

Master degree in business administration

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Master Degree in Business Administration Strayer University Strategic Management BUS 599 Assignment 3 Submitted in Partial Fulfillment of the Requirements for the MBA program Abstract Through this paper, one will understand the trends in the global beer market. There will also be the possibility of Modelo's international expansion. There will also be an assessment about the next foreign market that Modelo should get involved with. A decision about the challenges that Modelo faces from their competition InBev and how Modelo should respond to this beer industry giant is presented in this paper.

Last but not least, a discussion about whether or not Modelo should diversify their business is stated in this paper. Historically, the brewing business was known as a local industry. Furthermore, only few of the brewers were known at an international level. During the past decades, there were a lot of consolidations done within the beer industry. With the past few years, the process of global beer consolidation grew even higher. By the year 2008, there were two major acquisitions made within the global brewing industry.

The two acquisitions were made of Scottish and New Castle by Carlsberg and Heineken. The other acquisition was done of Anheuser-Busch by InBev.

([www. carlsberggroup. com](http://www.carlsberggroup.com)). The trend of beer over the last five years had a combined annual growth rate (CAGR) of 4. 8% worldwide. ([www. encyclopedia. com/doc/1G2-2843300064. html.](http://www.encyclopedia.com/doc/1G2-2843300064.html)).

Within Central America and South America, the CAGR increased to 6. 3%. Africa also showed growth by having CAGR that got up to 6. 4%. A key note about the growth of beer was shown in Asia. ([www. encyclopedia. com/doc/1G2-2843300064. html](http://www.encyclopedia.com/doc/1G2-2843300064.html)).

The trends of beer for the last five years have been tilting toward consumers

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wanting expensive beers. Due to that, expensive beers or premium beers accumulated 17% of the beer sales globally. The premium beer market of North America as well as Western Europe sales happen to be higher than the global average for premium beers. [www. carlsberggroup.com/company/market](http://www.carlsberggroup.com/company/market)). Due to the high economic downturn, the consumption of premium beer became very low.

Grupo Modelo happens to be the most popular and largest makers of beer in the country of Mexico. Over the years, this company has strived for excellence and became the 12th largest producers of beer in the world by 1998. ([www. businessweek.com/globalbiz/content/aug2008/gb20080814_195868.html](http://www.businessweek.com/globalbiz/content/aug2008/gb20080814_195868.html)). Grupo Modelo's most famous brand of beer is the Corona Extra. Corona Extra was noted as the first among imported light beers within the United States in the year 1997. Moreover, Corona Extra was ranked the fifth in light beers worldwide in 1997.

Grupo Modelo is the producer of nine brands of beer within their company. Modelo mission is to “ produce, distribute and sell quality beer at a competitive price, optimizing resources and surpassing customers’ expectation in order to contribute to the social development of Mexico. ” ([www. gmodelo. com. mx](http://www.gmodelo.com.mx)). Due to North America’s Free Trade Agenda (which eliminated barriers as well as tariffs) Modelo made a strategic business move that involved protecting themselves from having to deal with U. S. beer taking over their sales in Mexico.

Moreover, Grupo Modelo Company decided to become partners with Anheuser-Busch. The deal of partnership with Anheuser-Busch allowed Modelo to be an exclusive distributor of all the Anheuser-Busch products in the country of Mexico. Within the United States, four different brands of beers produced by Modelo were sold and distributed by Barton Beer. Anheuser-Busch did not distribute any of Modelo's beers within the United States. With the partnership of Modelo's and Anheuser-Busch, Anheuser-Busch was not doing very well in Mexico.

Moreover, Anheuser-Busch beers (Budweiser and Bud Light) during that time of the late 90's were only selling well in tourist areas within Mexico. Due to this discouraging fact of Anheuser-Busch only doing well in tourist areas of Mexico, they decided to raise their equity in Grupo Modelo to 37% in 1995 and proceeded to raise equity to 57% in 1997. By raising their equity in Grupo Modelo to 57%, Anheuser-Busch total investment came up to about \$1.6 billion. Modelo decided in 1996 to renew their alliances with Barton Beers and Gambrinus for a decade.

