

# Global forces and the western european brewing industry



The PESTEL framework categorizes environmental influences into six main types: political, economic, social technological environmental and legal.

Where by the politics highlight the role of government; economic refers to macroeconomic factor such as exchange rates, and differential economic growth rates around the world; social influences include changing culture and demographics; technological influences refer to innovations as the internet; environmental stands for issues such as pollution and waste; and finally legal embraces legislative constraints or changes such as health and safety legislation or restrictions on company mergers and acquisition.

The Western European brewing industry is highly penetrated; too many companies due to which the competition is very steep which is causing consolidation through acquisition, alliances and closures within the industry. The PESTEL framework can be used to help identify the key forces that are driving the change in the market.

## **Political**

Factors could be the active campaign of European government against drunken driving, binge drinking, and consequently the long term health and fitness problems. These campaigns have the potential to push for law changes surrounding what alcohol can be purchased in restaurants, pubs, bars and retail outlets in terms of both quantity and alcohol volume %

There is an overall decline of consumption of beer in Europe as many traditional key markets have been made increasingly aware of the social problems associated with alcohol consumption.

Restrictions on packaging such as the usage of cans in Denmark.

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## **Economic**

Economic recession in 2009 has also led to an effect on beer sales mainly in the United Kingdom where an estimate of 50 pubs closed per week due to recession.

Beer consumption per capita varies widely between countries, for example being four times higher in Germany than in Italy. Some traditionally low consumption European markets have been showing good growth, for example with reference to table 1 comparing year 1980 to 2000 the consumption of beer has increased from 3534000 hectoliters to 6453000 hectoliters which is approximately 82.60%.

## **Social**

Lifestyle in emerging market has changed due to the increase in the availability of disposable income, leading to an increase in beer consumption. The new trends like wines, non alcoholic beers, extra cold lagers and fruit flavored beers will adversely affect the consumption of beers.

Education and health; there is an increasing awareness of the effect of alcohol on health and fitness. Particularly in the United Kingdom there is increasing hostility to so called 'binge drinking' excessive alcohol consumption in pubs and clubs.

## **Technological**

Rate of technological change; as seen in the Anheuser Busch InBev (Belgium) company that efficiency gains will come from more central

coordination of purchasing, including media and IT from the optimization of its inherited network of breweries and from the sharing of best practices across sites internationally.

Innovation of new products; the case witnesses that the introduction of higher priced premium products such as non alcoholic beers, extra cold lagers or fruit flavored beers has led to increase in sales.

## **Environmental**

Pollution; people are getting more and more aware of the environment and it is necessary that the companies do everything to prevent environmental pollution. It is important that the environmental load through the brewing process is as low as possible.

Waste and recycling; reusability and recycling is important, the brewing industry for example treats their effluents so that they can use it again for irrigation. Through this they save energy and minimize sludge disposal.

## **Legal**

International law; when comparing Europe with the United States we have witnessed that in America it is forbidden to drink in public places in contrast to Europe where you can drink alcohol wherever you want. This could lead to new laws that forbid drinking in the public place.

Acquisition, licensing and strategic alliance have all occurred as the leading brewers battle to control the market. The global pressures for the consolidation due to over capacity within the industry, the need to contain costs and benefits of leveraging strong brands. For example in 2004, Belgian

brewery Interbrew merged with Am Bev, the Brazilian brewer group to create the largest brewer in the world.

## **A five forces analysis**

The five forces analysis was originally developed by Michael Porter in 1990, as a way of assessing the attractiveness of different industries or sectors in terms of competitive forces. The five forces constitute an industry's structure, although initially developed with businesses in mind the industry structure analysis with the five forces framework is of value to most of the organizations. As well as assessing the attractiveness of the brewing industry the five forces can help set an agenda for action on the various areas that they identify. The five forces are:

Threat of new entrants

Threat of substitutes

Bargaining power of buyers

Bargaining power of suppliers

Competitive rivalry

POTENTIAL ENTRANTS

COMPETITIVE RIVALRY

Threat of entry

Threat of substitutes

Bargaining power

Bargaining power

SUPPLIERS

BUYERS

SUBSTITUTES

FIG 1

THE FIVE FORCES FRAMEWORK

### **Threat of substitutes**

The threat of substitute is high because there is an availability of wine, fruit flavored beer and also extra cold lagers. From table 1 and 2 in the case study we can witness the negative effect of the substitute on beer; taking an example of Denmark table 1 shows a decline in the beer consumption and in table 2 shows increase in the importation of exotic beers from overseas.

