

Global forces and the european brewing industry (pestel)



Introduction

Though the average percentage is usually considered to be 4.5% alcohol by volume (ABV), this is however, not sacrosanct and may vary according to style, taste and preference across regions. Beer forms an integral part of many cultures and can be adopted as a lifestyle drink if consumed moderately and under restriction. Nevertheless, excess consumption of the same is likely to lead to various unremitting diseases.

As students of law and management, we have assumed the task of analyzing a case on European brewing industry, impacted by several global phenomenon, namely, Global Forces and European Brewing Industry.

As a consequence of these changes, the analysis of the external environment has become a key task within the process of creating strategy. An understanding of the nature of the environment is important, as is a familiarity with the tools and frameworks of analysis. The ability to understand the impact of the external environment upon an organization will not guarantee strategic success, but to ignore the external environment is highly likely to make failure a distinct possibility. The wide range of potential influences on an organization and their interaction, make the job of assessing the general environment particularly difficult. In addition, each organization is affected in different ways by changes in the environment. Factors that have a significant impact upon one organization will have little effect on another.

Using PESTEL analysis can help to highlight the biggest influences on the strategy of the organization, both currently and in the future. These <https://assignbuster.com/global-forces-and-the-european-brewing-industry-pestel/>

influences can be both positive and negative. In addition, influences often cross the divide between the six headings; the important point is that they appear somewhere in the analysis. The key is to identify and concentrate upon those factors or trends likely to have the biggest impact upon the future of the organization.

PESTEL (Political; Economic; Social; Technological; Environmental; Legal) analysis provides a systematic technique for analyzing the business environment. It would enable us to:

Summarize the most important influences of the business environment;

Evaluate the potential impact of these influences on the organization.

Political

From the case study we notice the political intervention of the government that made strict prosecutions against drunken driving and the alcohol abuse through sensitization campaigns to create awareness of the effects of alcohol on our health. Other measures such as the prohibition of the sales of alcoholic drinks in public places this initiative taken by the government were one of the reasons that transformed the buying behaviour of European market that is the fall in the sales of beer in these countries. Though would be classified under the head of social analysis the government has caused in the buying behaviour. In the late nineties many restrictions were put on the brewing industries such as the use of cans in Denmark. Also in Germany local production laws like the "Reinheitsgebot" were introduced to regulate the brewing industry in this country. At that time Europe is moving towards becoming a single market with a stable political environment.

<https://assignbuster.com/global-forces-and-the-european-brewing-industry-pestel/>

Economical

The effects that the economy has on the brewing industry are that there were different patterns of industry concentration across countries because of the different economic advantages that these industries were enjoying such as cheap labour and quality raw materials at a cheaper price. During these times acquisitions, licensing and strategic alliances have all occurred as the leading brewers battle to control the market. There were a growing trend towards cross-borders mergers and acquisitions. Finally there were low growth in the consumption of beers which made the sales fall drastically in certain European countries for example the beer consumption in Germany between 2002 and 2003. The EMU has lowered interest rates hence; Spanish companies can now access the same interest rates as German companies, compared to four years ago when they paid 4.5 percentage points more in interest than German companies. This creates a level playing field for all European companies seeking access to capital.

Social

The sensitisation campaign made by the government has created growing concerns about health issues and drink-driving this is one of the main reasons why the sales of beers have fallen in the European countries. There was an increasing acceptance of low alcoholic drinks that is why people switched from beer to wine to reduce the excessive alcohol consumption in pubs and clubs. The off-trade German retailers such as the Aldi and the Lidi have emphasized on the importance of supermarkets in the distribution and the growth of their own-label brand beers rather than the brewery-branded beers and in other parts of the world there was an increasing acceptance of

European brands. Poland, Hungary and the Czech Republic have young populations with a desire for all things Western.

Technological

From the case we are able to understand that technology had brought in efficiency and improved production. Technology had definitely helped in receiving information and had helped in various departments. However as a result of incessant research and development the manufacturing units not only were able to obtaining the economies of scale but also over produced. This actually encouraged players to search for the market. The internet has redefined the concept of commerce, and has forced every organisation to look at the way it operates. Also increased efficiency in production from new technologies has brought down unit costs, giving larger manufacturers huge economies of scale. Successful companies will now have to strike a balance between the forces of globalisation and the need to maintain a local focus on each market.

