

# [A strategic case study of coors](https://assignbuster.com/a-strategic-case-study-of-coors/)

The U. S. brewing industry produces beer and other malt beverages from agricultural inputs, and sells the end product to wholesalers and retailers. (IBISWorld, 2010) The modern history of the industry began with the repeal of Prohibition in 1933 (IBISWorld, 2010). Fewer than 1000 breweries reopened for operation. Only two-thirds of those businesses were still in operation by 1939. After 1945, the industry encountered strong growth, and was rapidly approaching maturity by the 1980’s. During this period, the industry went through extensive consolidation and integration. By 1985, six major brewers dominated the industry, with about 75% of domestic market share (Gemawat, 1992). Those six key players are (by market share)[1]:

Anheuser-Busch: 36. 9%

Miller: 18. 3%

Coors: 8. 3%

Stroh: 6. 7%

Pabst: 2. 8%

Heileman: 2. 0%

## B. Segments

The brewing industry may be segmented by any number of factors, including product offerings and company size. By company size, the industry includes major producers, which hold the majority market share, and a growing number of craft brewers. Craft brewers are facilities that produce less than 2 million barrels of beer annually (Brewers Association, 2010). The primary product of this industry is beer, which may be segmented by retail price (popular, premium, superpremium, and ultrapremium) or alcohol content (regular, light, low, and high).

This paper will focus on the strategic performance of Adolph Coors. Along the way, it will also touch on the following topics:

Why the US brewing industry consolidated.

Coors’s historic strategy.

Why Coors’ performance deteriorated since 1977.

What Coors should have done differently.

Whether Coors should build a brewery in Virginia.

## C. Caveats

This case analysis is being written from a bird’s-eye view of the past. We already know that Coors did not build a brewery in Virginia (it kept it as a packaging facility) (Alabev, 2009); that the Teamster’s Union was not successful in entering the Virginia facility (Kelleher, 1988); that the industry continued to consolidate (Answers, 2010; FundingUniverse, 2010); and that Coors and Miller eventually joined forces to form MillerCoors to better compete against Anheuser-Busch (MillerCoors, 2010).

Therefore, this paper is written with the following caveats:

Some data will be unavailable due to the passage of time.

Where data is unavailable, an attempt will be made to find comparable data from modern-day sources.

Modern data may be vastly different than 1985 data.

Current knowledge may introduce bias to the report.

## II. Socioâ€Economic Factors

## A. Governmental or Environmental Factors

Brewers in the U. S. are faced with strict regulation from both the Federal and state level. Federal regulation comes from the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) and the Federal Trade Commission (FTC). State regulations vary widely, particularly in regards to craft breweries. This segment has seen major growth since the repeal of the ban on home brewing in 1978 (IBISWorld, 2010). Excise taxes occur at both the Federal and state level. Regulation is increasing in this industry.

## B. Economic Indicators

The U. S. economy is in the final stages of pulling out of an economic recession that began during the 1970’s. According to an IBISWorld industry report, households with a higher disposable income are more likely to consume alcoholic beverages. The report also states that beer is most popular in the 21-35 year old age group (IBISWorld, 2010). The first wave of the baby boomer population is now over 35 years old. Input costs are on the rise.

## III. Porter’s Five Forces

This section will examine the competitive environment of the industry, using the model that Michael Porter developed in 1979, and expanded upon in his 2007 article Understanding Industry Structure (Porter, 2007).

## A. Threat of New Entrants

The threat of new entrants is Low, with some caveats.

## 1. Economies of Scale

Cost of production for the industry decreased from 1977 to 1985, even as volume increased (See Appendix). This is an indicator of economies of scale. Most of the major players focus on mass-market products. This implies the need for large breweries and high fixed costs (Datamonitor, 2009a). Production costs are about a quarter of major brewer’s net revenues and include brewing and packaging (Ghemawat, 1992). Minimum efficient production scale was 4-5 million barrels per year in 1985 (Ghemawat, 1992). Doubling brewery scale would cut these costs by 25% (Ghemawat, 1992). The economies of scale evidenced here decreases the threat of entrants.

