use Bio-Energy Recovery Systems (BERS) to treat wastewater, reducing its strength and volume while creating a renewable biogas that helps fuel their breweries, Beer Serves America (2009). Heineken International (2011), points out that Specific water consumption at Heineken breweries in 2003 were 5. 4 hectolitres per hectolitre of beer and it decrease of 3% compared to 2002. This improvement is because of investment in new water treatment systems. Wastewater from 68% of Heineken production units is treated in on-site plants or in urban plants. Other remaining waste water in production units is discharge after the treatment of on-site wastewater treatment plants.

## Energy Management

Most of brewing industries use alternative sources of energy, such as wind, sunlight and Biogas to power their operations. Furthermore through constant monitoring and maintenance of facilities and adopting technology innovations and techniques use by brewers helps to produce beer with energy efficiency, Beer Serves America (2009). According to Heineken International (2011), Heineken use Renewable energy sources to generate some of the heat required in brewing process. These biogases take from the anaerobic treatment of wastewater. Heineken has 19 anaerobic treatment plants and it’s the 7th largest user, that use biogas as an energy source.

## The causes that are affected to change competitive structure and business environment in Brewing industry

## Acquisition in Beer Industry

According to Brown A.,(10-06-2002), Acquisitions accelerate global expansion giving beer companies competent market share in target markets, as well as produce and distribute their own brands through the acquired facilities. Adolph Coors’ acquisition of the Carling in year 2002 basically gives it position for leading UK lager brand and also offers it platform to extend its own Coors brand throughout the UK.

Brown A., (10-06-2002) points out some of the major acquisitions are in beer industry, in 1999 Antarctica and Brahma merged to form AmBev in 2000, Scottish & Newcastle Plc Acquired Kronenbourg in 2001, Carlsberg A/S and Orlka ASA completed merger of brewing operations to form Carlsberg Breweries A/S in 2002.

## Heineken Acquisitions and partnerships

According to Heineken International (2011), Annual Report (2009), Heineken has wide international presence through a global network of distributors and breweries. Heineken owns and manages one of the world’s leading portfolios of beer brands and is one of the world’s leading brewers in terms of sales volume and profitability. These following Tables Exhibits some of the major acquisition and partnerships with other brewery companies made by Heineken past years (2004 – 2010) around the world. These acquisitions are key economic factors that help to drive Heineken to build the long-term future of Heineken brands and business. Also acquisition of other breweries and made partnerships with other brewery companies ensure to improve financial performance and distribution strategies that create values for the company.

Heineken acquisition and partnerships (2004 – 2010)

## Global economy crisis

Beer industry research: Beer sales depression in recession

According to Canadean’s news (17/11/10), economic downturn has resulted in reduced sales of beer in Europe and North America. Furthermore Canadean’s news (17/11/10), noted that world’s top 4 brewers sale rate is less than in 2008. However, expansions into emerging economies have ensured profitable for large brewers such as AB InBev prominent producer South America and SABMiller prominent producer in Africa.

Asia overtakes Europe as world’s biggest beer producer

McCurry J. (12 August 2010), noted that economic crisis affected beer sales in Europe, but 5. 5% rise in Asia’s beer production followed . Furthermore he noted according to a study research by the Japanese brewing giant Kirin Holdings, “ Asia has overtaken Europe as the world’s biggest beer producer for the first time in 35 years”.

British economic crisis, the lowest level of beer consumption in the UK since 1948 -Star City News

According to StarCityNews (03-09- 2010), noted that consumption level of alcoholic beverages in UK has been decrease. Furthermore StarCityNews (03-09- 2010), points out using APBI report, that beer drinkers consume only 13% lower than the year 2004. This percentage is below the average number of beer drinkers in Europe Union countries. Also StarCityNews (03-09- 2010), noted using APBI report data that decrease of the alcoholic beverage consumption affect due to the economic recession in UK and success of the message “ responsible drinkers” which campaigned for the British society for reduce British people drinking habits. Furthermore StarCityNews (03-09- 2010), points out that according to Alcoholic Beverage Industry (APBI) report the tax on beer in the UK also affected to reduce the consumption of beer in UK.

UK beer sales fall

According to Canadean(27/10/08), news, noted that using British Beer and Pub Association (BBPA) report results that overall sales of the beverage in UK decreased by over seven per cent between July and September in 2008, which is thought to be equal to a 1. 8 million pint fall.

Innovations to Beer Industry (Heineken Draughtkeg)

According to TalkingRetail. com (04-05-2007), Innovation of the Heineken unique stand alone Draughtkeg beer system revolutionized the beer industry. Furthermore invention of the DraughtKeg system helps to increment the growth value of the beer category.

## Competitive Position of the Heineken by reviewing five competitive forces

Threat of Substitute products (high)

Heineken threat of substitute products is high because customers have many other substitute beverages, such as Liquor, wine, cider, flavoured alcoholic drinks, and non alcoholic beers. The mostly competition come to the industry from the Wine, Liquor and other malt flavoured alcoholic drinks, because they also target the same demographic group. Present market popular substitute product against beer is “ Smirnoff Ice” which is an alternative beer that brewed using a malt base, www. smirnoff. com.

Threat of new Entrants (high)

Heineken is a large beer company therefore new entrants is low. Also there are many microbreweries throughout Heineken brand distribution countries. But it is difficult to microbreweries to compete with larger companies such as Heineken because advantage of economies of scale, Advertising expenditures and start up capital in beer industry is high. This makes the industry is not attractive for new entrants.

