

Al ahram beverages essay

[Business](#), [Industries](#)



Case Analysis Al Ahram Beverages Company “ 2” By: Marmina Abdel-Malek

900 00 1809 Fall 09 ? I-Overview: ABC was a public company originally found in 1897, that has been nationalized in 1963, until it had been privatized in 1997 and acquired by the Luxor Investment group represented by Ahmed el Zayat as a CEO and board chairman. Luxor group is an American investment group focusing on investment more than the business itself. Zayat’s vision and objectives: Marinating local market dominance and transforming the company from a domestic brewer to a leading edge multinational beverages company. II-Situation Analysis: General Environment Analysis oDemographic Trends ? 350 million Muslim in the MENA region ? Platform for easy access to many countries ? Population size: 60. 2 million in 1994 ? Age structure: 60% under 25 years ? Ethnic mix/religion: 94% Muslims and 6% Coptic Christians oEconomic Trends ? GDP increasing steadily (6. 11%) •Average per capita is USD 50/ month •Inflation decreased from 21. 10% in 1992 to 8.

3% in 1996 •Different government trend: deregulation of the economy ?

Privatization of publicly owned enterprises ? Liberalization of financial

markets and trade ? Trade liberalization efforts ? Removing the ceiling on

nominal interest rates Depreciation of the EGP against the dollar oPolitical

Legal Trends ? Tax holidays for newly manufactured or upgraded plants •6

years tax holiday for Sharkia plant •10 years tax holiday for Nile Brewery ?

High Tax on imported beer and spirits •1200% for non-touristic areas and

300% for touristic. ? High duties on wines were to take place for the coming

4 years. ? Stable political environment: peaceful relations with neighboring

countries & no military disputes ? Sale of alcohol is legal.

? The Egyptian labor law governs the termination of permanent or temporary employees; consequently a company cannot easily fire an employee. Socio-cultural trends ? Religious and conservative society ? Alcoholic drinks were not culturally accepted as it was banned by Islam ? Anti-secular movements

III-Industry Analysis (Porter's model) a. Threat of new entrants i.

Government promise no more entrants for 2 more years ii. High initial costs for new competitors: 1. Building distribution network (moreover, it was almost impossible to open new outlets, so acquisition of already available alcoholic outlet was the practical solution) 2. Building new plants b.

Rivalry among company i. Monopoly, no local competitors ii. Protection from imported products by taxation barriers 300% for touristic locations and 1200% for other outlets. c. Threat of substitute product i. Alcoholic market: no competing substitutes were available ii.

Non-Alcoholic Malt Based: many products were available, but ABC products were differentiated because they are malt based which were perceived as healthier and as more natural than soda sugary drinks. iii. Non-Alcoholic soda drinks: many substitutes were available. Were performing poorly. d.

Bargaining power of buyers i. Buyers are limited in choice between the ABC affordable drinks or extremely expensive imported drinks. .

Bargaining power of suppliers i. Dina Modern Agricultural company 41% which represents a big percentage of ABC's supplies. Any conflict will pose a threat on ABC such as shortage in supplies and interruption of production.

IV-ABC Market analysis: a.

NAMB i. ABC has market dominance since its inception. b. Beer i. Offered as proprietary local brands, brands produced under license and imported labels. ii. ABC has 99.

2% market share c. Wine i. Estimated market demand of 2 million cases (current is only 1 million case) ii. 188% increase in consumption from 1999 to 2000 (after enhancing quality and packaging) iii. Imports declined by 15% V-Internal Analysis a.

Financial i. Good financial indicators 1. Doubled earnings per share 2. 350% increase of the book value per share 3. Quadrupled its production capacity 4.

Introduced more than 30 new products 5. Consistent annual earnings growth from 25%-30% 6. 27% returns on invested capital 7. 34% net margin b.

Marketing: i. Deep understanding of the market, its segments and its needs. ii.

Bandwidth covering the market needs. 1. Spirits 2.

Wine 3. Alcoholic Beer 4. Non Alcoholic Beer (NAMB) 5. Soft Drinks iii. High growth rates in some markets: 1. In wine: 30% growth rate per annum c.

HR i. Professional team of managers with ii. Stocks option for employees and managers to attract highly qualified members iii. Interests alignment of employees with management and stakeholders. d.