## 2. Working Capital Requirements

Based on industry figures cited in the case, working capital requirements per barrel of capacity were at an industry average of $40. 25 in 1984, or about 60% of gross revenue per barrel (Ghemawat, 1992). This decreases the threat of entrants.

## 3. Proprietary Product Differences

Coors ages its beer longer and uses a different process than most major brewers (Ghemawat, 1992). Neither of these would be difficult to imitate. This increases the threat of entrants.

## 4. Absolute Cost Advantages

The majority of brands are trademarked (IBISWorld, 2010). Coors owns several patents related to production and technical operations (Coors, 2009). Coors also uses proprietary strains of barley to produce its own malt (Ghemawat, 1992). The major players in the brewing industry have advantages including access to cheaper raw materials and cheaper manufacturing costs due to economies of scale (Ghemawat, 1992). This decreases the threat of entrants.

## 5. Brand Identity

Brand identity is important. Marketing expenses as a percentage of sales increased from 3. 3% in 1973; to 4. 5% in 1980; and to 10% in 1985 (Ghemawat, 1992). Increasing saturation in the market will require increased advertising expense to differentiate brand identities. Economies of scope are vital here. The launch of a new product line costs $20-$30 million in initial advertising, and $10 million in maintenance advertising (Ghemawat, 1992). This decreases the threat of entrants.

## 6. Access to Distribution

The primary markets are wholesale and retail outlets. Wholesale outlets are the largest source of distribution (IBISWorld, 2010). It is becoming difficult to find wholesalers that will carry anything other than Anheuser-Busch or Miller as their lead brand (Ghemawat, 1992). Transportation to wholesalers is usually by truck or rail. The median cost of shipping for the industry is about $0. 00375-$0. 0667 per mile at a median distance of 300-400 miles (Ghemawat, 1992)[2]. Access to distribution decreases the threat of entrants.

Coors has access to 569 independent and 5 company-owned wholesalers (Ghemawat, 1992). Transportation to these wholesalers is usually by truck or rail. Almost half of Coors’ truck shipments are done by a Coors subsidiary.

## 7. Expected Retaliation

Historically, the two primary methods of retaliation include introducing a similar product offering or acquiring the company (EH Net, n. d.). This decreases the threat of entrants.

## 8. Conclusion

The above barriers to entry show that the threat of entrants is Low. A decision matrix is provided below to visualize this conclusion. One caveat to this is that some of the categories above are dependent on scale. For example, a microbrewery could do well, even without the benefit of economies of scale, by charging a higher price premium.

## 1. Supplier Concentration

Barley growers are numerous (Datamonitor, 2009a). Furthermore, the case implies that there are more suppliers than there are firms in the industry, and states that large, efficient markets exist (Ghemawat, 1992). This limits supplier power.

## 2. Presence of Substitute Inputs

Substitutes exist; the degree to which they affect supplier power is debatable. The primary inputs are agricultural and packaging (Ghemawat, 1992). Different grains can be used for brewing, and aluminum can be a substitute for glass bottles or vice versa. The effect of this varies depending on brewer needs, and has the potential to increase or limit supplier power.

## 3. Differentiation of Inputs

Some differentiation exists, as products of high quality are needed (Datamonitor, 2009a). However, the vast majority of inputs in this market are raw commodities. This lowers supplier power.

## 4. Importance of Volume to Supplier

According to the case, a brewer with a large, efficient plant could buy inputs on the best terms possible (Ghemawat, 1992). This implies that the brewing industry buys a large volume of inputs, lowering supplier power.

## 5. Impact of Inputs on our Cost or Ability to Differentiate

Raw materials account for over half of net revenues (Ghemawat, 1992). This increases supplier power.

## 6. Threat of Forward or Backward Integration

There is no evidence for forward integration by suppliers. However, most large brewers integrated backward in order to combat rising costs (Ghemawat, 1992). This lowers supplier power.

## 7. Access to Capital

Both net income and consecutive data from 1980 to 1985 is unavailable. This section will use numbers from 1977 and 1985; operating profit will be substituted for net income. Using these numbers, average profitability for the industry decreased from 11. 6% in 1977 to 9. 1% in 1985. Inflation was 6. 5% in 1977 and 3. 6% in 1985 (InflationData. com, 2010). The 9. 1% is a reasonable income; however, the trend indicates that debt financing may get more expensive.

