

Chinese beer market: competitor analysis and marketing

Food & Diet



Chinese Beer Market Competitor Analysis & Marketing Planning

Quick Overview:

Aire Valley Breweries plc, a UK brewing company that manufactures premium bottled beers, lagers and stouts.

Quick glance at China Economy:

China improved its GDP again in 2007, 11.9% GDP growth rate, reaching a total of USD 3565 billion (USD1= RMB7). Such growth not only shows China's growing potential of the Chinese market, but also led to the improvement to the Chinese people's standard of livings.

The Strategic Triangle (the 3Cs):

The 3C's Model is a strategical look at the factors needed for success. It was developed by Kenichi Ohmae. The 3C's model points out that a strategist should focus on three key factors for success. In the construction of a business strategy, three main players must be taken into account:

The Corporation:

A medium sized company but efficiency is not one of its strengths. It has quite a high cost structure. This is not a major problem though, as it sells its premium bottled beers at premium prices, "off-trade" via supermarkets and "on trade" through fashionable, up-market city centre bars. The products comprise of Hostenbeck European style lager beer, San Bernardo. Camelot. British style dark bitter beer, Ark Royal. British style dark bitter beer Pot of Gold. Irish style dark stout beer

The Customer:

China is undoubtedly the largest consumer market in the world. A land that promises huge potential and broad prospects, many companies have succumbed to the seduction of the Chinese marketplace and have set foot in the country. Due to the sheer geographical size of the Chinese territory and the differing rates of growth, the level of economic and social development in various regions varies significantly.

The Competitors:

In China Competition to serve consumer needs is intense; multinational companies are battling one another and also taking on increasingly sophisticated Chinese players. One of the bigger issues facing multinational companies in China is their ability to serve the mass market cost-effectively—an important advantage of the local competitors. Bud light beer has been enjoying the lead market share. Various leading players includes CBR Brewing Company Inc.; China Food and Beverage Company; China Resources Enterprises, Ltd.(CRE) ; Diageo/Guinness; Erdinger; Grupo Modelo SA de CV; Fomento Económico Mexicano SA de CV; Fujian Yanjing Huiquan Brewing (Group) Inc.; Heineken NV; Interbrew (InBev); Kirin Brewery Company Ltd; Laizhou Zhongce Beer Co., Ltd.; Lion Nathan; Paulaner Brauerei GmbH & Company KG; San Miguel Corporation; Sapporo Breweries Ltd.; Scottish & Newcastle; Shanghai Guanshengyuan; Suntory Ltd; Tsingtao Brewery Company Ltd; and SABMiller PLC

San Miguel is one of the top three selling brands of beer in Asia and the largest selling foreign beer in China. There is a San Miguel brewery in Hong Kong. SABMiller, the world's second largest brewer owns 47 breweries in 13
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provinces in China and sells Snow brand beer nationwide. In 2004, SABMiller purchased three unprofitable breweries in China from Australia's Lion Nathan for \$71 million. Carlsberg has been producing beer in China since 1991. In 2003 it purchased Dali beer, the largest brewer Yunnan, and took over Kunming Huashi Brewery. Heineken also has a stake in a large Chinese beer producer.

Market Opportunities & Threats in China:

The Chinese market offers great business opportunities due to its rapid economic growth and huge market; however, it has its fair share of challenges, ranging from inadequate market data, inappropriate entry strategy, lack of access to sales channels, difficulty in finding the right partners and cultural differences etc. Companies have to consider the gap between the developed and less developed markets, where a uniform marketing strategy is not feasible, considering the large scale of the Chinese market. The beer market in China is not national- it is an aggregation of local markets with each region having specific tastes, preferences and spending pattern. As a result of the localized nature of the beer market, small regional breweries dominate these fragmented markets. These regional local brands have a nationwide market share of less than 2%. The Chinese beer market is still a fragmented market with the top four breweries in China controlling only 45% of the total market share. China Resources Snow Breweries is the top brewery in China, with an estimated nationwide market share of 15% in 2006, followed by Tsingtao at 13%, Yanjing at 10% and InBev at 7%.

