Asahi breweries' performance measurement

Business, Management

Asahi Breweries' market performance in the past three years had amazed the Japanese business community. Being a marginal player before 1986, the company had recorded an increase of 71. 9% beer sales volume in 1988 while the whole industry grew only 7. 6%. At the same period, the company's market share grew from 10. 5% to 20.

6%. The company's current flagship product is its Super Dry beer, a revolutionary beer with an appealing and a distinct sharp taste. Accordingly, Asahi's competitors have also moved into the dry beer market and attempted to capitalize the surprising profitable opportunity. Thus, Asahi has encountered many challenges resulted from the high growth rate of sales and emerging competition. Asahi's capital infrastructures and human resources are in need of expansion. Performance Measurement The annual sales growth rate from 1986 to 1988 had been an outstanding exponential growth (see figure 1). According to Exhibit 6, Asahi's drastic sales growth in Super Dry beer has helped Asahi to outperform the other competitors in seizing market shares.

In 1988, Asahi's sales were accounted for 20. 6% of the entire market sales, growing from a 9. % in 1985. At the same time, Kirin, a dominant player in the market, had dropped 11. 2%. According to Exhibit 4, Asahi is a highly leveraged firm as its equity to total asset ratio (ETA) is 30%. This is normal for the industry because Asahi's competitors, Sapporo and Suntory, are also highly leveraged, 29.

7% and 25% ETA respectively. According to theFinanceDirector Okada, Asahi funds all of its current investments with equity (evidence can be seen in the outstanding shares growth in 1987 on the balance sheet). From a debt to equity perspective, this move is favourable to the investors as the financing method does not increase the firm's risk of bankruptcy or violate the existing debt covenant. Furthermore, Asahi paid off many its debt liabilities in 1987, as indicated in the 1986 and 1987 balance sheets, to further reduce its risk of bankruptcy and to signal the public regarding its healthy cash flows. External Analysis – Potter's 5 Forces and PEST Analysis The threat of substitutes in this industry is relatively high. The substitutes come from other beverages such as, soft drinks, milk, tea, wine, vodka, etc. However, the threat of substitutes has been reduced by the fact that beer generally causes some form of addiction, the advertising done by the company within the industry, and also the perceived life style in drinking beers.

Suppliers' bargaining power is relatively low due to the fact that there are only three dominant beer firms in the Japanese beer industry, which are Sapporo, Kirin, and Asahi. Buyers' bargaining power is also relatively low because of the same reason. Product differentiation decreases the bargaining power of buyers because of the high switching cost between beer and other substitutes. General distributors have more bargaining power because they can switch from one firm to the others. However, the opposite is true for the exclusive distributors. The rivalry among competitors within this oligopoly market is high. This rivalry is mainly due to the low cost of imitation.

The beer companies compete based on the taste and the advertising. The profitability of this industry is primarily depended by low threat of new entrants, brandloyalty, capacity expansion, limited shelf spacing, and economic of scales. Other factor which influences the industry's performance and profitability is government regulation which requires firms to own licenses for manufacturing beers, selling beers, and opening up new plants. To maintain healthy beer competition, the ministry of finance also sets high tax on beers and price floor level at which companies should price their beers at. Socio-cultural factor within this industry is impacted by the Second World War generation and the lifestyle of the current generation. Meanwhile, technologyinnovation is mainly influenced by the competition among the firms and the strategy of following market trend. Internal Analysis – Resources ; Capabilities Asahi's past achievement and future opportunities heavily depend on its growing resources.

Because of the support from Sumitomo Bank, Asahi's financial power has been strong. Finance Director Hiroshi Okada reaffirmed the public that Asahi has a very low cash flow risk because its stocks are doing very well in the market. The company projects a 7% sales growth for the next few years, but even if the sales does not materialize, Asahi will not run into bankruptcy because it has lots of undervalued assets, which can be sold to generate a great deal of wealth to support the company's peration. This strong financial power is both unique and value-added to Asahi's future growth. Asahi's distinctive competence also comes from its engineers and technicians, but its shortage of sales personnel, administrative staffs, and large distributors are threatening the company's future performance and growth. Higuchi management style's positive effect may not last long because of the lack of empowerment. There will also be increase in the cost of hiring and retaining

800 more permanent employees, and attracting more large distributors, which have mostly been captured by Kirin.