## 8. Access to Labor

Access to labor exists on somewhat favorable terms. Unions exist in every major company in the brewing industry, except for Coors (Ghemawat, 1992). Highly skilled workers are not required. This reduces supplier power.

## 9. Conclusion

The above factors show that the power of suppliers is Low. A decision matrix is provided below to visualize this conclusion.

## Category

## Comments

## High

## Low

## Attractiveness

Supplier Concentration

More firms than suppliers.

Y

Y

Presence of Substitute Inputs

Some substitutes.

Y

Y

Differentiation of Inputs

Supplies commoditized.

Y

Y

Importance of Volume

Industry buys large volumes.

Y

Y

Impact of Inputs on Cost

Costs equal half of revenues.

Y

Threat of Integration

Firms integrating backwards

Y

Y

Access to Capital

Decrease in profits and inflation.

Y

Y

Access to Labor

Highly-skilled workers not required.

Y

Y

## Supplier Power & Attractiveness:

## Low

## High

## C. Buyer Power

The power of buyers is Medium. Buyers in this market are retail and wholesale firms. Wholesale firms make up the largest percentage of buyers (Ghemawat, 1992).

## 1. Buyer Concentration

There are more buyers (4, 500) than firms in the industry (Ghemawat, 1992). This reduces buyer power.

## 2. Buyer Switching Costs

Buyers must spend $500, 000 to $2 million on market development for a new brand (Ghemawat, 1992). This reduces buyer power.

## 3. Buyer Information

There is no data to indicate how much buyers know about the industry. However, it is unlikely that they do not know much. If this is true, it would increase buyer power.

## 4. Threat of Backward Integration

Buyers are very unlikely to backward integrate. This is for two reasons: (1) barriers to entry are high, and (2) regulations provide a certain amount of limitations for retail buyers (IBISWorld, 2010). This reduces buyer power.

## 5. Pull Through

Pull through exists, as demonstrated by the increase in advertising expense as a percentage of sales. As demonstrated above, advertising expenses as a percentage of sales increased from 3. 3% in 1973; to 4. 5% in 1980; and to 10% in 1985 (Ghemawat, 1992). This decreases buyer power.

## 6. Brand Identity of Buyers

According to the case (1992, p. 3) companies other than Anhueser-Busch and Miller had trouble finding wholesalers to carry their brands as lead products. This implies that the brewing industry impacts the brand identity of buyers. This reduces the power of suppliers.

## 7. Price Sensitivity

Declining return on sales for buyers as exhibited in the case implies that buyers will be price sensitive (Ghemawat, 1992). Furthermore, industry practice dictates that brewers absorb the cost of shipping the product to buyers (Ghemawat, 1992). This increases buyer power.

## 8. Price to Total Purchases

There is no data available for this question. However, many buyers choose or are forced to carry only one brand (Ghemawat, 1992). This decreases buyer power.

## 9. Conclusion

The above factors show that buyer power is Low. A decision matrix visualizes this conclusion.

## Category

## Comments

## High

## Low

## Attractiveness

Buyer Concentration

More buyers than firms.

Y

Y

Buyer Switching Costs

High switching costs.

Y

Y

Buyer Information

No data.

No Data

Threat of Backward Integration

Not likely.

Y

Y

Pull Through

Advertising creates demand.

Y

Y

Brand Identity of Buyers

No data.

Y

Y

Price Sensitivity

Brewers absorb shipping costs.

Y

Price to Total Purchases

No data.

No Data

## Buyer Power & Attractiveness:

## Low

## High

## D. Substitute Products

The industry is unattractive because the threat of substitute products is High.

## 1. Relative Price/Performance Relationship of Substitutes

Substitute products include wine, liquor and spirits, and imported beers (IBISWorld, 2010). Switching costs are low, and alcohol content is higher in most categories. The price of spirits is lower per unit-volume, due to their higher alcohol content (Datamonitor, 2009a). There may be a prestige factor involved when drinking substitute products such as wine or certain spirits. This increases the threat of substitute products.