Bargaining power of suppliers (low)

Bargaining power of suppliers is low. Heineken operates some of own local sourcing projects and Agriculture projects to get raw materials such as Sierra Leone Sorghum Project which is local sourcing project in Sierra Leone is part of the company’s Africa-wide strategy to procure at least 60% of its raw materials locally, Heineken International (2011). Due to the size of Heineken, suppliers would not want to lose business with Heineken. In addition Heineken manage supply chain code, both in terms of ethics and the environment therefore Heineken has control possibilities over many of its product inputs, Heineken International (2011).

Bargaining power of customers (medium)

The bargaining power of customers is a medium threat for the beer industry. Such as taste of the beer, calories, price, and alcohol percentage are concerned by customers when they are going to buy beer product. There is also price comparison and sensitivity in the beer market. According to (comparesupermarketprices. co. uk), Major companies are price their products to the market demand price because among competitors there is huge competitive for price, package and discounts that are given to customers. If one company give a discount other competitors also do. Therefore Customers also have low switching cost because of competitive price.

Jockeying for position with rivals (high)

Competive forces within beer industry are high. Heineken main competitors are Anheuser-Busch, SABMiller and Carlsberg. Anheuser-Busch has 26% global market share and SABMiller has 17% global market share, Beer Institute (2011), Research, 2008 Annual Industry Update. There is low variation in products and advertising within the beer industry, if one firm launches a new advertising campaign, others will follow. Similarly if one firm launches a new beverage, others will try to copy that beverage. One of the example is Light Beers, according to Miller Brewing Company they produce first Light beer to the USA market in 1977 after that Anheuser-Busch introduce their light beer “ Bud Light” in 1982 and heavily advertised their brand to become first in the market. Furthermore in the beer industry there is competition from both local products and other major brands import products, therefore Heineken has to compete with many type of competitors. Also other threats that affected for competitive position are mergers and acquisitions in the beer industry. But Heineken is a large company and recent acquisition of Scottish and Newcastle in 2008 and FMSA in 2010 increased the Heineken global market share, Beer Institute (2011), Research, 2008 Annual Industry Update.

## Competitor Analysis (Strengths and Weaknesses)

Heineken Major Competitors are Anheuser-Busch InBev, SABMiller and Carlsberg. Within these 3 competitors Anheuser-Busch InBev, SABMiller are the main competitors to Heineken because of their global market share strength, beer brand strength, company revenue and sale of beer volume.

Anheuser-Busch InBev – According to AB-InBev. com annual report (2009) Anheuser-Busch is the world’s largest beer company and it is the dominant market leader in USA. Furthermore it is the largest global brewer with 25% global market share and one of the world’s top 5 consumer products companies, based in Leuven, Belgium. Anheuser-Busch InBev generated revenues of 36. 8 billion USD for 2009 and it portfolio contains more than 200 brands. Anheuser-Busch InBev target consumers are from the lower class of society to the upper class. They have a wide range of precious beer brands and beverages to offer each social class. Anheuser-Busch InBev holds the 1st or 2nd position in 19 key markets. The company employment strength is approximately 116, 000 people based in operations in 23 countries around the world, and manages a portfolio of over 200 beer brands including globally recognised brand “ Budweiser”. (www. ab-inbev. com). Furthermore Anheuser-Busch InBev operates in six operational zones, Latin America, North America, Western Europe, Asia Pacific and Central and Eastern Europe. The company strives to be the Best Beer Company in a Better world.

Anheuser-Busch InBev’s global best selling beer brands Budweiser and Bud light are competes to Heineken to get significant market share in USA and globally.

SABMiller – SABMiller is the world’s second -largest brewing and bottling company measured by revenue and it is only second to Anheuser-Busch. SABMiller based in South Africa, operates in 75 countries across Africa, Australia, Europe, North America, China and India and sells nearly 213 million hectolitres per year. The SABMiller premium beer brand is Pilsner Urquell and also SABMiller is the world’s largest bottlers of Coca-cola products, SABMiller. com. According to SABMiller. com, their mission is “ to own and nurture local and international brands that are the choice of the consumer”. Their strategic priorities are Develop strong relevant brand portfolios that win in the local market, Create balanced and attractive global spread of business, and increase the profitability of local business, leverage skills and global scale, SABMiller. com.

SABMiller’s significant presence in Africa is the major threat that Heineken to success in Africa.

Carlsberg – According to Carlsberg. com, Carlsberg is the world’s 4th largest brewery group and employing around 45000 people based in Denmark. The Carlsberg portfolio includes more than 500 brands and well known international premium brand is “ Carlsberg”. In 2009 Carlsberg Group sold more than 135 million hectolitres of beer and sold more than 150 countries, carlsberggroup. com. Under Export and Licensing agreements Carlsberg sells its products to countries where it has no breweries. Furthermore Carlsberg’s products vary particularly in volume, price, target consumers and geographic locations. Carlsberg. com notes that The Carlsberg’s ambition is to be the” fastest growing global beer company”.

Carlsberg does not have large footprint according to Heineken, Anheuser-Busch InBev and SABMiller. But its premium brand name “ Carlsberg” has a significant position in Asia.

## .

The dominant economic and environmental factors for the beer industry.

Economic Factors – (Currency exchange rates,)

Environmental factors – (Water pollution, recycling bottles, climate changes, sustainable agriculture,)

Assess the competitive position for Heineken International and the strength of each of the five competitive forces

What is causing the competitive structure and business environment in the Beer production sector to change? (Acquisitions, economy crisis, raw materials cost)

Which companies are in the strongest and weakest positions?

What strategic moves are Heineken International rival companies likely to make?

Key factors for competitive success in the Beer production sector

Availability of products to customers

Innovation of new products ( draught keg, new glass bottle)

Stand-out advertising (slogan of advertisement)

Customer loyalty

Adjustability to demand

Efficient distribution channels

Being ethical and maintaining a good name/ position ( support activities, aids, poor people, events)

Is the Beer production sector attractive and what are the prospects for average profitability?