

The measures of performance for the beer industry

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Beer is at present world's most consumed and oldest alcoholic beverage in the world (Max N, (2005). According to Heineken International (2011), it is expected that worldwide beer consumption will grow by 2% to 3 % annually, but growth forecasts different vary substantially in regions. Heineken is one of the world's great brewers and is committed to growth and remaining independent. The Heineken brand is available in almost every country around the globe and it is the world's most valuable international premium beer brand. The company's aim is to be a leading brewer in each of the markets in which it operates and to have the world's most valuable brand portfolio. According to Heineken International (2011), The Company operates 140 breweries in more than 70 countries and Heineken is Europe's largest brewer and the world's third largest by volume and the average number of people employed is more than 75, 000.

According to Heineken International (2011), Annual Report (2009), Revenue is EUR 14, 701 million gains from the sale of products. Consolidated beer volume is 125. 2 million hectolitres and Heineken volume in premium segment is 25. 1 million hectolitres,

Other revenues are gains from rental income and pub management services also technical services that are giving to third parties. When the services have been delivered Rental income and technical services are state in the income statement. Also, some incomes are gains from the property sale, equipment and plant, intangible assets and (interests in) subsidiaries which are accounted for EUR 41 million, (Heineken International, 2011, Annual Report, 2009).

This includes the cost of the Raw materials EUR 1, 140 million, non-refundable packaging cost EUR 1, 739 million, Goods for resale cost EUR 2, 253 million, Inventory movements, marketing and selling expenses EUR 1, 664 million, Transport expenses EUR 934 million, Energy and water cost EUR 319 million, Repair and Maintenance cost EUR 299 million. Other expenses include rentals of EUR 184 million, consultant expenses of EUR 158 million, telecom and office automation cost of EUR 145 million and other fixed expenses of EUR 820 million, Heineken International (2011), Annual Report (2009) ,[Online].

Research, Development , Software and other intangible assets costs.

According to Heineken International (2011), Annual Report (2009), [Online], Research, Development, Software and other intangible assets costs is EUR 1, 083 million these includes purchase of software's and expenditure on internally development and maintain of software. Also Expenditure on research activities such as design and improve product brand image (Heineken DraughtKeg, improved design of the new iconic Bottle) .

Government Grants

According to Heineken International (2011), Annual Report (2009) ,[Online], cost is EUR 70 million Government grants has been surety to the authorities in a number of countries as security for the payment of taxation where Heineken operates, especially excise tax paid for beers and non-alcoholic beverages , spirits and import duties.

Other net finance expenses including income Tax

According to Heineken International (2011), Annual Report (2009), [Online], Other net finance expenses including income Tax , impairment losses recognised on investments, and gains or losses on hedging instruments that are recognised in the income statement cost is EUR 214 million.

Personnel expenses

This includes Wages and salaries EUR 1, 554 million, compulsory social security contributions EUR 287 million, contributions to defined benefit plans EUR 17 million, increase in other long term employee benefits EUR 7 million, Expenses related to define benefit plans EUR 107 million, Equity-settled share-based payment plan EUR 10 million, Other personnel expenses EUR 397 million, Heineken International (2011), Annual Report (2009),[Online].

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According to Plato Logic Limited (2011),” Global beer consumption grew by 1. 8% in 2008, but a sharp slowdown to less than 1% growth forecasted for 2009, also China market is strengthened its position further as the world’s biggest beer market in 2008 by achieving record sale of 407mhl”.

“ Anheuser-Busch InBev, SABMiller, Heineken and Carlsberg beer brands accounting for 50% of beer sales volumes and up to 75% of the global profit”, Plato Logic Limited (2011).

Over the past 5 years the beer category average growth rate was 3. 5% globally. However according to SABMiller (2011), this reflects different pictures in growing and developed markets with growing at an average rate of 6. 8% . while developed markets gradually become less by 3. 4%. The

largest contributor to this growth rate is China, which is now the world's largest beer market, Africa and Eastern Europe. China recorded a rise of over 7%, despite being hindered by heavy weather conditions that affected consumer demand, SABMiller (2011).

The measures of performance of the Heineken Company and beer Industry

Financial performance

Source: Heineken International (2011), Annual Report (2009) via http://www.annualreport.heineken.com/report_of_the_executive_board/financial_review/index.html

Revenue and expenses – According to Heineken International (2011), Annual Report (2009), [Online], Heineken revenue increased by 2.7 % from EUR 14.3 billion in 2008 to EUR 14.7 billion in 2009 and decreased organic growth by 0.2 %. However Heineken Annual Report noted that other income is increased from EUR 32 million in 2008 to EUR 41 million in 2009. Main reason is of increased cost of sale of property, plant and equipment.

