

An overview of east african breweries economics essay



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This section presents an overview of the chosen organization, namely East African Brewery Limited (EABL). Considered also are current and likely future challenges of the company. The last part covers customer behavior trend with reference to beer.

An Overview of East African Breweries

East African Brewery is a holding company based in Kenya that manufactures both alcoholic beverages and non alcoholic beverages. In partnership with its subsidiaries, the company manufactures, brews, markets and sells drinks, malt, and barley and glass containers. The brands that are core to its operations are Tusker, pilsner, Guinness, All soaps, Johnnie walker, Bell larger, Malta Guinness, Alvaro, Uganda Waragi, and Smirnoff ice. Its subsidiaries are spread throughout Africa. They include, Salopia limited, All soaps (EA), limited central glass industries, international distillers Uganda limited among others. The company produces its goods for domestic use as well as for export to the international market. EABL is controlled Diageo plc, a United Kingdom based company (EABL, 2012).

Current Challenges faced by EABL

Exchange Rates

The exchange rate fluctuation witnessed in Kenya has had a negative impact to EABL's operations (Piana, 2001). Exchange rate fluctuations have been a major challenge to the operation of EABL. This is because the exchange rate fluctuations erode the value of the Kenya shilling. The earnings of EABL are vulnerable to the fluctuating interest rates. This is due to the fact that the company relies heavily on imports to manufacture its products. The

exchange rate fluctuations impact negatively on a company's quest to acquire raw materials and other inputs used in the production process. The cost of raw materials such as barley and hops go up with the weakening of the Kenya shilling. For instance in 2011, foreign current movements had a 2.2% negative impact on the revenues of EABL. EABL largely depends on barley in production (Euromonitor, 2012). Backward integration has not had a significant impact on the company's revenues. Exchange rate fluctuations have been a major challenge to EABL limited. This has led the company to substitute its raw imported raw materials with local raw materials. This action has led to the company to compromise the quality of its products.

High Operation Costs

Power generation in Kenya remains a significant challenge to EABL's operations. The challenge that the company faces is outsourcing for alternative power sources. The company's operation costs are increased because of the problem with power generation in Kenya. Frequent black outs make the company to spend a substantial amount of its income on alternative sources of power (Biau, Dahou, and Homma, 2008). The company has been forced to deploy gas powered generating plants to counter the challenges relating to electricity generation by the Kenya power and lightening company.

Kenya's poor road network is another challenge that negatively affects the operations of EABL. The company faces this challenge because of poor road network makes it difficult to distribute its finished products. The company's

operations are further affected by exorbitant increases in the price of grains and the rising cost of fuel (Biau, Dahou, and Homma, 2008).

Religious Faith and Healthy Consumption.

Individual faith and lifestyles advocated by some religious faiths is another challenge facing EABL. Religious faith is growing in Kenya at a rapid rate. At this rate the consumption of alcohol is declining. This is because most religious faiths frown upon the consumption of alcohol. With the increasing number of people seeking solace in religion, alcohol consumption has significantly gone down. Typical consumption patterns have significantly gone down.

Another challenge facing the production in EABL is the desire by most individuals to adopt a healthy lifestyle. EABL may eventually cut down on production of alcohol. This is due to the people cutting down on the consumption of alcohol as campaigns for a healthy life style advocate for reduced alcohol consumption (Adetu, 2011).

The Increasing Costs of Raw Material Inputs

EABL faces a major challenge in its production processes because of the increasing cost of barley and hops. There is a constant spike in the commodity prices of barley which is sorghum based. The rise in oil prices ensured a commensurate increase in the input costs for EABL. This is reflected in the slow improvement in its profit margins.

Between April and July 2012, the price of barley increased by 26.06% percent. This exposes EABL to a significant rise in the price of the inputs used in producing beer (Euromonitor, 2012).

Future Challenges for EABL

Poor Rainfall and Drought Across East Africa

For the past five years, the rain fall trends have been poor across East Africa. The weather forecasters have projected the situations to worsen in the future. This scenario poses a great challenge for EABL in the future. Poor rainfall affects household incomes in Kenya. This is because a majority of the Kenyan population depends on agriculture for financial well being. Poor rainfall exerts financial pressure on households in Kenya. This in turn affects disposable incomes. As a result, fewer people will consume alcoholic beverages. This may force EABL to cut down on production due to reduced demand for its products (EABL, 2012).

High Inflation, Currency Depreciation and the Energy Crisis

High fluctuation in inflation, the Kenya shilling and oil prices are a potential challenge for EABL operations. These fluctuations have a negative impact on the country's export and imports. The operation of EABL is mostly pegged on imports and exports a high price of imports for imports will potential affect the margins of the company in future. The rising Inflation and currency fluctuations are making consumers to avoid luxurious goods such as alcohol. This will lead to EABL to cut down on its production.

Increased Regulation and Legislation

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The legislations that limit the drinking behavior of Kenyans is a major challenge to EABL's sales volume. The implementation of the alcohol drinks act in Kenya has put more restrictions on alcohol consumption and marketing. The company's business has experienced a downward trend due to the strict regulations attached to the alcohol drinks act. The act puts control on the marketing of alcoholic products and drinking hours. Therefore, strict restrictions on marketing the product and drinking hours regulation are likely to continue affecting the company's sale in the future (EABL, 2012).

Threat of new entrants

EABL face a big challenge in future due to the entry of new companies in the beer market. A Kenyan owned beer company Keroche is proving to be a major competitive force that EABL will face in the future. Keroche has plans to increase its market share to 20 percent and list its shares on the Nairobi Stock Exchange. EABL expects to face a stiff competition from Keroche. Keroche proves to be a major competitor for EABL because of the financial injections it enjoys. The company has secured an 80% of the \$29.27 million from Barclays Bank which it needs to fund its expansion program (Ratio Magazine, 2008). The company further faces competition from companies like Heineken which plans to put more investments in its Kenyan market.

Trends in Customer Behavior

The present trends in consumer behavior in beer industry in Kenya provide a great opportunity for investment by EABL (Kagwe (2012)). The current and future trend in Kenya shows that the Kenyan consumers are loyal to a brand. EABL being the company with products of choice has an upper hand in

clinching a large percentage of the market. Most of its customers are loyal to its leading brands like Tusker, senator Keg, Pilsner, citizen and Guinness. This trend provides EABL with opportunities to increase production because it has loyal customers who are a ready market for its products.

The customer trends in Kenya are characterized by binge drinking during evenings, holidays, and the festive seasons. The festive season and holiday trends provides an opportunity for EABL to increase the production of beer and senator Keg in anticipation for a rise in its sales.

Another trend relates to the youth. Statistics show that the youth are drinking more and more and age of starting to drink is getting lower and lower (EABL, 2012). The Kenyan population is largely made up of the youth. EABL can take advantage of this trend to increase production and add to its profit margins because the trends in more and more youth drinking are having an upward trend (Hatch, Becker and Zyl 2011).

The Kenyan consumer is largely a social drinker. Men mostly drink to show a form of independence from household and the responsibilities of the household. This makes alcohol to be a ubiquitous part of every day life in Kenya. This provides an opportunity for EABL to intensify its marketing prowess to capture the niche market of the social drinker. The drinking behavior of the Kenyan consumer cuts across the different life domains. This includes the religious, symbolic, social and psychological, economic and political spheres. The trend in the consumer behavior is ubiquitous in both the rural and urban populations. The importance attached to alcohol in the

present times as past time drink is equally a trend to take advantage of by the EABL.