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II. Introduction

Oligopoly refers to the market situation that would lie between pure competition and monopoly. It is characterized by small group of firms that control the market for a certain product or service. This gives these businesses huge influence over price and other aspects of the market.

This research focuses on the study about the two of the largest beer manufacturers in the Philippines ─San Miguel Brewery and Asia Brewery─ that participate in an oligopoly within the beer industry.

Beer is the most consumed alcoholic beverage in the Philippines and amounts for a 70% share of the domestic alcoholic drinks market in terms of volume. The beer business in the Philippines is seen to grow at an average of 3 percent per year within the next five years, reflecting a marked slowdown from 5. 04 percent in the previous five. This translates to half a million hecto liters increase in volume sold from 16. 5 million in 2010.

A study conducted by global beverage research firm Canadean Limited, used by San Miguel Brewery, Inc. in its recent bond offering showed in the past five years per capita sales of beer in the Philippines is 17 liters from 15 liters five years ago. That is why the Philippines became the third largest beer market in Southeast Asia, comprised of Vietnam, Thailand, the Philippines, Indonesia, Malaysia, and Singapore, and is the sixth largest beer market by sales volume in greater Asia.

Although beer is at the peak of its growth, there is still a bright outlook for the category as per capita consumption in the Philippines is still relatively low in comparison to other Asian countries. Players are anticipated to introduce new consumption occasions over the forecast period by participating in festivals across the country and organizing summer parties to further stimulate demand. Collaborating with on-trade establishments is also foreseen, offering promotions during happy hour to boost volume sales.

III. BACKGROUND OF THE STUDY

\* Objectives
-Primary
Determine how profitable companies such as San Miguel Brewery and Asia Brewery industries are.

-Secondary
Know how the oligopolistic competition of these companies affects price.
Identify who dominates the beer industry in the Philippines.

\* Industry Background

Industry no. 1

San Miguel Brewery, Inc., a subsidiary of San Miguel Corporation, is the largest beer producer in the Philippines, with a market share of over 80% as of 2011.

The original San Miguel Brewery was founded in 1890 in Spain. Later renamed as San Miguel Corporation (SMC) in 1963, it has grown into one of the Philippines’ largest business conglomerates with interests in alcoholic and non-alcoholic beverages, food, packaging, power, oil and telecommunications.

San Miguel is one of the largest in South East Asia. San Miguel owns many breweries including Anker in Indonesia and James Boag in Australia, as well making brandy and gin the also manufacture foods and Coca-Cola under license. Despite San Miguel’s blue chip strength there still is plenty of room in the Philippine market for other brewers with Asia Breweries also being a top player in the Asian beer market and is possibly the Philippines second largest brewery. Output Description

San Miguel Brewery has five breweries spread across the country producing eight strong and popular beer brands: San Mig Light, Red Horse Beer, Cerveza Negra, Gold Eagle Beer, San Miguel Strong Ice, San Miguel Super Dry, San Miguel Premium All-Malt Beer and its flagship brand San Miguel Pale Pilsen.

Geographic Market and Strategic Behavior

The SMB distributes its products all over Luzon, Visayas and Mindanao. Also, the international beer operations also offer the Pale Pilsen and San Mig Light brands in the Hong Kong, China, Thailand, Vietnam and Indonesia markets and Red Horse in the Thailand market, in addition to local brands: Valor (Hong Kong, China), Blue Ice (Hong Kong), Dragon and Guang’s Pineapple (South China), Super Cool and Blue Star (North China), W1N Bia and Dzo (Vietnam) and Anker, Kudah Putih, Sodaku, and Soda Ice (Indonesia).

Other Revenues include sales of CO2 and traded products. In addition to serving their local markets, the breweries of the SMBIL Group also sell their products in various export markets.

In addition, SMBIL also exports its beer products to over 50 countries, with key markets such as UAE, Japan, Sudan, Taiwan, Malaysia, Singapore and United States. SMBIL’s exports are primarily sold under various San Miguel beer brands as well as under private labels. In 2011, export sales accounted for 20% of total beer sales of SMBIL.

