New market potential for heineken economics essay

Heineken N. V. is a Dutch brewing company, headquartered in Amsterdam, Netherland. It is founded in 1864 by Gerard Adriaan Heineken. Continuous expansion in productions and sales has led Heineken to emerge as the largest brewer in Europe, and the third largest global beer producer, following closely behind two global leaders of the brewing industry, Belgium-based Anheuser-Busch InBev and London-listed SABMiller. [] Currently, it has 140 breweries in more than 70 countries [] (Figure 1, under Exhibits), making Heineken® one of the most recognised and valuable brands in the world. Heineken also produces and sells regional, local and specialty beers, ciders, soft drinks and wines to consumers worldwide.

Heineken achieves its global coverage through a combination of entry modes: exporting principal products such as Heineken® and Amstel® to profitable markets worldwide; and through Foreign Direct Investment (FDI) strategies in India, Africa, Asia and Latin America to secure a strong platform for future growth from emerging beer markets; as well as through license agreements, strategic partnerships and alliances.

Foreign Market Analysis

Before selecting an entry mode, Heineken has to conduct foreign markets analysis to decide on a favourable foreign market for its expansion. Heineken has to assess and evaluate the opportunities and risks offered by each foreign market by considering the following issues: market potential, level of competition, the legal and political environment and sociocultural influences.

Market Potential

The market potential of different countries reflects the future market size available for Heineken beer products. One of the important determinants of market potential is the consumer demand for alcohol or beer beverages, which has a direct relationship with the sales forecasts for beer products. Countries with high and growing alcohol consumption would generate high volume of sales, and eventually high profits. High alcohol consumption in the European countries (Figure 2) has occupied over 50% of the consolidated sales volume of Heineken products in 2010. (Figure 3) Hence, such countries provide great opportunities for Heineken to exploit.

Countries with high or growing GDP (Gross Domestic Product) and population growth rate, like African countries have high markets potentials as well. As written by Heineken in a statement, “ With its large, growing population, political stability, improving economy and rapidly growing beer market, Ethiopia is a promising, long-term growth market for Heineken in Africa,” []

Level of Competition

Heineken would need to assess the number and size of other beer breweries that are competing in the foreign market. The existence of a high number of dominant beer producers, local and foreign, would indicate a highly competitive and saturated market. In United States (U. S.), the high level of local competition may have led Heineken to use an export strategy, so as to differentiate its product from those of the established American breweries.

Page | 2

Legal and Political Environment

Legal drinking age differs across countries, or even within countries. For example in India, the legal minimum age for buying and drinking alcohol is 18 to 25 years, which varies from state to state. [] This affects the market potential in the country.

Another legal issue is the prohibition of alcohol in Islamic countries. Hence special considerations have to be made when entering into the Middle East and North African markets, such as United Arab Emirates and Egypt. To counter the problem, Heineken has credits its mix of drinks – such as fruit-flavoured malt-based drinks, popular among youth as a beer substitute in these markets. [] This strategic decision has helped it to secure a 40% market share in the United Arab Emirates and 90% in Egypt.

In 2003, Heineken acquired Fayrouz, a popular fruit-flavoured beverage, when it took over the Egypt's only brewery, Al Harham Beverages Co (ABC. [] This became a springboard for its expansion into the potential Muslim consumer markets around the world by providing non-alcoholic beverages.

Sociocultural Distance

Sociocultural distance reflects the level of similarities in businesses practices, language and educational level between countries. Sociocultural differences discourage investments because of the difficulties involved in transferring marketing, technology, and human resources. [] Incremental internationalisation is the key to Heineken's success – whereby it gradually gains sufficient experience and resources from operating in similar markets (i. e. European countries) before moving on to dissimilar market segments in the world.

Advantages and Disadvantages of Exporting

Near the beginning of its establishment, Heineken has chosen a direct export strategy to enter new foreign markets, whereby its beer products are sold to independent intermediary (distributors) outside of its home country.

Advantages

Export strategy is a low-risk entry mode. It allows Heineken to expand its operations without incurring high investment on capital and expertise, hence exposing it to low financial risks. By avoiding high set-up and production cost, Heineken is able to channel more resources to promotional and advertising efforts, which are powerful tools to increase its brand recognition and sales profits.

Due to its lack of international experience at the beginning, exporting provides time for Heineken to assess the local environment and adapt to local customers' needs and wants. For instance, Heineken has observed the fall in sales of a Munich-brewed beer, Lowenbrau when it was produced locally in US during the 1970s. To avoid committing the same mistake, Heineken has refused to establish a brewery in U. S. because it understood that U. S. consumers believe the superiority of an ' imported-beer' image. This image enables Heineken to differentiate its products and avoid head-to-head competition with other dominant brewers such as Anheuser-Busch Inc, who owns 12 breweries in the United States. [] Currently, U. S. is its largest export market

Disadvantages

However, exporting limits Heineken’s ability to be a dominant force in the foreign market due to limited access to information, as well as restricted control over the price-setting and local distribution of its products.

To counter such problem in the U. S., Heineken has strategically acquired the U. S. distribution company, Van Munching & Company (currently, it is named Heineken USA) to gain better control over the import, marketing and distribution of beer products. Heineken could also save on high market research cost by tapping on the information of the local market, which is previously analysed by Van Munching & Company.

