

# Market feasibility study for tsingtao beer

Food & Diet



Tsingtao Brewery was founded in 1903 by German and British settlers in Qing Dao city, China. Until 1916, it was owned by The Anglo-German Brewery Co. Ltd, after which it became nationalized as a state-owned enterprise in 1949. The company was later privatized through a merger with 3 other breweries and was called Tsingtao Brewery Company Limited. Though the Tsingtao brand has the legacy of a German brewery, it is regarded as a symbol of Chinese heritage, and is currently the second largest brewer by volume in China with around 50 beer plants and three malting mills in 18 provinces and cities across China. Tsingtao is a lager brand that enjoys national distribution coverage and is touted as the National Beer in China.

Tsingtao beer is made from 100% natural ingredients with no artificial colourings, flavouring, or preservatives used in the beer. Its brand portfolio consists of the Tsingtao beer (flagship brew), Tsingtao Pure Draft, Tsingtao Dark Beer, Tsingtao Green Beer, and Tsingtao Stout.

Tsingtao adopts a bilateral business strategy, wherein it has been targeting Generation Y in order to build its brand awareness and strengthen its brand associations. It has also been making efforts to grow internationally through business agreements and acquisitions. Tsingtao's main target market is youth aged between 21-34, who are sporty and passionate about achieving their dreams. Tsingtao beers are known to have a light smooth taste and thus can be appealing to the younger generation who mostly prefer alcoholic beverages that can be consumed on the go.

However, though a leading beer brand in China, Tsingtao has low brand awareness internationally, and therefore, its growth in the international market has been rather sluggish over the past few years.

## **Singapore Market Overview**

Singapore is a leader in international tourism in Asia and is one of the fastest growing cities in the world. Thus, it is the destination with the maximum potential for growth. Among the ASEAN countries, Singapore is strategically located and has a well-developed economy, an open environment that encourages foreign investments, and a climate for beer consumption throughout the year. Singapore is ranked as the top country for ease of doing business in. Singapore not only facilitates good returns on investments, but also has good infrastructure provisions, thereby making the introduction of Tsingtao beer in Singapore a viable option for the company.

## **Beer Industry in Singapore**

The increasing popularity of social drinking in Singapore has boosted the growth of beer products, which has resulted in a 7% volume growth of beer consumption. With the government easing the licensing policies to sell alcohol at pubs, bars, and restaurants, the beer consumption trend has increased over time. Also, the consumption of beer has increased at home gatherings and social events. The increasing number of tourists together with the unveiling of casinos and new entertainment outlets has also boosted consumer spending on alcoholic drinks such as beer.

A recent Euromonitor research report states that in the past few years, lager beer accounted for the bulk of beer sales in Singapore. Specifically, imported

premium lager and imported standard lager continue to drive volume growth in beer. With increasing willingness of Singaporeans to spend more, consumers are spending on higher quality products, and therefore, there is a huge demand for premium lager beer. The outlets that serve premium lager beers are most often frequented by tourists, who in turn are highly likely to purchase them.

The report also states that the key consumers of beer in Singapore tend to be working adults of different ages. However, it has also been observed that an increasing number of young adults and women are participating in social drinking and in the consumption of beer. This is especially true for lager, which is lighter than other alcoholic drinks and hence is more palatable.

## **Competition in Singapore**

Singapore beer market is dominated by Asia Pacific Breweries (APB), mainly due to the overwhelming popularity of its brand, Tiger Beer. APB has a market share of 68.7% with Tiger beer constituting nearly 40.9% market share of APB. Other major brands include Carlsberg and Heineken.

**Tiger Beer:** Tiger beer is the market leader in Singapore. It is a local brand with a very strong brand presence. Its superior distribution network with retail outlets, convenience stores, supermarkets, and pubs, can prove to be difficult competition for Tsingtao.

**Carlsberg:** Carlsberg is the second most popular beer brand in Singapore and is available under various brand labels. Carlsberg Green Label, the flagship product, is the leading international premium lager beer in Singapore. Being a “European beer”, Carlsberg has a positive brand image associated with it.

