

# Business environment related to the beer market marketing essay

[Food & Diet](#)



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There has been a trend of consolidation among the major companies of the U. K. brewery market as the companies are responding to increasingly competitive and globalising market environment. A number of mergers and acquisitions have been taking place and as a result, the top four companies have capitalised on 85% of the total market share. The numbers depict a big 4 concentration (Bock, 1972). It can be concluded that the brewery market in U. K. has an ' Oligopolistic market structure' (George, Joll & Lynk, 1992).

Horizontal integration is the acquisition of business activities at the same level of the value chain. It is in contrast with the vertical integration where the firm expands by upstream or downstream activities to come closer to the end customer (Barney, 1997). Since the scope to vertically integrate has been diminished by the government by the introduction of the ' Beer Orders' in 1989, the brewers can achieve the economies of scale by integrating horizontally.

Mintel (Lager-December 2009) - Major changes are occurring in the market place, levels of alcohol consumption is declining which means that the <https://assignbuster.com/business-environment-related-to-the-beer-market-marketing-essay/>

competition is increasing with more players coming in and declining consumption. Market is shifting towards the off-trade because of the price difference which is a loss to the lager market as it derives 75% of its sales from the on-trade channel. Mintel's research also shows that men are more likely to compromise on choice where drinking in home is concerned (In-Home Drinking -UK, June, 2009). Even though UK has the tag of "Binge Britain", the reality is that the alcohol consumption is declining as people are moving towards a healthier lifestyle. The government is taking measures to reduce alcohol consumption and increasing duties and promoting anti-drinking campaigns. Recession also adds up as a catalyst as income squeezes and people save on money.

#### EXTERNAL MARKET ENVIRONMENT:

The government is taking extreme measures to control excessive drinking. Taxes rose by 18% alone in 2008.

The consumer confidence is picking up due to the signs of recovery and so the prediction is that consumer will loosen its' pocket when it comes to discretionary purchases. The relationship between lager penetration and consumer confidence can be seen in the graph below.

#### DEGREES OF BARRIERS TO ENTRY:

There are a few points to be considered in barriers to entry the brewery market such as the dominance of the national brewers in the wholesale and distribution market. Furthermore, there have been mergers and acquisitions in the market so only a handful companies acquire the major portion of the

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market. There is high cost of capital on large scale production which makes it difficult for the small brewers to expand. The government is acting as a catalyst to all these factors as the regulations do not favour the brewing industry and the high duties and taxes are making the firms bleed. But still, the number of microbrewers in U. K. is growing at high pace. Though large in number, these microbrewers account only for 1.3% of the total market. So, it can be inferred that there is a high degree of barrier to enter the U. K. beer market on a national scale.

#### SCP CONDUCT:

Conduct can be defined as the factors such as pricing behaviour, product strategies, research and innovation etc. that stems out of the structure of the industry in which firm operates (Faulkner & Campbell, 2006).

The price structure is very competitive and it is easy for the consumers to switch to another brand, therefore Ab-InBev is competing at the same level of prices with the other nationalised brands. In terms of innovation, the company has attempted to launch low alcohol concentrated drinks which is in sync with the market.

#### Price:

The U. K. brewery industry is a homogeneous product industry to an extent and more or less, the prices of the different brands is same.

#### Product Differentiation:

Although till now, not there wasn't a large product differentiation in the market, but now companies are innovating and creating new products with varied tastes and flavours in an attempt to achieve the economies of scale.

Collusion:

Collusion is the activities in oligopolistic market where competing firms join forces to maximise profit (Phlips, 1988). This has been apt in regards to this case study of breweries as lots of Mergers and Acquisitions are taking place. Companies want to share their operating costs and expenses and increase their brand range.

Performance:

Barney (1997) suggests that majority of the oligopolistic firms make more than normal profits, but this has been proven wrong in the brewery industry in the recent years. This seems as a limitation of the S-C-P model. The external and internal factors are restricting the scope to enhance profits.