Environmental

The environmental impact on the European brewery industry is that the current pressure on Europe from America and Australia to reduce agriculture subsidies could result in a change in the industry's raw material supply base would increase the costs of raw materials. Also the drought has affected the raw materials that come from Australia which has created a fall in the supply of the raw materials.

Legal

The legal aspect is that lot of Mergers and Actuations are happening which displays that there are low restrictions with regard to consolidation of European brewery. For example in the United Kingdom the government established competition legislation such as the 1989 Monopolies and Mergers Commission (MMC) to have a control over the mergers and the take-overs taking place in the United Kingdom.

Question 1(ii)

According to Porter, whether an industry produces a commodity or a service, or whether it is global or domestic in scope, competition depends on five forces. These forces, which go beyond the immediate competitors in the industry, are:

the threat of new entrants;

the existence of substitute products or services;

the bargaining power of suppliers;

the bargaining power of customers or buyers;

existing rivalry within the industry;

These five forces determine the ultimate profit potential of an industry as a whole. Within an industry, individual firms who develop particular strengths may be able to gain competitive advantage whatever the profit position of the industry as a whole is:

The ultimate strength of competition in an industry depends on the collective strength of these forces: sometimes one will dominate; often it's a collection of two or three.

To understand which of these forces is likely to be most significant means investigating the underlying structural conditions that underpin them.

Assessing each of the competitive forces in turn, by identifying the structural factors which are significant in each case will allow an understanding of the dynamics of the industry (its underlying economics). As well as providing an insight into dynamics of the industry, this approach also allows individual companies to understand the directions from which they face the greatest competitive pressures - and tailor their strategies to meet these pressures.

Threat to new entrants;

New entrants in an industry can raise the level of competition, thereby reducing its attractiveness. The threats to new entrants largely depend on the barriers to entry. High entry barriers exist in some industries whereas in other industries are very easy to enter. This strategy would prevent competitors from countries like Japan and the USA to come in the industry and compete with firms from the region. Profitable markets that yield high returns will draw firms. This results in many new entrants, which eventually will decrease profitability. Unless the entry of new firms can be blocked by incumbents, the profit rate will fall towards a competitive level (perfect competition).

The existence of barriers to entry (patents , rights, etc.)The most attractive segment is one in which entry barriers are high and exit barriers are low.

Few new firms can enter and non-performing firms can exit easily.

Economies of product differences

Brand equity

Switching costs or sunk costs

Capital requirements

Access to distribution

Customer loyalty to established brands

Absolute cost advantages

Learning curve advantages

Expected retaliation by incumbents

Government policies

Industry profitability; the more profitable the industry the more attractive it will be to new competitor

Threat of substitutes

The presence of the substitute products can lower industry attractiveness and profitability as they limit price levels. When the government passed regulations on drinking alcohol drinks in public many people switched from

beer to wine and other drinks like coca- cola which have become substitute of beer. Also when campaigns were made on the effects of alcohol on health many people have adopted other leisure activities like jogging. The existence of products outside of the realm of the common product boundaries increases the propensity of customers to switch to alternatives:

Buyer propensity to substitute

Relative price performance of substitute

Buyer switching costs

Perceived level of product differentiation

Number of substitute products available in the market

Ease of substitution. Information-based products are more prone to substitution, as online product can easily replace material product.

Substandard product

Quality depreciation

Power of suppliers

Suppliers are the businesses that supply materials and other products to the industry. The items bought from the suppliers (raw materials, components) have a significant impact on a company's profitability. In this industry the suppliers have little power because they may be small farmers and packaging companies. The bargaining power of suppliers is also described as the market of inputs. Suppliers of raw materials, components, labor, and

services (such as expertise) to the firm can be a source of power over the firm, when there are few substitutes. Suppliers may refuse to work with the firm, or, e. g., charge excessively high prices for unique resources.

Supplier switching costs relative to firm switching costs

Degree of differentiation of inputs

Impact of inputs on cost or differentiation

Presence of substitute inputs

Supplier concentration to firm concentration ratio

Employee solidarity (e. g. labor unions)

Supplier competition - ability to forward vertically integrate and cut out the buyer

4) Power of buyers

The bargaining power of customers is also described as the market of outputs: the ability of customers to put the firm under pressure, which also affects the customer's sensitivity to price changes.