## 2. Buyer Propensity to Substitute

IBISWorld reports that households with higher disposable incomes are more likely to consume alcoholic beverages. The report also states that an increase in income and living standards increases the likelihood that consumers will switch to substitute products (IBISWorld, 2010). The U. S. economy recently recovered from a recession during the early 1980’s. This may indicate that disposable income and living standards will increase. This increases the threat of substitute products.

## 3. Conclusion

The above factors show that the threat of substitute products is High. This reduces the attractiveness of the U. S. brewing industry.

## E. Rivalry

Rivalry in the brewing industry is Strong. This reduces the attractiveness of the industry.

## 1. Degree of Concentration and Balance among Competitors

The industry is highly concentrated and unbalanced. The top six firms control about 75% of the market share (Ghemawat, 1992). This increases rivalry and reduces attractiveness. No. 1 firm Anhueser-Busch controls about 36. 9%; the next closest competitor Miller comes in at 18. 3% (Ghemawat, 1992). This reduces rivalry and increases attractiveness.

## 2. Diversity among Competitors

The major firms in this market appear to be following very similar strategies. They all expanded or are expanding nationally, have increased their number of product lines and advertising, and pursued similar production efficiencies (Ghemawat, 1992). This increases rivalry and reduces attractiveness.

## 3. Industry Growth Rate (Past and Projected)

Demand grew at a rate of 1% from 1980 to 1985. The same rate of growth is predicted for 1985-2000 (Ghemawat, 1992). Inflation is expected to stay at an average of about 3% (InflationData, 2010) This increases rivalry and reduces attractiveness.

## 4. Fixed Costs to Value Added[3]

Fixed costs in this industry are high, as discussed previously. Value added increased from 22% in 1977 to 32% in 1985. The overall effect on rivalry and attractiveness is medium.

## 5. Intermittent Overcapacity

Industry capacity is in the normal range, at 83%. However, capacity has dipped below that in the recent past (Ghemawat, 1992). This increases rivalry and reduces industry attractiveness.

## 6. Product Differentiation

Firms differentiate their product lines by segmentation, advertising, and packaging (Ghemawat, 1992). These efforts are limited by the presence of similar offerings among most of the major brewers. Depending on their effectiveness, this increases or reduces rivalry and attractiveness.

## 7. Growth of Foreign Competition

Foreign producers account for 4% of demand (Ghemawat, 1992). Projected growth data is unavailable; however, recent data shows that this number grew to 9% by 2010 (IBISWorld, 2010). This increases rivalry and reduces attractiveness.

## 8. Corporate Stakes

Industry data is unavailable; however, the case states that Coors gained 84% of its revenues and over 100% of its operating income from its brewing division. This increases rivalry and reduces attractiveness.

## 9. Exit Barriers

Exit barriers are medium. As previously discussed, fixed costs are high. However, firms may convert their operations to non-beer related products, although they would probably suffer from reduced demand and economies of scale. The most likely form of exit would be through a merger or acquisition, due to increasing industry concentration. The overall effect is determined to be medium.

## 10. Conclusion

The above factors show that rivalry is Strong. This reduces the attractiveness of the U. S. brewing industry. A decision matrix is provided below to visualize this conclusion.

## Category

## Comments

## High

## Low

## Attractiveness

Degree of Concentration

Highly concentrated, maturing.

Y

Y

Diversity

Similar strategies.

Y

Industry Growth Rate

Slow growth.

Y

Fixed Costs to Added Value

High fixed costs, value added.

Y

Y

Y

Intermittent Overcapacity

Past overcapacity.

Y

Product Differentiation

By three factors.

Y

Y

Y

Growth of Foreign Competition

Increasing.

Y

Corporate Stakes

Based on Coors’ data.

Y

Exit Barriers

Medium barriers.

Y

Y

Y

## Rivalry & Attractiveness:

## High

## Low/Medium

## IV. Conclusion

According to the factors outlined in Industry Analysis: The Fundamentals, this industry is an oligopoly (Grant, 2005a). The most likely reason that the brewing industry consolidated was to take advantage of economies of scale and scope.