Supply Chain

The Company has a far-reaching and efficient distribution system, which is based on five strategically located breweries and effective management of third party service providers and provides the Company with a competitive advantage.

The Company’s 49 sales offices, contracted logistics providers and transportation assets including 271 hauling trucks, 201 routing trucks, 254 pre-sell vans and 392 service pick-ups and its network of 468 dealers across the Philippines enable it to maintain optimum stock levels in terms of quality and quantity in approximately 471, 000 on-premise and off-premise outlets nationwide. The Company’s products are delivered from any one of the Company’s five breweries by contract haulers to a sales office or dealer warehouse within five days of production date or less. The sales office or dealer then delivers the beer to the wholesaler or retailer promptly afterward, ensuring ample stock and quality wherever and whenever San Miguel Beer products are needed.

Domestic Market

The Company markets, sells and distributes its products principally in the Philippines. The Company’s beer products are distributed and sold at 481, 103 outlets, including off-premise outlets such as supermarkets, grocery stores, sari-sari stores, and convenience stores, as well as on-premise outlets such as bars, restaurants, hotels and beer gardens.

The strategic location of the Company’s production facilities in the Philippines reduces overall risks by having alternative product sources to avert possible shortages and meet surges in demand in any part of the country. This also assists the Company in ensuring that the beer is freshly delivered to customers at an optimal cost.

As of December 31, 2011, the Company, together with its distributors and call center associates, had a sales force of approximately 1, 180 in the Philippines.

International Market

The SMB Beer Group also has brewery operations in Hong Kong, China, Vietnam, Thailand and Indonesia. The SMBIL Group has one brewery each in Indonesia, Vietnam, Thailand, and Hong Kong, and two breweries in China, with total capacity of 7. 1 million hectoliters. Third party service providers transport the products produced from these breweries to the customers of the SMBIL Group, which may consist of dealers, wholesalers, retail chains, or outlets, depending on the market.

Capacity

SMB has breweries in each of Valenzuela City, Metro Manila; San Fernando City, Pampanga; Mandaue City, Cebu; Bacolod City, Negros Occidental; and Darong, Sta. Cruz, Davao del Sur, with a total annual production capacity of 15. 1 million hectoliters. Each of these breweries is equipped with automated facilities capable of packaging the Company’s products in a variety of sizes and formats, including bottles, cans, and kegs.

In addition, the Company expects to further increase its sales by expanding its coverage of areas it currently under-serves. Despite its overall market dominance, the Company believes there are areas where it holds less than 85% market share. The Company believes it will be able to grow its sales and share in these markets through enhanced distribution and promotional strategies.

Employment

It is the belief the corporation that is the reason for their success. They are interested in young, talented, dynamic, goal-oriented and career driven individuals who have the passion to lead, excel and succeed.

San Miguel Brewery Inc. is an employer of choice for working professionals in the fields of \* Sales / Marketing
\* Engineering (Mechanical, Industrial, Electrical and Chemical)
\* Chemistry
\* Microbiology
\* Accountancy / Finance
\* Communications / Public Affairs
\* Human Behavioral Sciences
\* Statistics
\* Information Technology
Industry no. 2

Asia Brewery is the second largest brewery in the Philippines, with 10% of its share in its home market. . The corporation was established by business tycoon Lucio Tan with the goal to uplift the standards of Filipino products while making it affordable for its Filipino consumers.

In a span of only three decades, Asia Brewery, Inc. has grown to be a major player in the country’s beverage and industrial packaging industry. Beginning only with a vision to provide a high quality alternative to the brewery monopoly of its main competitor at prices that the average Filipino can manage, it has since evolved into the second largest beverage manufacturer in the country.

Today, ABI continues to develop new products that aim to quench the ever-changing taste of the Filipino consumer. As it celebrates its 30th year, it remains committed to its mission to provide products of exceptional quality that is still within the reach of the majority. And as it delivers goods and services that uplift the standards of the Filipino people, it also emboldens them to always thirst for something better.

Asia Brewery was established in 1982 and currently sells six beer brands in the Philippine market. Asia Brewery sold approximately 2. 4 million U. S. barrels (approximately 2. 8 million hectoliters) of beer in the Philippines, giving it a market share of approximately twenty percent.