PORTER'S FIVE FORCES ECONOMIC ANALYSIS:

Threat of new entrants:

The threat of new entrants is very low for Ab-InBev. Though the no. of breweries is growing every year, but they are only at the micro level. Porter (1979) explains that the threat of new entrants can be blocked by factors like high capital requirement, access to distribution, government policies etc. , these situations are acting as barriers in case of brewing industry. In the national market, due to rapid mergers and acquisitions only a handful

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companies have acquired the major share of the market. The cost of capital for large scale production is also very high. Also the government policies are not in favour of the brewing market, it is getting support whatsoever from the government. Hence, the threat of new entrants is minimal.

#### Supplier Power:

According to Porter (1979), the bargaining power of suppliers is also known as the markets of inputs. Suppliers of components, raw materials, services to the firm can be a source of power over firm. And in this case the supplier power is high. The purchasing comes from two main areas which are packaging and raw materials. The packaging industry is highly concentrated and just a few companies are operating the major market. The prices of the raw materials are also rising due to environmental conditions and market demand and hence the supplier power is high.

#### Buyer Power:

It is the bargaining power of customers and also known as the market of outputs. The power of buyers is very strong. The switching costs to another brand are very low, thus enabling the customer to buy whatever he wants. And beer drinkers are easily attracted by the current social trends and advertisements.

#### Threat of Substitutes:

The threat of substitute product is moderate in the market. Although the trend of in-home drinking is growing and males are likely to compromise on

the choice of alcohol, it is not a threat of great extent. The potential threats of substitutes are wine coolers, breezers, pre mixed drinks and cocktails.

Soft drinks are becoming a threat as people are getting away from alcohol consumption (Source: Mintel, On-Trade Soft Drinks, September 2007).

Also, it seems that the beer market in U. K. has matured and the consumers want to try new tastes and different types of alcohol.

The Intensity of Competitive Rivalry:

The market structure is oligopolistic and a handful of companies compete with one another for an upper hand in the market. The competition in prices is high and it is very easy to switch from one brand to another. The rivalry among the existing players is strong. The industry on the whole is on a decline, so in order to gain volume to increase the market share, it has to be snatched from another company (one company's gain is other company's loss). It is an industry with cut-throat competition.

PESTEL ANALYSIS:

Political factors:

The government policies are causing enormous threat to the brewery industry. The government is campaigning massively against drunk driving.

Economic factors:

U. K. traditionally has had a high consumption of alcohol for many decades and has earned the term ' Binge Britain'. But in the recent trends the consumption of alcohol has been on a decline.

Britain's GDP is on a declining trend which will affect the sales. Moreover the rate of unemployment is rising making it even more difficult for the key age group be easy on their pockets.

#### Social Factors:

Consumers are getting more and more aware of health hazards and are moving towards a healthier lifestyle and tackling ' beer bellies'. Binge drinking in pubs and restaurants is also on a decline.

The U. K. population is ageing and the age group of 18-34 is decreasing who are more likely to consume beer. This will lead to even a further reduction in volumes (Source: Keynote)

#### Technological Factors:

There have been technological advancements which have helped the company to make the production and the process of creating drink more precise and easy. Through many years of experience, the company has gained advanced excellence and the know-how to produce beer more effectively. There have been lots of mergers and acquisitions and it has resulted in increasing the capacity of production as a whole.

#### Environmental Factors:



Smoking from pubs have been banned and this has caused a major decline among the consumers in pub visits as observed where the beer market derives its' maximum sales.

More and more brewers are turning towards a greener world as they are utilising eco-friendly credentials to woo increased consumer interest. But not many people are interested if the products are more environment friendly (Mintel: ).

Weather can have an influence on the sales of beer and the key summer months have an influence over the sales of beer.

#### SWOT ANALYSIS:

##### Strengths:

It is the largest brewer in the world and holds 1 or 2 position in 20 countries. AbInbev owns a number of internationally renowned brands which gives the company an edge over the competitors.