Entrance or investment is a risky prospect, depending on scale. Buyer and supplier power are favorable for entry, but only when entering on a large scale. However, the massive capital outlay required to compete at the level of major brands is prohibitive. Barriers to entry are high, substitutes are prevalent, and rivalry is strong. The brewing industry is determined to be unattractive for large-scale entry. A decision matrix is provided below to visualize this conclusion.

## Category

## Comments

## High

## Low

## Attractiveness

Threat of Entrants

Depends on size.

Y

Supplier Power

Commoditized products.

Y

Y

Buyer Power

Many buyers.

Y

Y

Substitute Products

Many substitutes.

Y

Rivalry

High degree of rivalry.

Y

## Overall Attractiveness:

## Low

## A. Critical Success Factors

The following Critical Success Factors will determine the success or failure of a firm in the brewing industry:

Economies of Scale: To control costs.

Capacity Utilization: To take advantage of efficiencies.

Economies of Scope: To absorb costs of advertising.

Strong Brands: To differentiate products.

Efficient Distribution: To reduce costs and increase sales.

## B. Prognosis

Industry growth is likely due to the recent economic recovery,[4]assuming that it leads to higher disposable income. As the industry continues to mature, it will likely continue to see increased levels of consolidation in order to take advantage of economies of scale and scope. Larger players will squeeze out or acquire smaller firms such as Heileman, Pabst or Stroh. Marketing will play a larger role as firms seek to differentiate their products.

Opportunities for entry are limited to small craft and regional breweries, so long as they can charge a price premium for their product. Opportunities for existing breweries include controlling costs, increased marketing, product line development, and acquisitions.

## Part II: Firm Analysis

## I. Current Situation

## A. Brief Firm History

Adolph Coors is one of the six largest companies in the U. S. brewing industry. It became immensely successful following the repeal of Prohibition through the mid-1970’s. Contributing to its success were huge economies of scale resulting from having the industry’s largest brewery, focused on one product, with high capacity utilization, and the fastest packaging lines in the industry (Ghemawat, 1992). It enjoyed tight control over its distribution network, often being the only brand their distributors carried. The company’s historic strategy was focused differentiation, as evidenced by its high quality standards and limited distribution area.

The company’s performance has deteriorated since then. Competitive pressures forced the company to move from one product package to 320, reducing the economies of scale that it had previously enjoyed. The Appendix showcases their lower than average cost reductions from 1977 to 1985. Competitive pressure also forced Coors to undertake a national rollout of its brand. Because it is the only company out of the major six to operate just one production facility, the company must pay 2-4 times the industry average for shipping. The company does not have the same control over its distribution network in the new markets. Finally, their brewing facility is running at up to 92% capacity, and management is concerned about the company’s ability to handle increased demand that will come with completion of the national rollout (Ghemawat, 1992).

## B. Strategic Posture

## 1. Current Mission

An actual mission statement for the Coors is unavailable. The company is currently focused on successfully completing their national roll out, increasing their performance, and gaining market share.

## 2. Current Generic Strategy

According to the factors discussed in Differentiation Advantage, Adolph Coors focuses on a differentiation strategy (Grant, 2005b). This is shown by their emphasis on product quality, which is gained from superior ingredients and their brewing process (Ghemawat, 1992). Historically, the company had a focused strategy of selling in only eleven states. However, the company is now shifting to a national, broad-market strategy. It currently distributes in 79% of the U. S. market (Ghemawat, 1992). A visualization of their present strategy is below.

## 3. Generic Strategy Model

Based on Porter’s Generic Strategies model and class notes from 4/8/2010 (Fitzmartin, 2010).

## Commodity/Low Cost

## Innovation/Differentiation

## Everyone/

## Broad Focus

## A Few/

## Niche Focus

## II. External Environment (Opportunities and Threats)

## A. Socioâ€cultural

The company faces threats from unions, increased regulation, and low demand. It has succeeded so far in keeping unions out of its facilities (Ghemawat, 1992). It faces a regulatory minefield as it enters new states. The economy is in recovery from a recent recession, but demand growth is projected to remain low at 1% (Ghemawat, 1992).