Output description

It produces malt beverages like beer, shandy, iced tea, bottled water and carbonated soft drinks. Its sister company Tanduay Distillers, Inc. produces hard liquor. It somewhat mimics the structure of its bigger rival San Miguel Corporation, except that ABI has no food and agribusiness divisions.

Geographic Market and Strategic Behavior
ABI competes nationally with SMB that distributes its products also all over the Philippines. It is a brewery founded in 1982 in Makati City.

In 2001, Beer na Beer was reformulated and now has 6. 0% alcohol volume. ABI’s seven other beers are sold on a somewhat limited scale, but its Colt 45 brand, launched in 1995, is the biggest among them. This malt liquor’s biggest competitor is Red Horse Extra Strong from San Miguel. ABI’s other licensed brands are Carlsberg (the brewery’s first beer in 1987), Lone Star (launched in 2000), Lone Star Light (2002), Colt Ice (2003), Lone Star ULTRA (the country’s first low-carb beer, launched in 2004, Stag (either cancelled or it’s just hard to find in the country), and Coors (2008). The company also offers Absolute distilled drinking water, the second biggest-selling bottled water brand in the market behind SMC’s Wilkins, and Summit mineral water. They are both launched in 1992. In 1995, Q Shandy was launched to compete with SMC’s Cali. In 1999, Pacific Sun iced tea was launched.

In 2009, Asia Brewery introduced Feel good, the first juice drink in the Philippines to contain prebiotics. Asia Brewery entered the low-priced carbonated soft drinks market by acquiring a license to produce Virgin Cola from Virgin Drinks. They are responsible in distributing products such as Summit Vitamin water, Zero Cal and 100Plus. In 2008, Asia Brewery partnered with Cobra International Beverage Holdings, Inc. introduced the Philippine version of Cobra Energy Drink

Supply Chain and Capacity

ABI Cabuyao plant is one of the biggest and most modern fully integrated manufacturing plants in Southeast Asia. Located 45 kms southeast of Manila, the plant is designed to process an annual production capacity of 4 million hectoliters of beer. The complex also houses a fully automated glass plant capable of turning out 20 different bottle types at any given time; a plastic crate manufacturing plant; a corrugated carton plant; a power generating plant; a waste water treatment plant; various warehousing and transportation operations and a bottled water production facility.

ABI’s bottling and packaging plants service some of the country’s largest food and beverage companies. In 1992, ABI achieved another milestone by opening Mindanao’s first brewery, in the town of El Salvador, some 20 kilometers west of Cagayan de Oro City in Misamis Oriental. Rated to produce approximately 2 million hectoliters of beer per annum, this brewery boasts of fully computerized state-of-the-art brewing facilities. This brewery fulfills the company’s need to supply the growing market demand for its products in Mindanao and the Visayas.

Employment

The launch of ABI gives its way to many young, goal-oriented and career driven individuals to showcase their abilities with regards to the production and selling the products of the company. It includes the job offering related the fields in Sales / Marketing, Engineering (Mechanical, Industrial, Electrical and Chemical), Chemistry, Accountancy / Finance, Communications / Public Affairs, Information Technology, Economics, etc.

\* Intensity of Rivalry

The San Miguel Brewery Inc. (SMB) faces competition from another domestic producer, Asia Brewery, Inc. (ABI), which sells both its own brand and foreign brands it produces under license, and from foreign brewers. ABI is the Company’s largest competitor in the Philippine market. It operates two breweries and also holds the license for Coors and Colt 45 in the Philippines. ABI competes, mainly on the basis of price, through its own Beer na Beer and Colt 45 brands. ABI also competes with the Company’s market-leading high alcohol beer product, Red Horse, with its licensed Colt 45, Manila Beer, and recently, Tanduay Ice.