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Heineken: Heineken is the flagship product of the company and is brewed locally in Singapore by APB. The key factors of competition with the Heineken brand include strong distribution network across food & beverage, retail, and entertainment outlets in Singapore, a positive brand image as an international premium lager, and a superior brand presence and perception as a global brand.

## **Prospects in Singapore**

With the continuous expansion of the social drinking scene in Singapore, beer is projected to see steady growth in the future. The recent Euromonitor report estimates a total volume compound annual growth rate (CAGR) of 4% for beer in Singapore. However, the report also states that as the market is reaching maturity, the forecast total volume growth is projected to slow down over the years.

Due to its wider appeal, lager is expected to drive the bulk of beer sales in Singapore. In their purchasing of beer products, Singaporeans are largely driven by brand image, and therefore new product launches by major well-known brands are expected to do well. Investing in advertising and promotions is predicted to improve the consumption of such products.

Owing to the huge growth potential for beer consumption, especially for lager beer, it would be the right move for Tsingtao to enter the Singapore market. However, with Singaporeans perceiving Chinese products to be inferior, both in terms of quality and hygiene, there is a possibility of a negative brand perception being associated with Tsingtao. With proper promotion and advertising, this mindset of consumers can be changed.

## **Critical Success Factors**

The beer industry is changing constantly in the Singapore market. Mergers and acquisitions have decreased the number of brewers, but the varieties of beer have increased. The major brewers have the resources to compete in nearly all facets of the industry. Moreover, as beer is a substitutable product, customer loyalty keeps shifting. With these dynamics, if Tsingtao has to enter the Singapore market, it must focus on the following factors:

### **Offering huge variety, both in terms of flavors and categories**

Consumers' preferences have become more sophisticated and they look for unique tastes in beer, wine and other spirits. Books, internet, and magazines have contributed to the increasing popularity of beer as beer drinkers choose to find out and learn more about the brewing process. The beer addict is now aware of the type of beer that pairs well with a particular type of food.

Seasonal flavors cater to the unique tastes and add to the charm of specialty beer.

### **Building good relationships with distributors and networking**

With so many brands and varieties of beer available today, the relationship with the distributor is very important to gain access to the market. The distributors have a good understanding of the products and know which products sell quickly, thus ensuring that such products are always available to the consumers. Therefore, their acceptance of the product is a critical factor in the product's success. Once the relationship with the distributors is established, the sales representatives of Tsingtao should sustain the

relationship by delivering superior quality products on time and ensuring that promised quantities are made available.

### **Creating unique marketing and advertising strategies**

Creative marketing strategies can help attract new customers while marketing directly to the consumer can help create demand for the product, thus increasing the likelihood that distributors will purchase it. Therefore, it is important for Tsingtao to invest time and money in creating a perfect marketing strategy.

Also, by enticing youngsters with promotional offers during happy hours and by featuring nightlife places in advertisements, Tsingtao's brand image will be established as a beer for the youth. Tsingtao can also sponsor events at pubs and nightclubs, thereby creating brand awareness and facilitating the trial of its beer for first-time consumers.

### **Customer satisfaction**

Customer satisfaction is driven by how well the products are sold. An essential factor for the success of Tsingtao is to ensure that customers are satisfied with the current offerings at the current prices.

### **Tapping on tourism**

Singapore is Asia's leading travel destination and welcomes millions of tourists every year. With the increasing number of tourists, the consumption of beer is increasing over time. Therefore, it is very important for Tsingtao to create its brand awareness on a global platform so as to attract tourists.

## **Market Entry Options and Key Considerations**

Given the potential of the beer market in Singapore, Tsingtao can be launched in Singapore in the following ways:

### **Exporting to Singapore**

Tsingtao beer can be exported to Singapore from its plant in China. The company can go about it as follows:

Indirect exporting, wherein Tsingtao uses a middleman based in its home market to handle the exporting.