Heineken also invested heavily in technology to manage its complex international distribution system, keeping its worldwide distributors inform of sales and promotions.

Through export operations, Heineken is vulnerable to trade barriers such as import duties. Import duties would raise the price of its beer products, making it difficult to compete with domestic brands in local markets. To overcome such situation in Russia, Heineken has acquired a Bravo, a Russian brewery. As Russia has very high import duties; the Heineken brand will have a competitive advantage in the Russian premium market when it is brewed in the country itself. []

Key Issues of International Licensing

International licensing involves the sale of the right to use intellectual property from one firm (licensor) to another firm (licensee), in exchange for a royalty fee. Heineken has started pursuing licensing agreements in 1970s, allowing domestic breweries such as in France, Ireland, Spain and Italy to produce Heineken® beer products for local markets. The licensing policy pursued in the 1970's has contributed substantially to the further internationalization of the group. []

International licensing has relatively low financial risk; it provides the opportunity to learn about sales potential in foreign markets; it also allows them to capitalise on location advantages of foreign markets. Despite the advantages, there are several key issues to consider:

High mutual dependency is developed between Heineken and its licensee. Thus, it is important to minimise the possibilities of conflicts and misunderstandings regarding terms on license agreement, especially when sociocultural distance exists between them. When drafting an agreement, Heineken and its brewing partner would need to clearly define and specify terms and conditions, compensation and royalty fees to prevent future problems.

The transfer of intangible properties, technology or even proprietary and confidential information related to production of Heineken beer products to its licensee could be highly risky. The licensee could become a future potential competitor of Heineken by extracting valuable information and resources and use it for its own advantages, especially if licensee's rights and privileges or duration of contract are not clearly stated. Heineken's might lose its property rights and its hard-earned brand reputation might be tarnished if no precautions are made.

High dependence on its brewing partner would limit the market opportunities of Heineken when its decisions have to go through the agreement of its partner before execution. This would affect the speed of entry into new foreign markets and other dominant breweries would have seized the opportunities, putting Heineken at a disadvantage.

Foreign Direct Investment (Heineken VS Anheuser-Busch InBev)

Foreign Direct Investments (FDI) enables Heineken to have full control and ownership over the resources and its subsidiaries, enabling better coordination of production activities.

FDI could come in three forms, which are utilised in Heineken global expansion:

Greenfield Investments

Acquisition Strategies

Joint Ventures

Heinekensets up new breweries in foreign markets, with the assistance from local government and financial institutions.

Heinekenhas set up breweries in countries of different regions (Ireland, Italy, etc) so as to exploit location advantages (relative wage rates, production capacity, R&D facilities, market potential)

Heinekenbuys over local existing breweries in foreign country, thereby having access to new markets, technology, trained and skilled employees, and product distribution systems.

E. g. In 2010, the company's performance was significantly boosted by its acquisition of the second largest Mexican brewer and bottler FEMSA, which granted access to the fast growing Mexican and Brazilian markets.[]

Heinekenjoins with one or more foreign firms to exploit the mutual benefits. Via joint ventures with countries, Heinekenis able to further expand into new countries in the same region.

E. g. Asia Pacific Breweries Limited, the Singapore-based joint venture of Heinekenand Fraser &Neave[]has served as a springboard for Heinekento execute its sales and operations in other Asia Pacific countries.

Belgium-based Anheuser-Busch InBev is the leading global brewer and one of the world's top five consumer products companies. [] Its global operations span 23 countries through six zones [] (Figure 4). This greatly differs from Heineken, who currently operates in around 70 countries across the globe, including the Middle East and African regions, which are not covered by Anheuser-Busch InBev. This indicates that FDI strategies are less widely used in Anheuser-Busch InBev's global expansion.

As high investment of resources and time are required for FDI strategies, Anheuser-Busch InBev may choose focus its investments in its top-selling consumer markets, such as U. S. and European countries, rather than diversifying its operations. By allocating more resources towards strengthening its brand image, Anheuser-Busch InBev is still able to attain top market positions in many countries and secure large portion of market share in the brewing industry despite its relatively small number of operations.

With increasing strong competitions in the brewing industry, Heineken has to continue channelling resources to build up its brand image in its global markets. It also has to invest in R&D to invent new regional and local products to accommodate to the potential niche markets, such as in Middle East and Africa. By bringing its superior quality and unique taste of beer to consumers all around the world, Heineken will continue to emerge as one of the top global brands in the brewing industry.

Exhibits

Figure 1: Operational Zones of Heineken (Source: Heineken Annual Report 2010, Where We Operate)

Figure 2: Alcohol consumption per capita (age 15 or older), per year, by country, in liters of pure alcohol (source: Wikipedia)

In thousands of hectolitres

2010

2009

%

Western Europe

45, 394

47, 151

31. 1

Central and Eastern Europe

42, 237

46, 165

29. 0

Africa and the MIddle East

19, 070

19, 820

13. 1

The Americas

37, 843

9, 430

25. 9

Asia Pacific

1, 328

2, 681

0. 9

Consolidated beer volume

145, 872

125, 247

100

Figure 3: Geographic distribution of consolidated beer volume (source: Heineken Annual Report 2010)

Figure 4: Six operational zones of Anheuser-Busch InBev (Source: Anheuser-Busch InBev webpage)