Furthermore Total cost management (TCM), Heineken's wide cost reduction programme for the period 2009 to 2011 which is delivered mainly savings in fixed cost spending. Therefore other expenses were decreased by EUR 36 million. In 2009, exceptional restructuring charges as part of personnel expenses related to Total cost management amounted to EUR 63 million before the tax, Heineken International (2011), Annual Report (2009).

Heineken International (2011), Annual Report (2009) further noted that Costs of raw materials and packaging decreased by 4.4 %, of which 3.2 % which <https://assignbuster.com/the-measures-of-performance-for-the-beer-industry/>

was due to low volumes and low purchasing prices for barley the end of 2009. Furthermore Marketing and selling expenses reduce organically by 3.7% to 11.3 % of revenue in 2009 from 11.7 % in 2008,

Heineken Signs Sponsorship Deal With ESPN Soccernet – According to adoimagazine.com, Interactive Hub has secured a sponsorship deal with Heineken on ESPN Soccernet for three seasons of the UEFA Champions League (UCL). The three-season agreement will run until the 2012/2013 season.

Heineken supply lager for London Olympics 2012 – According to Ruddick G., (04 Feb 2011), London Olympics Business, Heineken UK will be the official lager supplier in a tier three deal, typically worth around £10m, that pushes London 2012 closer to its target of raising £2bn from sponsorship.

Heineken profits up – According to BBC News (25 August 2010), Business, Heineken Net profits for the first half of the year hit 621m Euros (£510m; \$788m), up 17% on the same period last year.

Heineken's acquisition of FEMSA increases its exposure to key Latin American markets – According to Curran P., (01-12-2010), The Heineken's acquisition of FEMSA strengthen Heineken's position in the Americas and substantially increase its share in Mexico and Brazil as well as securing its joint venture with FEMSA in the US premium beer import market. Mexico and Brazil are other two leading markets in Latin America and those countries accounted of 63% beer volume of those regions in 2009.

Heineken NV sees profits grow – According to Canadean's,(17/02/11), latest beer news Heineken's Non-organic net profit rose by 41 per cent to €1. 4 billion (£1. 2 billion), while its premium volumes climbed by 3. 4 per cent.

Nearly 1 million jobs rely on sector – According to Canadean's news , (17/02/11), A new report, conducted by Oxford Economics and commissioned by the British Beer & Pub Association (BBPA), showed that 980, 000 people are reliant on the licensing sector for employment, with the beer and pub trade bringing £21 billion into the economy annually.

Value Chain for the Heineken International

Firm infrastructure

According to Heineken International (2011), Heineken structured like Holding Company. The role of the Heineken Holding N. V. has performed for the Heineken group since 1952. It has been set to safeguard Heineken continuity with independence, stability and steady growth of the Heineken group's activities.

Management

Heineken International (2011) noted that Heineken Holding N. V. is head of the Heineken Group with a Board of Directors. The management of Heineken N. V. is run by the Executive Board, which has two members and is chaired by Jean-François van Boxmeer.

Heineken currently operate in 5 regions, which are The Americas, Western Europe, Central and Eastern Europe, Africa and the Middle East as well as Asia-Pacific. Each operating region is headed by a Regional President. The <https://assignbuster.com/the-measures-of-performance-for-the-beer-industry/>

five Regional Presidents, two members of the Executive Board and five Group Directors are included in the Executive Committee. The Executive Committee ensures the alignment and implementation of key priorities, strategies across the organisation and supports the development of organisation policy. Heineken International (2011).

Primary Activities

Inbound logistics – Heineken operates in many different countries, therefore Heineken purchase raw materials (malt, hops and adjuncts), equipment and other goods and services within in order to meet the needs of customers and consumers and distributed beer worldwide, stored in warehouses strategically placed throughout to minimize shipping costs to stores. Supplier Code is designed to ensure both ethical and effective sourcing processes that reduce the risk of reputational and financial damage through the supply chain, Heineken International (2011).

Operations – Heineken main operation is Brew beer and it operates in more than 170 countries. With total consolidated beer volume of 125. 2 million hectoliters in 2009, producing beer in more than 70 countries through its 140 breweries and also through other brewers under license, Heineken International (2011), AMCO Heineken Prospectus [Online].

Outbound logistics – Heineken is the largest beer and beverage distributor in Western Europe. In every market where Heineken active, Heineken strive for comprehensive coverage through alliances with independent distributors or via Heineken own beverage wholesalers. Often, Heineken wholesalers also distribute wine, spirits and soft drinks to the on-trade. Heineken also has

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brewers throughout the world so that it can ship its finished products to local areas to minimize shipping costs, Heineken International (2011).