Buyer concentration to firm concentration ratio

Degree of dependency upon existing channels of distribution

Bargaining leverage, particularly in industries with high fixed costs

Buyer volume

Buyer switching costs relative to firm switching costs

Buyer information availability

Ability to backward integrate

Availability of existing substitute products

Buyer price sensitivity

Differential advantage (uniqueness) of industry products

RFM Analysis

5) The intensity of competitive rivalry

For most industries, the intensity of competitive rivalry is the major determinant of the competitiveness of the industry.

Sustainable competitive advantage through innovation.

Competition between online and offline companies; click-and-mortar -v- brick-and-mortar

Level of advertising expense.

Powerful competitive strategy

The visibility of proprietary items on the Web

It used by a company which can intensify competitive pressures on their rivals. How will competition react to a certain behavior by another firm?

Competitive rivalry is likely to be based on dimensions such as price, quality, and innovation. Technological advances protect companies from competition. This applies to products and services. Companies that are successful with introducing new technology are able to charge higher prices and achieve higher profits, until competitors imitate them. Examples of recent technology advantage in have been the advent of new expertise in those industries. Vertical integration is a strategy to reduce a business' own cost and thereby intensify pressure on its rival.

Conclusion

Industry restructuring between existing competitors and the growing power of the supermarkets are probably the main competitive forces in the industry at present. Whilst some pressures are best understood on a pan- European level, many of the structural conditions vary between countries – distribution structures and industry concentration being two major factors. So need to apply the 5 forces Framework both at a pan-European level and at the level of individual countries to gain a full understanding. This example of differences between the pan- European level and individual countries highlights the necessity of understanding how the framework is to be used. This question has outlined a number of frameworks and techniques that can be used to assess the external environment facing a particular organisation or understand the dynamics of competition within particular industries or markets.

Heineken (the Netherlands)

Firstly Heineken from the Netherlands has most of its sales in the European region. That is why Heineken is the largest European brewery business and <https://assignbuster.com/global-forces-and-the-european-brewing-industry-pestel/>

the world's fourth largest brewery company. It can be seen from table 1 that the sales of beer in the Netherlands have fallen between 2001 and 2002 because of the adoption of the different policies of the European government such as the regulations of alcohol drinking and the introduction of the monopolies and the mergers commission. On the other hand it can be seen that though this business is in the Netherlands, most of its products are sold in the European countries as the imports of beer has increased for the Netherlands (from 3.2% to 14.4%). Also it can be seen that the business has been incurring more costs for its packaging which has risen by 11%. This is because the packaging and components such as cans and glass bottles. On the same wavelength, it can be said that most of Heineken sales is in the neighboring countries.

Grolsch (the Netherlands)

Secondly Grolsch from the Netherlands has half of its sales from abroad and the other half in the Netherlands with the introduction of its two differentiated products. Grolsch's sales have been very much affected because the UK's market is one of its main markets and there the sales have fallen drastically between 1980 and 2001. This has arrived because countries like the UK were turning off-beer with many European countries. In addition to that, the policies of the government against "binge drinking" in the UK to stop excessive alcohol consumption in pubs and clubs have made people switch from beer to wine. Also it can be seen that the sales of Grolsch may not have increased greatly as the UK has imported only with 2% increase from 2002 to 2004.

InBev (Belgium/brazil)

Thirdly InBev from the Belgium and Brazil is a merger of two companies which hold the first place of the world's top 10 brewery companies. This company is reputed for becoming the world's largest company through acquisitions and mergers, thus company targets mainly the mass market from the different countries which it is leading. This company is world's largest one because it has diversified its activities in many countries of the world where the consumption of beer kept on increasing rather than the European countries which were either stable or increased slightly. Also in table2 it can be seen that from many different countries the imports of beer has increased for all the countries as off-trade and on-trade demand for beer kept on increasing. However, it can be seen that the second largest brewer which is the American Anheuser-Busch, has made some acquisitions in china, Mexico and Europe to compete against InBev.