The company is very strong in advertising and branding and its' carefully planned outdoor campaigns have reached out to a large number of people strengthening the brand image. Also innovative and creative campaigns have carved out a niche of consumers.

##### Weakness:

The company is growing at a fast pace and it will be difficult to sustain it. The company lacks in new and innovative products are required like extra cold lagers or ciders and more fruity flavoured drinks.

#### Opportunities:

The company can focus more on the off-trade segment as the trend of in-home drinking is increasing (recession has fuelled in-home entertainment) and the sales from the supermarkets are increasing.

The company can focus on the sales of extra cold beers and more fruity drinks as they are in demand.

#### Threats:

The major threat to the company is the government policies. The government policies are increasingly exerting pressure on the industry as a whole in order to arrest the problem of drunk driving and reducing the consumption of alcohol. Heavy taxes have been laid in the recent years to control the consumption of alcohol.

Another threat is that people are avoiding the consumption of alcohol in order to attain healthier lifestyles.

Major sales of lager come from the on-trade sales. The continuous closure of pubs in U. K. is a threat to be dealt with. According to the estimate by BBPA (Source: BBPA ) pubs are closing at the rate of 27 per week.

The possible threat of regional brewers: Mintel (Mintel Report: Ales and Stouts, UK, May 2008) states that lately the consumer has been demanding the product with provenance and heritage and this has inspired the revival of traditional brews and new products.

Conclusion and Recommendations:

FORECAST:

Mintel (Source: Mintel International Group, Ales and Stouts, September 2008) forecasts that the market for ales and stouts in particular will decline by 9% during 2008-2013. The future for Ab-InBev in terms of beer market is that it will continue to face problems due to factors like health concerns, government policies and overall decline of the alcohol market. Furthermore, in case of ales and stouts people are turning to niche, regional brands and that is reason for the increase in the numbers of micro-breweries in U. K. which are now on a 50 year high. But as the forecasts for the recession are that it is coming to end, it will reassure the confidence in the consumer and the sales are likely to be benefitted. The off-trade sales will continue to grow as the trend of in-home entertainment increases. If the company does not innovate new products, it is likely to face stiff competition from new products like Organic ales.

Suggestions:

There is a scope to tap the female drinking market by introducing beers with flavour, like the wines have rose, white and red variants with different flavours and associations. Also, this would portray a more upmarket image to

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a traditionally male dominant market. For example, Cider and Cask ales have been gaining popularity, though still a very small market, but it is possible to attract consumers with a diversity in product.

As the trend of drinking alcohol is shifting more towards home, it is important that the lager market starts attracting the female market so as to avoid gender compromise on alcohol.

Measures to attract men of age 35+ should be taken. As the older males are drifting away from the consumption of alcohol, new drinks should be launched to attract them. Also, consumers are motivated to consume beer if it is extra cold so these kinds of products should be launched.

The company can cut its costs by manufacturing its own packaging. All in all, In such a competitive context, the company can survive only by horizontal integration and creative thinking.

Total Word Count: 3018

## APPENDIX

UK excise duty rates on beer, 20003-08

**Date of change**

**£ per hectolitre**

**% change**

**Index**

**Annual rate of inflation %**

14/04/2003

12. 22

2. 8

103

2. 1

22/03/2004

12. 59

3. 0

103

2

20/03/2005

12. 92

2. 6

103

2

26/03/2006

13. 26

2. 6

103

2. 4

26/03/2007

13. 71

3. 4

103

3. 0

17/03/2008

14. 96

9. 1

109

4. 5

SOURCE: HMRC/Mintel

Percentage of Change in the age structure of the UK population, 2003-08 and 2008-13

SOURCE: GAD/Mintel

APPENDIX : 2

Average summer temperature and total number of sunshine hours in the UK\*, 2002-07

\*June-August 2007

SOURCE: Met Office/Mintel

UK volume and value sales of cask-conditioned ales, 2001-06

SOURCE: Mintel