

The british brewing industry, 1945–95.



Qs. 1 (a) PESTEL ANALYSIS OF THE MACRO ENVIRONMENT

Political- the UK's membership to the EU single market facilitates the importation of alcoholic beverages by individuals for both legitimate personal usage and illegal resale purposes. National government policy has also had a great impact on the UK brewing industry through changes and reforms of Licensing Laws, anti-binge drinking campaigns and guidelines regarding health. The huge degree of uncertainty and risk surrounding the current UK government and 'Brexit' has also made the UK a very unattractive place to invest and do business.

Economic- changes in income distribution, e. g. more women in the workplace and higher disposable incomes amongst older people, and increases in income as a result of minimum wage increases and higher rates of employment result in more disposable income amongst consumers. However, more of this expenditure is being spent on the many, alternative leisure and recreational activities on offer reducing the amount spent on alcoholic beverages. The UK brewing industry is faced by extreme economic volatility in the prices of key commodities and inputs such as oil and barley which have put upward pressure on beer production costs.

Social- the population demographic of the UK is ageing with the 35 plus age group the fastest growing thus reducing the consumption rates of beer as older people tend to engage in less social activities and are more conscious of their health. Many immigrants who have settled in the UK do not drink any alcohol due to their religious beliefs e. g. Islam. Social attitudes towards drinking is also changing dramatically as a result of increased awareness of

drink driving and health and increased sport activity. Consumers are drinking less, better and more responsibly. However, all social changes aren't to the detriment of the brewing industry as there is a rising fashion status associated with beer particularly premium and craft beers.

Technological- technological innovations are present everywhere in the brewing industry. Increased automation has been introduced in the production phase of bottled and canned products. Mixed gas delivery of bitters and ales have also been introduced. The product offering of drinks companies has also increased thanks to the development of flavoured beers, alcohol free beers and extra cold lagers. Innovation is evident in the use of social networks, websites and multi-media for marketing and promotional activities. However, this must be managed carefully so that companies ensure they are complying fully with strict advertising legislation.

Environmental- there are many environmental considerations which can be challenging for beer manufacturers must manage. The waste, litter and refuse produced by the UK brewing industry must be disposed of ethically and sustainably but also in a cost efficient way. This is particularly true with non-recyclable packaging and plastic waste which can be very harmful to the environment. Brewers must also carefully consider their carbon footprint in terms of energy and water efficiency and how they transport their goods.

Legal- legislation regarding alcoholic beverages, such as drink-driving penalties, opening hour restrictions and minimum age laws, have become increasingly strict. These are in addition to the continuing high levels of taxation and duty on alcohol which further undermine the UK brewing

industry. The Monopolies and Merger Commission regulates the brewing industry in the UK and may prevent the further vertical integration of the big breweries. The introduction of the smoking ban in public places has also caused many people to choose to move away from the pubs and towards drinking at home.

Qs. 1 (b) THREE KEY DRIVERS FACING THE INDUSTRY

1. New Distribution Challenges -even though culturally pubs were the epicentre of social life in the UK there is an increasingly popular trend towards entertaining and drinking at home which has boosted the off licence and supermarket trade. Supermarkets, off-licences and large chain discounters are becoming a more and more important distribution channel for beer within the UK. These distribution channels challenge brewing companies as the place further downward pressure on manufacturer's prices and margins. This is a result of retailers delivering lower profit margins regardless of if they are discounting or not. Supermarkets in particular often use alcoholic beverages as loss leaders, selling them very cheaply, to attract customers into their stores and they also engage in so-called ' price wars' on these products. Retail stores also challenge manufactures as they often require smaller, more frequent product deliveries in order to keep their warehousing costs at a minimum. Brewers must also develop new skills such as innovative in-store merchandising and attractive point of purchase displays in order to successfully sell through retail stores. Flexibility, pack size, product positioning and order fulfilment rate are

all further key success factors for retailers when assessing their relationship with a beer manufacturer.

2. Cost Efficiency –as aforementioned, new distribution channels have placed much downward pressure on manufacturer’s prices and margins threatening their profits. At the same time the price for key supplies necessary for the production of beer such as oil and barley are on an upward trajectory and are also very unpredictable. Production costs of beer cannot rise with the price of supplies as the the margins within the industry are very slim and the demand for beer is price elastic. As the price of beer increases consumers will deem it more important to spend their money on substitutes or necessities rather than beer. Therefore, breweries are forced to develop more cost effective operating systems as this is one of the most crucial ways of reaching profits.
3. Innovation as Competitive Advantage –process, product and marketing innovation is key to breweries’ survival. As seen above breweries need to purchase new technology to allow them to produce their product quicker and more efficiently. Investment into product innovation is also key for brewers as demand for non-alcoholic, low-calorie and premium beers grow year on year. This is in the face of an overall decline in the demand for beers in general. Quality is now viewed as much more important than quantity by consumers especially those in the growing mature market. Marketing innovation is another key source of competitive advantage as brewers seek to build their brands and create brand awareness and loyalty through creative advertising and marketing especially online and through social media. To surmise, wide

availability and high visibility is important but standing out in the sea of available beers and close substitutes is the key driver of sales.