Scottish and Newcastle (UK)

Finally Scottish and Newcastle from the UK is a European-focused brewing group based in Edinburgh. This company has quite well diversified its activities with five types of beers. Though it is not among the world's top10 brewery company, it is the market leader in the UK, France and Russia. This is the company that maybe has been most affected by the policies adopted by the UK to stop the excessive abuse of alcoholic drinks. Also the off-trade in the UK is increasingly dominated by large and famous supermarkets in the UK such as Tesco and Carrefour, which often use cut-price offers on beer in order to lure people to their shops. One fifth of the beer volume is now sold through supermarkets. However, now many retailers have set their own-label

brand rather than selling other brands. Finally it can be seen that the demand is inclined towards the consumption of high-priced premium products.

Question 2 (b)

Heineken (the Netherlands)

Strengths

Heineken is the European biggest brewery. This business is a family controlled company which allows total participation of the family as they would be keen to see the success of the business as they are committed to it. This policy gives the business stability and independence for growth. That is decisions are made quickly as all the internal stake holders of the business would want the success of the business. Also consultation is made rapidly as the family members think on the same wavelength. This company has acquired many overseas companies to introduce and distribute throughout the country the products of Heineken. As this company is a large one, it has the latest technology and the required expertise to produce beer. This company has strengthened its other companies by putting at their disposal the technology and expertise required.

Weaknesses

The company has a lot of inefficiency in its activities because there are overcapacities within the industry. That is why the company is producing so much that it has exceeded its optimal output and is experiencing diseconomies of scale. This has given rise to inefficiency and also the costs kept on increasing. The company should review its strategies concerning the

<https://assignbuster.com/global-forces-and-the-european-brewing-industry-pestel/>

production to be more efficient and to reduce costs. Another weakness is that the strategy implementation process is very low which is making them losing many opportunities. The portfolio of Heineken is not well diversified that is why it is encountering problems as it concentrates only on the mass market. Now the business wants to target other sectors of the market.

Grolsch (the Netherlands)

Strengths

Its main strength is that it has diversified its products by selling differentiated products such as premium lager and new-flavored beers. In the Netherlands Grolsch holds the right for the sale and the distribution of the valued US Miller brand. This company's products are well-known as half of the sales of the business is either through export or licensing of production. Innovation and branding is core to the company's strategies. The company believes that its strong and distinctive beers can succeed in a market of increased homogenization. Its brands are reinforced by its striking green bottles and its unique swing-tops.

Weaknesses

The first weakness is that in 2005, Grolsch centralized its own production on a single new Dutch brewery to increase efficiency and volume. This is considered to be a weakness because nobody can guarantee what will happen if the product is a flop? All the resources put for the production will be wasted which will create inefficiency. The opening of a small "trial" brewery in order to support innovation may be considered as a weakness because a big company like Grolsch can find other way to decide the success

of new products. This can be done through Research and Development which would minimize the use of resources.

InBev (Belgium/brazil)

Strengths

Its main strengths are that it is the largest brewer in the world and the market leader in many different countries. The company wants to transform itself from the biggest brewing company in the world to the best. This would be done by efficiency gains by the coordination of purchasing by enjoying the economies of scale. Also such a business though may of progression have developed its best practices which would be shared across sites internationally.

Weaknesses

InBev is also confronted to the problem of inefficiency because they have not set their level of optimal output to differentiate between economies of scale and diseconomies of scale. The business wants to optimize its network which means that their networks are not good with its other branches overseas. This is a weakness that would affect the business greatly as if the networking between the branches is difficult, then it may be very difficult to know what is happening to the overseas branches.

Scottish and Newcastle (UK)

Strengths

Its main strength is that it is the fourth European largest in volume and the market leader in the UK. Also it has diversified its portfolio well with five different products which means that if one of the product fails, the success of

<https://assignbuster.com/global-forces-and-the-european-brewing-industry-pestel/>

another one will help to cover the loss of the first one. The company emphasizes more the development of innovative and premium beers which means that the company would diversify more its portfolio to have this competitive advantage over its competitors.

Weaknesses

Its main weakness is that the company through acquisitions and mergers has taken-over inefficient breweries which keep on hampering the success of the business. However, the mergers with those companies have let its competitors to adopt strategies to be better competitors such as in China and the USA.