

Deutsche brauerei

Business, Management



Deutsche Brauerei was a family owned business, located in Munich, Germany that produced 2 award winning varieties of beer; dark and light. Founded by Gustav Schweitzer in 1737, it had been in the Schweitzer family for 12 generations. Whereas the members of the board had extensive production know-how, they had little knowledge about marketing and financial management of the company. Over the long history of the company, the main business idea had been to make an excellent product so that the total output could be sold at the asking price. However, this business model began to change soon after the dissolution of the former Soviet Union, when Lukas Schweitzer, the managing director of the company, realized that there was significant opportunity for the business in the former Soviet states, particularly Ukraine due to its relatively large population and strategic location within Central and Eastern Europe. Due to its full-bodied malty taste, Deutsche beer became an overnight success in Ukraine. Within three years of launch, Ukrainian consumers accounted for 28% of Deutsche's sales. Furthermore, most of the unit growth in sales during that time period was also contributed by Ukraine. In an attempt to market the beer even more aggressively, Lukas hired Oleg Pinchuk, a marketing guy who understood the Ukrainian markets and had previous experience of marketing beer for a major Ukrainian beer producer. In Germany, Deutsche Brauerei operated through a network of independent distributors who purchased the beer, stored it in their own warehouses and then sold it to their customers at the retail end. However, in 1998, when Deutsche beer was launched in Ukraine, the beer distribution network was non-existent. As a result, Oleg Pinchuk adopted a different distribution strategy which mainly involved relaxing the

credit policy and carrying inventory on behalf of the distributors. Issues

1. In a period of an impending global economic recession, is it sensible for Deutsche Brauerei to proceed with an aggressive expansion plan in Ukraine?
2. Given the rapid growth in its sales, why has the company been increasingly borrowing short term debt?
3. How is Oleg Pinchuk's distribution strategy specifically different than Deutsche's distribution strategy in Germany?
4. What have been the implications of Oleg Pinchuk's distribution strategy on company's financials, such as:
 - Accounts Receivable
 - Inventory
 - Return on Equity
 - Return on Investment
 - Breakeven Volume
5. An in-depth analysis of Oleg Pinchuk's financial plan, ratio analysis and breakeven chart needs to be carried out and it should be checked to see if his assumptions are reasonable and/or appropriate.
6. Since the company is in a growth phase of their business strategy in Ukraine, is there a need to review the current/proposed dividend policy?
7. Should Deutsche Brauerei invest 7 million Euros in new plant and equipment?
8. Does Oleg Pinchuk's compensation plan give rise to agency problems? If yes, how should it be revised to eliminate those issues?
9. Does the expansion project in Ukraine have a positive Net Present Value and does it help the company realize any economic profits?