This decision made by Grupo Modelo angered Anheuser-Busch and brought about mistrust in decision making by Modelo. By the year 1997, Grupo Modelo had 80 percent of all Mexico beer export. In addition, Modelo was exporting their brand of beers to 143 countries. (www.businessweek.com/globalbiz/content/aug2008). Although Modelo is well known for their brand distribution of Corona Extra and Corona Light, they also distribute other beers such as Modelo Especial (this happens to be Modelo's second

leading brand of beer), Victoria, Light Modelo, Pacifico, Estella, Leon Negra, Montejo and Negro Modelo.

It is a proven fact that Modelo has done very well within the United States beer market and is still having continuous success in Latin America. The Next foreign market Modelo should step into must be the Asian market. This continent is understood to be huge consumers of beer, coming second after Western Europe. Modelo should try and make alliances with the top seller of beer within each Asia nation. Modelo should also try to relinquish their strong Latin background and try to incorporate them into the Asian culture.

Although it is an applauded agenda for a business to strive for uniqueness, it is also a sensible idea for a business to be adoptive. Moreover, Modelo will have to send agents that will evaluate the business environment of Asia in order to know their style and likings when it comes to beer. Instead of concentrating on making huge profits by selling their products at high prices, they should focus on quality and make their product available for a reasonable price. This will enable the buyers of the beers realize the beer taste and then become a loyal customer.

Modelo should also try to work together with local brewers within Asia.

Modelo should also invest in advertisement and avoid having to make known to customers in Asia their beer rank number one in Latin America. Moreover, the focus should be on becoming the number one distributor of beer in Asia. Modelo should also seek to build factories or plants within Asia in order to do away with export prices and the trouble of transporting the beer. Building a

plant in Asia will make their business seem more intoned with the Asian culture and allow Asians to look upon this company as one of their own.

Normally, when a company presents itself as an outsiders, they tend to have a difficult time adjusting to their customers. If Modelo follow this strategy of adapting to the way of live by their customers in Asia, they would not have such a difficult time selling their products. Although Modelo is known as the most successful beer distributor in Latin America, this company still has to deal with competition. One major competitors of Modelo is InBev. InBev is a Belgian-Brazilian brewer that took over Anheuser-Busch for \$52 billion.

Furthermore, 50% of Modelo is owned by Anheuser-Busch. This puts Modelo in a difficult predicament. Modelo also stands at a disadvantage because InBev bought Anheuser-Busch and Anheuser-Busch owns fifty percent of Modelo. The strategic response Modelo can imply to the competition of InBev is to pay out Anheuser-Busch, so Modelo can once again decide their business agenda without any interference. This seems to be the best strategy for Modelo because Anheuser-Busch will always cater to InBev because that's who owns their business.

Furthermore, Modelo needs to focus on maintaining their reputation as the best beer distributor in Latin America. The only chance InBev have of taking that title away from Modelo is by buying Modelo. The Corona Beer is still a success worldwide as well as in Mexico and Modelo needs to consider that fact as an advantage. Diversity in the “ world of business” is always a good thing. Furthermore, it enables a business to grow and get more customers. Modelo should diversify their business.

Modelo should consider getting into the soft drink business. This is a way to gain a larger consumer base. Although Modelo is doing well selling beers in Mexico, a lot of Mexicans don't drink alcohol or are underage to consume alcohol. Getting in the business of selling soft drinks would be a very smooth transition because Modelo is a popular a successful company. References
[www. businessweek. com/globalbiz/content/aug2008](http://www.businessweek.com/globalbiz/content/aug2008) [www. gmodelo. com. mx](http://www.gmodelo.com.mx) [www. carlsberggroup. com/company/market](http://www.carlsberggroup.com/company/market) [www. encyclopedia. com/doc/1G2-2843300064html.](http://www.encyclopedia.com/doc/1G2-2843300064.html)