Beer Market scenario in China:

The Chinese beer market has grown at an astounding pace in recent years, spurred on by the massive levels of foreign investment in the market, along with the rise in the average levels of consumer spending in China, in view of the economic reform policies of the government. China has now overtaken the US to become the largest national beer market in the world. In 1994 only four foreign beer companies had invested in China. In 1999, there were more than 60. The Chinese operation remains unprofitable.

Year Million Liters Annual Growth (%)

2007 32035, 83 10. 04

2008 33459. 42 4. 44

2009 34 904. 69 4. 32

2010 36, 371. 42 4. 20

2011 37. 860. 59 4. 09

Source: <http://www.globalbusinessinsights.com/content/rbaa0012m.pdf>

But new research by the McKinsey Global Institute (MGI) highlights the emergence of a far larger, more complex segment—the urban middle class, who’s spending power, will soon redefine the Chinese market. The lure of China’s urban-affluent segment is easy to understand. These consumers earn more than 100, 000 renminbi (about \$12, 500) a year and command 500 billion renminbi—nearly 10 percent of urban disposable income—despite accounting for just 1 percent of the total population. Although China is the

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world's largest consumer of beer in terms of volume, it is still under-penetrated because its per capita consumption is still the lowest when compared to the US and European countries. This offers tremendous growth opportunities for the large breweries operating in China.

China total population trends and growth

China is the world's most densely populated country and makes up of one-fifth of the world's population. It has a total population of 1321 million as at 31 Dec 2007 with 51.50% Males and 48.50% of Females. Her population is nearly five times more than United States even though both have about the same geographic area. China's rate of population growth has slowed significantly. The country's population of 1.3 billion in the early 2000s is projected to grow by another 100 million by 2050. It is forecasted that India with its higher fertility levels will take over China to become the most populous country by 2035.

Understand the risk of entering China market

China is a good opportunity for companies to embark on if they want to expand their business in Asia and the world around. However, SMEs (small and medium enterprises) like Aire Valley Breweries plc, may be worried that they do not have the required or enough resources to enter into China market. However, it is not just about having the capital but applying the correct approach when doing business in China. A number of foreign companies do not have a good network in China and thus they are unable to find relevant or reliable business partners in China market and meet a lot bureaucratic problems as they are unfamiliar with the laws of China.

Cultural Aspects of Chinese Consumers:

The Chinese consumers have a very strong national pride and they like to be associated with their nationality and country. Hence, the Chinese consumers are very supportive of their local products. Hence, foreign investors sometimes have a hard time trying to market their products to the Chinese consumers because their products may seem too unfamiliar and foreign. Foreign companies need to familiarize themselves with the China market laws and culture before entering it.

Law at China:

The China laws may be frustrating as they seem to be very complicated. However, if foreign companies are familiar with the Chinese culture, they will be able to understand the Chinese laws better. Interacting with the locals would also allow a deeper understanding of the Chinese culture. It is advocatable to undertake a local company as a partner to help them with the registration process and negotiation with the Chinese.

Geographical Segmentation:

China is a complex market, varying widely from region to region. Indeed, the country can be described as a collection of regional markets, with very few companies able to operate on a truly national level. The brewing industry has been one of those quickest to modernize in China, and can be seen as a yardstick upon which other industries in China will model themselves. It may be good to follow a regio-centric approach to cater the market

Demographic Profile:

China market is a complicated field by which only those who are familiar with the Chinese culture would be able to move around in the market. China is a <https://assignbuster.com/chinese-beer-market-competitor-analysis-marketing/>

multi-religious country. Buddhism, Taoism, Islam, Catholicism and Protestantism, with the first three being more wide spread. Many may not realize that China is a country whereby the Chinese are deal with business according to their social and cultural values. The Chinese have been passing down a set of values since history and the Chinese companies have been carrying out their business and trade according to those values and beliefs. Thus it takes more than just being able to speak the language. To survive in the China market, one must have good relationships in the market. The Chinese uses the term,“ guan xi” to refer to any kind of relationships; personally or bureaucratically. Chinese companies tend to want to work with people whom they are familiar with as they would be able to develop a trust between them.