Brand i. Strong brand presence and awareness in the local market ii.

Association with international brands such as Carlsberg. iii. Brand width: it had a product to meet every taste. e. Distribution network i.

Strong distribution network 1. Reach: 1200 employee, 500 truck, & 17 storehouses 2. Gouna Distribution and Trading 3.

Agencies ii. Super Stores (43 stores) iii. Home delivery f. Production i.

Upgraded and expanded facilities 1. Sharkia Brewery (NAMB & CSD) 900, 000 hl 2. Obour Brewery (Alcoholic Beer) 600, 000 hl 3. Badr (NAMB) 675, 000 hl 4. Gineaclis (wine) 5, 500, 000 liters (storage capacity) 5. Gineaclis (Spirits) 1, 050, 000 liters (distillation capacity) ii. Affiliation with expertise bodies improved quality 1.

Supervision with Gineestet Groupe on wine production 2. Carlsberg team on beer production g. Management Performance: i. Classified as one of the best 200 best managed small businesses in 2001 ii. Honored with Meed's Business-to-consumer product manufacturing award in 2002 for business excellence. VI-SWOT: Strengths: -ABC's monopoly position in the local market Regional presence and dominance for the NAMB line -Excellent financial performance -Excellent profitability rates -Wide variety of products serving every need -Highly qualified managers and employees -Well established distribution & retail network (can be considered as one of the strongest barriers against new entrants) Weaknesses: -ABC's share prices was undervalued Opportunities: -A potential NAMB market of 350 million Muslim in the MENA region market -A potential market of 11 million Coptic Christians in Egypt -Tourism recovery in the region leading to an increase in consumption -Increase in the consumption rates of beverages Increase in the GDP of local market -The increase in percentage of disposable income - Government promise of not allowing new entrants for the coming 2 years

Threats: -Demand instability due to religious and health concerns as well as dependence on tourism -Removing tax barriers on imported beverages - Strict prohibition in advertising alcoholic products in the local media - Religious movements against alcoholic drinks -Repulsion of employees due to religious ideology. Strategic Quest: Al Zayat and ABC at crossroads, torn between selling ABC or buying ABC from Luxor Group! Strategic Alternatives:

A. Selling ABC to Heineken Pros: -ABC would leverage Heineken in: a.

International business experience and strong foothold in 160 country b.

Facilitation of ABC to access international markets leveraging Heineken resources such as distribution networks, marketing channels, brand association, brand/product introduction, etc -Faster growth and expansion rates by exploiting Heineken resources. -Maximizing value for shareholders

Cons: -The company would be perceived as a foreign entity, which might affect brand loyalty.

-ABC, will become one of many subsidiaries at Heineken which might have negative effects on ABC such as: c. Being used in transfer costs operations, making ABC serve other subsidiaries and making losses d. Serving the global strategic goals of Heineken which might not always for the best interest of

ABC. B. MBO: Al Zayat acquiring ABC jointly with Banque Misr Pros: -ABC continuing its success story leveraging the experience and tactics of el

Zayat. -With the Banque Misr joint venture, the company would be perceived as national entity and would receive more support from the government and citizens. -Maximizing value for shareholders if acquired with the same amount as Heineken group. Cons: -Slower international expansion Religious

movement forcing Banque Misr from pulling out from alcoholic (or any non-Islamic friendly businesses).

Recommended Action: I would recommend selling ABC to Heineken because Heineken's resources and international presence will help ABC grow in a sky rocketing speed. At the same time, Heineken's acquisition maximizes the shareholders value (i. e. Luxor Group) who originally appointed Al Zayat for this purpose. However, ABC and Al Zayat have to make sure that the Heineken's strategies, goals and interests are aligned with ABC's and not exploiting ABC to serve any other subsidiaries without a return. Although, this cannot be guaranteed, yet a deep professional analysis can forecast the type of the relation and if the interests are aligned or conflicting.

If Heineken's interests were conflicting with ABC, then ABC should sacrifice Heineken's leverage and resources and look for another buyer whose interests are more aligned with ABC. Note: According to the case, Heineken decided to implement the five year plan that has been drawn up earlier by the ABC, which might be a positive indicator that ABC would continue its roadmap for the coming 5 years.