## B. Task Environment

The company faces threats from strong rivalry and substitute products. The industry is consolidating rapidly, and the six major brewers follow similar strategies. Foreign competition is growing. The low rate of demand growth means that companies are fighting for the same customers. The ability to differentiate brands is vital in this environment. Coors’ opportunities include controlling costs, expanding its facilities, raising brand awareness, developing new product lines, and making alliance or acquisitions.

## III. Internal Environment (Strengths and Weaknesses)

## A. Management

## 1. Board of Directors

## a. Board Size and Composition

The board consists of nine members. Four are members of the Coors family. The other five are company insiders (Ghemawat, 1992).

## b. Skills and Functions

There is no data available for this question.

## c. Percentage of Stock Owned

There is no specific data available for this question. However, it must be noted that the Coors family, four of whom are on the board, holds 100% of the voting and 20% of the total stock (Ghemawat, 1992).

## d. Level of Involvement in the Oversight of the Corporation

There is no data available to answer this question.

## 2. Top Management

## a. Chief Characteristics

The Coors company recently came under new management. The new managers are committed to increasing their marketing, and to working with minorities (Ghemawat, 1992).

## b. Organizational Structure

There is no data available to answer this question.

## c. Culture

Information in the case implies that the culture is one of unanimous agreement among top brass. It is notable that Peter Coors cast the first dissenting vote in the company’s history in 1976 (Ghemawat, 1992).

## 3. Conclusion

The Management function is assessed to be a weakness due to the high involvement of family and company insiders.

## B. Marketing

## 1. Product Mix

Coors offers six product lines under the following brands:

## a. Premium:

Coors Banquet, Premium

Coors Light, premium light

## b. Superpremium:

Coors Extra Gold,

George Killian’s Irish Red ale,

Herman Joseph’s

## c. Ultrapremium:

Masters III

The only segment it does not currently operate in is the lower-priced Popular beer segment. The case states that the Popular category accounts for a 24% share of the market (Ghemawat, 1992, p. 16). According to Exhibit 6 in the case study (1992, p. 16) top competitor Anhueser-Busch is the only other competitor with six product lines, with three in the Light category and one each in the Popular, Premium, and Superpremium segments. Anhueser-Busch’s Premium Budweiser brand has 25. 8% market share; Miller’s Miller Lite Light brand has 10. 5%. The Coors’ brands listed in Exhibit 6 of the case have under 5% market share each (Ghemawat, 1992).

## 2. Pricing

The average wholesale price per barrel sold for $67 per barrel (Ghemawat, 1992). An examination of the numbers in Exhibit 9 of the case (1992, p. 19) reveals that Coors sold 14. 7 million barrels at an average price of $73. 40. This shows that the company is able to command a price premium for their product.

## 3. Distribution

Coors has three weaknesses in their distribution system:

(1) Coors ships its products a median distance of 1500 miles (Ghemawat, 1992). Using the figures detailed in the industry analysis, this would equal shipping costs of $5. 62-$10. 00 per barrel, which eats away at their price premium.

(2) Almost half of Coors’ trucking volume is done by a subsidiary of the company. The subsidiary does not operate as efficiently as independent trucking companies, which increases costs by 10-15% (Ghemawat, 1992).

(3) The company has 574 wholesalers, but is currently expanding its territory. As detailed in the industry analysis, it is becoming increasingly hard to find wholesalers to carry brands other than Anheuser-Busch or Miller as their lead products. This is a weakness.

## 4. Promotional Efforts

Coors began its advertising efforts later than its competitors, having previously relied mostly on word of mouth (Ghemawat, 1992). According to Exhibit 4 of the case (1992, p. 14), Coors spent $165 million on advertising in 1985, which is lower than the industry average of $200. 6 million. Their spending equaled $11. 20 per barrel, or 15. 3% of sales, which is higher than the industry averages of $6. 78 and 10. 05%, respectively. Their first successful ad campaign, for Coors Light, is credited with increasing the product’s market share from 1. 4% in 1980, to second place at 3. 4% in 1985 (Ghemawat, 1992, p. 16). The company’s market share is still low, indicating that the company