Other possible reasons are thefailureto meet distributors' expectation, the consequential uncertainty of its future performance, and the lack of market coverage in eastern Japan. Asahi's physical capacity is another key weakness that limits its future growth. It takes a long time for Asahi to obtain new licenses and build new plants. There might also be learning curves that slow down the production or increase production costs. Besides its strong financial power, Asahi possesses other immobile advantages that are sustainable and critical for its future success. Asahi's Research ; Development department is very strong in products innovation and market trend analysis. Asahi is also very dedicated and unique in its product design.

Since the " post-dry" era, innovation in new taste and uniqueness in packaging are the key success factors for the beer industry. In the dry beer segment, Asahi has some of the first mover advantages and gained reputation as the only real dry beer. Therefore, the willingness to pay for Asahi's dry beer is much higher than its costs. Overall, Asahi operated in the focused differentiation strategy with emphasis on branding and new product development. Summary and Solutions Ever since Higuchi took over the CEO role, Asahi has been changing the overall brand image by launching the new Super Dry beer. Higuchi wants the consumers and competitors to know that Asahi is determined to be the best beer producer in the market. Some of his brilliant moves are: started using premium Germany malt as the choice of raw materials, granted aggressive budget on advertising and promotion, and made an order to recall all the " old label" beers in the market while launching the new Asahi Draft.

In a short period of time, although consumers have responded positively to Asahi's Super Dry, Asahi is still troubled with issues such as pressure on distribution channel capacity and lack in sales force. Thus, the following solutions have been provided to address these matters. Assuming that Japanese people value loyalty, it would not be wise to terminate the relationship with the existing distributors and switch to one who has higher capacity. Therefore, to increase the capacity of the distributors, Asahi should provide funds by lending capital or partially acquiring the distributors, who experienced capacity issues, so that these distributors could fulfill Asahi's customer demand. In turn, it will lead to higher bargaining power for Asahi and better relationships with the distributors. However, this solution is relatively cost intensive. To improve its sales, Asahi should consider expanding its market both domestically and internationally.

As beer is often associated with sports, parties, night life, etc. Asahi could improve their domestic sales by targeting their marketing campaign on those segments. One way is to hire a reference group, such as celebrity, to promote its dry beer. For example, Asahi could hire Ichiro, a Japanese professional baseball player, and get him to promote Asahi's Super Dry. Additionally, " fresh rotation" is known to be a key success factor in the Japanese beer industry. Assuming it is legal in Japan, Asahi could set beer booths in supermarket or restaurants for consumers to sample their beers.

These marketing campaigns could increase Asahi’s brand recognition and boost up their sales.

However, there are risks that consumers with children or who are in the anti-alcohol programs may oppose this strategy. In regards to international expansion, Asahi could export their Super Dry beer to other countries, but this strategy is risky as different countries have different cultures and they might not like the taste of Asahi’s beer. Asahi should also concentrate on its main competitive advantages, innovation and packaging. First, Asahi should keep on innovating new flavours of beer which would suit the market’s taste. Asahi could also provide some customization (i. e. pictures, slogans) on their packaging for consumers who are willing to purchase in large volume.

Doing so would allow Asahi to stay on the top of the line when it comes to following the market trend and differentiating from its competitors. However, this solution is relatively costly. Other alternative is to develop multidimensional competitive advantages for Asahi, so that the firm will create casual ambiguity and barrier to imitation for its competitors. This can be done by changing the current management style or increasing the bargaining power of the distributors so that they can be more profitable, and have enough resources to increase their capacity. Another alternative is investing in manufacturing technologies to achieve lower production cost and become a cost effective firm in the long run. However, the initial cost for this move is relatively high and although Asahi has a strong financial support, the financial figures state the opposite. In 1987, Asahi’s assets were 70% leveraged by debt.