Marketing and sales – Heineken has world's leading portfolios of premiere beer brands and is the 3rd most recognized brand of beer in the world. By acquiring smaller brewers in the world Heineken spread brand name even more also in achieving sustainable growth. National advertising play a prominent role in promoting Heineken strengthened brand equity through associations with high-impact, high-profile sports and music events (Heineken cup and OPEN'ER music festival), Social networking sites and video blogs, films. Heineken remain fully committed to the responsible brewing, Respect for the consumer and an acknowledgement of the dangers associated with the misuse of alcohol drives to market Heineken products in a responsible way, Heineken International (2011).

Service – In the brewing industry there is little to no after sales service. The company encourage consumers to visit the internet site and register to become part of the “ Heineken”. As part of this, the company could send out periodical surveys to gain input from consumers on product related issues. Heineken International (2011).

Support Activities

Human Resource Management – According to Heineken International (2011), Heineken has the ability to develop leaders by exposing employees to a wide variety of businesses, with responsibility. Heineken allows them to take prudent risks as they improve their own leadership and business skills. Heineken focused on leadership development that ensures smooth

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succession through Heineken's most senior management levels. Heineken average number of people employed is more than 75, 000, Heineken International (2011).

Technology Development – Heineken's worldwide operations are relying on information systems. Information Technology processes, infrastructures and IT Risk monitoring processes are centralised and outsourced to professional outsourcing partners. Which are includes agreements on assurance from IT outsourcing partners, Heineken International (2011).

Procurement –

Thermal energy – Heineken use heat for brewing and 41% of heat generated by natural gas in their own sites and from diesel or gas oil, light fuel oil, heavy fuel oil or coal at the remainder 7% of Heineken sites utilise waste heat supplied by neighbouring industrial plants. Heineken gets biogas from the anaerobic treatment of wastewater and Heineken control nineteen anaerobic treatment plants and it's the 7th largest company that uses the biogas as an energy source, Heineken International (2011).

Electricity – Heineken buy most of the electricity and remaining 45% of electricity generate in the site by combining heat and power systems as well as diesel generators. Around 6% of Heineken sites are not connected to urban electricity systems and all the electricity use on those generated on-site, Heineken International (2011).

Water – water is the main raw material used in brewing. Water is also used to cleaning tanks, packaging, production equipment and pipe work, Heineken International (2011).

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Raw materials (grains and hops) – Heineken get most of raw materials by participating in joint development projects with malting companies in countries where Heineken operates. In 2009, Heineken UK launched a new supply chain code of conduct and focused on improving its responsible supply chain performance. Heineken operates some of own local Agriculture projects to get raw materials such as Sierra Leone Sorghum Project which is local sourcing project in Sierra Leone is part of the company's Africa-wide strategy to procure at least 60% of its raw materials locally, Heineken International (2011). Furthermore Heineken has developed subsidiaries and partnerships for many of the inputs required to produce beer including screw cap manufacturers, freight companies, and can manufacturers, glass bottlers, cardboard manufacturers, and machinery manufacturers, (Heineken International, 2011).

Goals of Heineken International

Green Commerce

According to Heineken Sustainability Report (2009), by 2012 Heineken aims to reduce carbon footprint of their brands and business. This also includes transparently report against clear benchmarks and carbon reduction throughout the value chain support of the new supplier code. Also significantly reduce the total carbon per hectolitre by 2020. Also by 2012 design carbon reduction new package policy, Energy reduction of 15% in cooling, introduce new product evaluation criteria in all regions where Heineken operate.

Green brewer

Heineken Sustainability Report (2009) noted that Use energy in an efficient way and reduce the associated fossil CO₂ emissions and develop this concept of the CO₂ – natural brewery and implement it in at least three breweries. By 2012 Heineken aim to keep specific water consumption to 4. 3 hl/hl also designed energy efficient breweries and keep fossil CO₂ emission to average 8. 5 kg/hl.

Engaging Employees

The secure and safe working environment develops for all employees by achieve zero fatalities across Heineken business. By 2012 implement and audit employee rights and policy by developing training modules for employees in high and medium safety risk functions, also set safety targets for other activities that are not relevant for production, Heineken Sustainability Report (2009).

Heineken cares

According to Heineken Sustainability Report (2009), Heineken aims to increase the level of corporate social investment in developing markets, by In 2010 increase funds for the Heineken Africa Foundation to EUR 20 million enabling EUR 1 million investment per year thereafter and develop standards for sustainable agriculture and verified by stakeholders.

Responsible beer consumption programme

The combine actions of Heineken and all stakeholders promote and develop “ Enjoy Heineken Responsibility”(provide consumers with information about alcohol consumption and health issues) by 2012 and develop and deliver

100% of commerce or marketing employees a specific workshop for support rules on responsible commercial communication, Heineken Sustainability Report (2009).

Partnership for future progress

According to Heineken Sustainability Report (2009), by 2012 increase the Heineken partnership with markets to at least 50 with third party to address alcohol abuse and implement and evaluate UK and Ireland Government or industry partnership projects.