Pestel analysis; market

Government Policy on the alcohol industry directly affects business right along the supply chain, including brewery’s producing the product. The implementation of these policies alters the market place in which they operate. As the UK is seen as having an all too high consumption contribution heavily to antisocial behaviour, this encourages pressure from organisations such as the health department for the government to rectify alcohol related problems.

One tactic which has been used for many years is to increase the excise duty rates on alcohol, which over the last two years has led to more pressure for a set minimum price on alcohol. There’s call for drinks to cost no less than 50 pence per unit of alcohol, and the government’s medical adviser has drawn up plans to that affect. However I don’t believe there’s consensus within parliament that this is the best approach to take. According to an article written by Claire Weekes, the Home Office and Department of Health both sympathise with the health lobby’s view that a minimum price should be placed on alcohol. But an MP for Selby, revealed there is “ blanket opposition” to such a move elsewhere in Government. Opposition also comes from the British Beer & Pub Association (BBPA), who are already carrying out a campaign against plans to raise duty rate above inflation. The likely consequences for the market are varied, some of the less expensive and middle range products currently not competing in the same marketplace, could come into more direct competition with products at the higher end of the market. Stealing away loyalty from existing customers.

Currently the law states the age limit for purchasing and consuming alcohol is eighteen. Certain critics however are claiming that an age limit of twentyone would be more appropriate, and deal with problems of irresponsible drinking in society. The view of many people is that amongst young adults the social affects from binge drinking have gone too far. A view which is shared by Jasper Gerard from the Institute for Public Policy Research who claimed ? The adverse social effects of binge drinking are now so overwhelming that we need to practice tough love”. In contrast to this debate, the president of the National Union of Students argues that “ an age change is a soft option and that the really challenging thing for ministers to do is change people’s attitude towards alcohol, to change the culture in this country around binge-drinking”. If the government perused this policy it would impact hugely on the bottled beer market. These products make up a large part of young adults social lives, as a result revenue generated from them is proportionally large compared to other age groups. Brewers would not only loose out on these sales but businesses would also incur costs of changing their marketing mixes currently angled toward young adults.

The Home Office announced on the 13th May ’09 that there is to be a new mandatory code set out in the Policing and Crime Bill, the terms of which are yet to be set by government. The code will bring into force three new rules, the first and third of which affects bottled beer. The first, banning promotions like as all you can drink for £10, happy hours and speed drinking competitions (M2 presswire). Similarly mandatory rules brought in limiting promotion of tobacco were viewed by government as being affective. Also the third, requires alcohol retailers to display information about the alcohol unit content of drinks, and the health impacts of alcohol under powers from the Food Safety Act (M2 presswire). This is already in place for food products and therefore it’s quite certain that we’ll see it for beer. Implications of this code are, upset amongst establishments which sell the product using potentially banned methods. Some of which most likely dependant on such ‘ events’ to draw in sales. This could upset the brewery if some of its routes to market are abolished. Revenue generated in departmental stores and supermarkets may not be enough to sustain cash flow throughout changes in the market. Furthermore the brewery would have the expense of labelling up all its products, and possible market loss resulting from people becoming more health conscious.

Consumer Spending

The economic recession that hit last year because of a crisis in US sub-prime mortgages has shattered a lot of confidence in consumer spending. People are putting more emphasis on saving and paying off existing debts than going out and making purchases whilst the economy is in downturn. In addition, uncertainty about job security means people are even more likely to cut back on outgoings. This is bad for my sector because spending disposable income on up-scaled bottled beer could be seen as a luxury and not a necessity. The largest brewer in the world Anheuser-Busch InBev recently announced that sales had fallen 1. 1% in the second quarter of the year (Europe Intelligence Wire). According to the Chief Economist for Nationwide Consumer Confidence Index, ? there does appear to be a growing belief among consumers that, while the current situation is still somewhat downbeat, the future outlook is brighter”.

The Consumer Prices Index (CPI) and Retail Price Index (RPI) are designed as macro-economic measures of consumer price inflation. CPI and RPI both measure the average changes month-to-month in prices of consumer goods and services purchased in the UK, although there are differences in coverage and methodology (National Statistics). Results for both show there's been a gradual increase throughout the last ten months. Despite this year on year % for RPI indicates how the recession has impacted, taking up to 1. 6% off the figures for 12 months previous. Overall the data shows that the economy is seeing gradual recovery. CPI and RPI are important index's because they show how consumer confidence towards purchasing, and therefore the prices set realistically are. It's clearly still important that brewers produce products at a price where they can afford to sell on the lower side of their profit margin, in order to keep interest keen. This will be even more crucial, when the temporary reduction in VAT to 15% ends in December. Fortunately the economies of the Far East are performing better than the UK and with there interest keenly in westernised brands, improving sales there could act as a failsafe from cash flow problems in the short term. According to the Financial Times article titled ' Luxury goods industry on track for recovery' the " Aspirational luxury shoppers in Asia and other emerging markets are fuelling sales in 2009, they remain bullish on brands."