Distribution of Population income wise:

	Population (million)	Gross National Income (Billion)
Low Income	2512	10. 20
Middle Income	2667	49. 22
High Income	955	49. 22

Source: US census Bureau, World Bank group, McKinsey analysis

Marketing Mix:

Product:

China is largest beer market. Beer is most popular alcoholic beer in China.

The consumption range between 500 ml to 750 ml. Offered in cans and

Bottles. Beer is often served warm. Beer consumption is still low on a per capita basis: about 18 liters a year, compared to 84 liters in the United States and 75 liters in western Europe. Since taste vary from region to region It is suggested to go with localized taste along with premier brands of Aire Valley Breweries plc. Product specifications are tastes, volume, bottle shapes, colours, packaging should be according to local preferences

Price:

The beer is generally pretty cheap, especially the local brands. A large bottle of beer can cost as little as 25 cents. Locally-made foreign brands such as Pabst Blue Label, Carlsberg and San Miguel are also fairly cheap. Bottom line pricing is always preferable to penetrate the market. Cost-plus pricing assures that all costs, both fixed and variable, are covered and the desired profit percentage is attained

Promotion:

Advertising is most predominantly play vital role in fixing brand locus. This can be achieved through focusing the promotion strategy on one premium brand. We should ensure that most promotional activities are executed as per marketing plan by distributors.

Distribution (place):

Beer distribution in China from producers to distributors is via a set of distributors and wholesalers. Beer producers vary in terms of ownership structure and size. Distributors are usually licensed by the beer producer. Distributors purchase beers from producers or other distributors and sell them to a number of wholesalers. Distributors can also act as wholesalers in

order to directly sell products to retailers. Each distributor normally carries a single brand, though the distributor can carry many other non-competing beverages at the same time. Wholesalers procure products from multiple beer and other beverage distributors. The vast market makes foreign players to suffer from effective reach. In this case a local player who has net work of distribution will enhance the availability before aggressive promotion nation wide. In china joint venture beer producers are Heineken, Budweiser, Shandong Yinmai and Shandong Sankong. Long haul trucking is most often used that contributes to high transportation cost. However, it is faster and more reliable. But only those beer firms are likely to succeed which can strengthen their distribution network and sustain low profitability. In the long term, increased scale could be the driving force behind increased market profitability. A piggy back model will help in Distributor- retailer model of channel in getting quick access to market. In china large retail formats like Supermarkets and hypermarkets and grocery stores do dispense the beer. Hence multi-channel mechanism would be preferable.

Marketing Planning:

Once the size of the market has been determined, the next step is to define the target market. The target market narrows down the total market by concentrating on segmentation factors that will determine the total addressable market — the total number of users within the sphere of the business's influence. The segmentation factors can be geographic, customer attributes, or product-oriented. Beer brands should have sufficient support and restrictions forces over market management issues. While some beer producers do have formal product control within their organisations, they will

have little control in aspects like products, prices, placements and promotions once the product is released to the market.

Entry Strategy:

It is always good to enter in to the Chinese market through a joint venture. For many years, the Aire Valley Breweries plc, a UK company focused its marketing effort on premium-priced products. China's market for consumer goods is growing quickly, stimulated by a strong economy that is putting more disposable income into the people's pockets. It is wise to adopt a two-pronged approach. Apart from emphasizing on aspects such as advertising, product development and the works, companies must also allocate more resources into channeling and distributing the products, such that the products are readily accessible to the consumer groups. While the distribution system is relatively efficient in the major cities where there is a high concentration of chain stores and departmental stores, the smaller cities generally have a poorly managed distribution chain. While intensive advertising is one way to persuade potential consumers in major cities, a greater focus has to be placed on "push" marketing, to build up brand presence and product knowledge in the other cities.

Conclusion:

It is suggested an overall approach for marketing planning, returning the focus to product values, and devising several mechanisms for pricing, channelling, resources management and data management.

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