Cooperative exporting, wherein Tsingtao enters into an agreement with a local or foreign company and the partner company will use its distribution network to sell the Tsingtao beer in Singapore.

Direct exporting, wherein Tsingtao sets up its own export organization and relies on a middleman based in the Singapore market.

The advantage of exporting Tsingtao to Singapore is that the product can be first tested in the market and if the product is successful, the company can look at other options, such as introducing more varieties. On the other hand, the primary disadvantage is the high export duties for alcohol.

### **Franchising**

Another alternative to exports is to find a franchisee in Singapore who can sell under the Tsingtao brand. The advantage of such a scenario is that it would provide Tsingtao a temporary vehicle to conduct primary research without losing control of its brand. But since the capacity will be small, a spurt in demand cannot be met immediately.

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## **Joint Venture with APB**

Tsingtao could form a joint venture with APB, the largest brewery with maximum brand share in Singapore. The advantages of such a merger would be tapping into the established distribution channels of APB, while on the downside, Tsingtao will have to compete with other major brands including Tiger and Heineken brewed under license at APB.

## **Wholly-owned Plant**

Tsingtao could also set up its own full-fledged business plant in Singapore. This would help the company meet the increasing demand of beer in Singapore. However, in this scenario, Tsingtao will become a legal and financial entity in Singapore and will have to meet the local licensing and financial obligations. To set up a small plant with production capacity of less than 1.8 million litres of beer or stout, Tsingtao would have to incur a fee of S\$8,400 annually, whereas to set up a large-scale brewery, it would have to incur a fee of S\$43,200 annually.

## **Recommended Actions**

Beer is expected to attain a total volume CAGR of 4% to reach 130 million litres in 2016. It is evident that there is a huge growing market for beer in Singapore. Hence, the beer market in Singapore has the potential for the entry of new products like Tsingtao beer. Based on the current beer market scenario and the trends in the beer industry in Singapore, the following are the recommendations for Tsingtao to enter the Singapore market.

It is advantageous for Tsingtao to enter the Singapore market as a wholly owned subsidiary and initially set up a microbrewery in Singapore. This entry

will give them brand exclusivity which they might not gain if they enter into a partnership with Asia Pacific Breweries which brews the big brands like Tiger Beer, Heineken, Anchor, Baron's Strong Brew and Guinness. By setting up a microbrewery, they will have to pay a license fee of only S\$8, 400 annually as compared to S\$43, 200 annually for large scale breweries. Thus, the savings of S\$34, 800 per year can be used on R&D to improve the performance and quality of their products.

In Singapore, in the coming years, growth in on-trade volume sales (sales in pubs, clubs, bars, and restaurants) is forecast to be higher than that of off-trade volume sales (sales in corner shops, retailers, wholesalers, cash and carry). Thus, Tsingtao beer can partner with popular pubs, clubs, bars and restaurants, especially those targeting the youth, as the youth is the target market for Tsingtao beer. This channel of distribution will maximize its sales in Singapore.

In order to create new demand for beer consumption in a market that has already reached saturation, Tsingtao can come out with a variety of products that appeal to local tastes and complement the local cuisine in Singapore. They can include local ingredients like Calamansi and Pandan to flavour their beers.

As Tsingtao is mainly targeted at the youth, it can partner with and sponsor youth events like the Singapore Youth Festival and the Singapore Youth Olympics Festival to build its brand image and gain brand equity.

As Tsingtao is a light lager beer, it can be positioned as a better choice for health conscious people, particularly women, who most often prefer light beer.

Tsingtao should make its presence felt in the competitive Singapore beer market through advertisements and promotions in digital and social media. As it aims to target the youth, it can leverage on the internet and social media to reach out to a large youth population. It should also actively engage in youth activities to promote its brand image.

Through strong promotions, it will be able to build its brand equity, remove the perception of ' Cheap Chinese Beer', and be positioned as one of the leading beer brands in the country.