Qs. 2 (a) FIVE FORCES INVESTIGATION

Intensity of Rivalry –the UK brewing industry is experiencing significant concentration effects thus rivalry is decreased. The industry is divided into the big 4 companies who hold 70% of the market and hundreds of small suppliers who hold 30% of the market. Both segments of the industry compete with each other in different forms to increase their own profits and sales. Joint ventures, amalgamations and mergers within the industry are decreasing rivalry overall. However, there are substantial barriers to exit which raises rivalry. As a result, the overall impact of rivalry on the industry is neutral.

Threat of Substitutes –spirits sales are increasing at the same pace as beer but both are growing much slower than the rise in the consumption of wine. Consumers are not prohibited or deterred by a cost of switching between close substitutes or other types of alcohol. There has been a huge influx into the UK of cheap spirits and wines from abroad – which are readily accepted by modern consumers. Changing social habits and changing drinking environments, e. g. the home, are opening new opportunities for substitutes such as wine and spirits. Increased health awareness also favours distant substitutes for alcohol such as soft drinks and fruit juices. The offering of non-alcoholic beverages is very varied and giving consumers a huge amount of choice. Another choice for consumers is non-usage of the product. The threat of substitute goods within the beer industry is very high which has a negative impact on industry profits.

Bargaining Power of Suppliers –supplier concentration in the UK brewing industry is low and there are few suppliers relative to brewers. Breweries rely heavily on supplier inputs and therefore reliable suppliers are in constant need. Although the core, necessary ingredients for the brewing of beer – hops, malt, barley, yeast and water – can not be substituted there is a threat of forward integration whereby large brewing companies buy land and grow their own hops, malt or barley. With regards to the purchase of machinery brewers have the options of purchasing new, used or refurbished equipment. Overall, the small size of suppliers relative to the breweries and they hold little bargaining power in the industry given the importance of the breweries business to their own which is positive from the brewers standpoint.

Bargaining Power of Buyers –distributors are power players in the relationship as they hold the key connections with retailers and consumers. As a result, distributors control the prices, which are based upon the profit margins which they require. Distributors within the UK brewing industry are consolidating and becoming even more powerful while simultaneously limiting new competition. Individual consumers also have greater bargaining power as more and more people switch to alternatives leaving fewer customers within the beer market. This effect is exasperated by the non-existent switching costs, ease of switching, availability cheaper substitutes and price sensitivity of consumers. From a brewer's perspective the buying power force within the industry is negative.

Threat of New Entrants –in the UK brewing industry there are significant barriers to entry that help to protect the firms currently within the industry from new entrants. Factors such price competition, increasing vertical

integration and production economies of scale of market leaders makes it very challenging for new brewing companies to compete on a large scale. Other barriers to entry include product differentiation effects, huge capital requirements, closed distribution channels, significant government regulations, huge marketing expenditures and brand loyalty. In addition to the sheer scale and scope needed to compete internationally, restrictive legislation and regulatory bodies also pose barriers to entry. However, in the small brewer's category there is a minimal cost of production and relatively barrier-free local distribution. Overall, there is a greatly reduced threat of entry into the UK brewing industry leading to a positive effect on industry profits.

Qs. 2 (b) Conclusions

Overall the brewing industry in the UK is neither particularly attractive or unattractive but it is a complicated sector to operate within. The positive forces of little supply bargaining power and low threat of entry counteract the negative impact of many substitutes and strong bargaining power of buyers. The effect of the intensity of rival on the industry is neutral and does not make the industry any more or less attractive to brewers.

Qs. 3 Four scenarios

1. Shift of focus to new and developing markets –beer sales are declining year on year in traditionally large markets such as the UK, Australia and Germany. However, emerging economies in Africa, Asia and South America are showing a steady rise in beer consumption due to demographics and income per capita. It is likely that breweries will

move their interest to these emerging economies in the future. These new opportunities also pose new challenges for manufacturers such as language and cultural barriers, legislative differences, increased investment and risk. Brewers will have to develop new skills, processes and strategies to be successful.

2. Niche and speciality beers –in the coming years demand for niche and speciality beers such as organic, gluten free and low carbohydrate beer varieties is likely to grow dramatically as a result consumers health awareness and dietary requirements increase. These new categories of beer with require much investment in research and development, in addition to, new production, marketing and possible distribution methods.
3. Beer and food –evidence show that wet-led pubs where alcohol is there primary source of income are failing. More and more emphasis is being placed on establishments to provide and align high-quality beer and food. Brewers may be forced to focus on offering beer which complements and can be paired with food, as is done so successfully with wine, to compete in this new breed of pub and in the large supermarket chains.

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