### **Threat of new entrants**

Threat of entry depends on the extent and height of barriers to entry; barriers of entry are factors that need to be overcome by new entrants if they are to compete successfully. According to the case I think the threat of new entrants is very low because the industry is very much penetrated and mergers taking place, also there are global pressures for consolidation which sustain their competitive position in the industry. There are very few big

brewery companies which makes them dominate the market, so for a new entrant would be hard to have that financial effort.

### **Bargaining power of buyers**

Customers of course are essential for the survival of any business, but sometimes customers can have such high bargaining power that their suppliers are hard pressed to make any profits at all. The bargaining power is high due to the government campaign strongly against drunken driving, and binge drinking which has led to an increase in off trade (retail) than on trade (beer consumed on premises as in pubs or restaurant). The off trade is increasingly dominated by large supermarket chains such as Tesco and Carrefour which gives them the bargaining power.

### **Bargaining power of suppliers**

Suppliers are those who supply the organization with what it needs to produce the product or service. The main purchasing costs are packaging, raw material such as barley and energy. The European packaging industry is highly concentrated, dominated by international companies. The case shows that the bargaining power of supplier in packaging is high because there only three can makers and shifting cost from one can maker to the other could be high either in terms of money or even technology.

### **Competitive rivalry**

Competitive rivalry is organizations with similar products and services aimed at the same customer group. The competitive rivalry in the brewing industry is very high because almost all companies have the same product/ product

differentiation is low, high rate of acquisitions, alliances and strategic alliance and also consolidation due to over capacity within the industry.

## Conclusion

With regard to the PESTEL analysis and the Porters five forces analysis I conclude that in order to sustain the competitive position and market share in the brewing industry, one should acquire, license or strategic alliance with an existing company could be small, medium or already a large company.

## Question 2

For the three breweries outlined above [or breweries of your own choice] explain:

How these trends will impact differently on these different companies; and

The relative strengths and weaknesses of each company

### **Anheuser-Busch InBev [Belgium]**

A-B InBev is the largest brewer in the world; it achieved this position when InBev acquired the leading American brewer Anheuser Busch for 52bn. The company now has nearly 300 brands and approximate 50% share of the US market and owns 50% of Mexico's leading brewers. The company is frank about the strategy to transform itself from the biggest brewing company to the best.

#### STRENGTH

#### WEAKNESS

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Largest brewer in the world

Inherited network of breweries

Strong financial power

The merger of Belgian Interbrew and Brazilian Am Bev in 2004

The company's strategy to transform itself from the biggest to the best by:

Building strong global brands

Increase efficiency through more central coordination of purchasing including  
media and IT.

## **Greene King [United Kingdom]**

Greene King is now the largest domestic British brewer, which was established in 1799. It has expanded through a series of acquisition including Ruddles [1995], Morland [1999] and Hardys and Hansons [2006].

STRENGTH

WEAKNESS

Brew high quality beer from an efficient single site.

Medium size brewing company

Focused brand portfolio which is minimizing the complexity and cost of a multi brand strategy.

Less financial power

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2000 pubs across the UK with a particular dominant position in its home region of East Anglia.

Expansion through acquisition, which led to critics calling the company greedy king.

## **Tsingtao [China]**

Tsingtao brewery was found in 1903 by German settlers in China, after state ownership under communism Tsingtao was privatized in the early 1990s and listed on the Hong Kong stock exchange in 1993. Tsingtao has 13% market share of its home country, the company has described its ambition thus; to promote the continuous growth of the sales volume and income to step forward the target of becoming an international great company.

STRENGTH

WEAKNESS

It is the Chinese brand leader in United States

Small brewing company

It's now sold in more than 62 countries.

Less financial power

Almost 50% of exports

Home market share is very low {13%}

A bottle of Tsingtao appeared in the 1982 science fiction film blade Ronner.

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