These companies also competes with producers of other alcoholic beverages, primarily gin, rum, brandy, and recently, alcopops which are close substitutes to beer. In the beer industry — and more generally the alcoholic beverage industry — competitive factors generally include \* Price

\* Product quality
\* Brand awareness and loyalty

Competition with San Miguel

In 2008, the Marikina Regional Trial Court ordered the San Miguel Corporation to pay P130 million in damages to Asia Brewery after the court found SMC guilty of unfair trade practices for hoarding more than a million of Asia Brewery’s bottles and thousands of plastic crates. Judge Gutierrez said in the statement that by by withdrawing the ABI bottles from circulation, SMC effectively disrupted ABI’s marketing and distribution system and deprived it of the profits it could have gained if it [was] able to re-use the bottles and shells in the normal course of trade.

In 2010, the Court of Appeals reversed the decision of the RTC and dismissed the complaint of Asia Brewery that San Miguel was hiding sizeable number of its bottles to weaken its distribution. CA cited that Asia Brewery filed baseless suit against San Miguel and that San Miguel incurred negative publicity and therefore ordered Asia Brewery to pay P116 million in damages.

\* Entry Barriers

Market leadership and economies of scale.

San Miguel Beer products have consistently dominated the market for beer in the Philippines, the country’s largest alcoholic beverage segment. Based on the Company’s internal data, the Company’s products captured a high market share of 95% in 2007. The country’s top four beer brands are all produced by the Company. Unlike most other markets for beer, in the Philippines, imported brands account for only 0. 1% of the market, with distribution limited to upscale bars and hotels and high-end supermarkets. Despite the entry of local competition

In 1981 and the introduction of a few locally brewed versions of foreign brands, the Company has maintained an extremely strong market position. The popular acceptance and widespread availability of San Miguel Beer products have helped strengthen San Miguel Beer’s market position over the years. The Company’s size and scale of operations provide significant economies of scale in production, research and development, distribution, and managerial and marketing functions over a diversified product portfolio and geographic base. Its size also results in substantial leverage and significant bargaining power with suppliers and retailers.

Demand and Pricing

Increases in beer prices are driven by increases in raw materials prices, excise tax increases, fuel prices and other costs of doing business. Unlike basic necessities, beer is a discretionary purchase. Since the majority of beer drinkers in the Philippines belong to the lower socio-economic classes, where discretionary income is limited, the beer market is highly price elastic. Consumers tend to cut back on their consumption when beer prices rise and they tend to increase their consumption when prices fall.

In addition to beer pricing, demand for beer is also influenced by the relative price relationships between beer and other alcoholic beverages such as hard liquor, as well as the relationship between the prices of beer and non-alcoholic beverages, basic necessities, and other goods and services, in general. Drinkers are prone to adjust their buying choices according to shifts in the perceived value-for-money propositions of beer relative to other alcoholic beverages, non-alcoholic beverages, and other consumer products and services.

During periods of relatively weak economic growth, consumers tend to purchase more Economy beer brands, sales of which produce lower profit margins for the Company. In the last few years, 41consumers have been turning to high-alcohol beers, not only because of their affordability (most high-alcohol beers are relatively low-priced), but also because they need to purchase fewer bottles of these beers to get the same amount of alcohol. The Philippines has historically been primarily an off-premise market, as consumers drink most of their beer at home, mainly because drinking at home is cheaper than in bars, restaurants and other on-premise outlets.

Changes in Consumer Tastes and Preferences

Consumer preferences may change due to a number of factors, including changes in economic conditions and income levels, shifts in demographic and social trends, changes in lifestyle and leisure activity patterns, regulatory actions and negative publicity regarding alcohol consumption, and customer complaints against the alcoholic beverage industry or any company in the industry, any of which may affect consumers’ perception of beer and their willingness to purchase the Company’s products.

Taxes and Regulatory Environment

The Company’s operations are subject to various taxes. Excise tax accounts for a significant portion of the Company’s production costs. In January 2005, the Government increased the excise tax rates applicable to beer products by 20%, and excise tax rates were raised by a further 8% on January 1, 2007. The Government has announced that the excise tax rates applicable to beer will be raised by an additional 8% effective January 1, 2009 and by a further 8% effective January 1, 2011.

The Company attempts to pass higher taxes to its consumers by raising the prices of its products, although the timing and size of such price rises can be influenced by factors such as inflation and other economic conditions in the Philippines. Price changes the Company makes in reaction to changes in tax rates could affect the demand for the Company’s products as well as the Company’s profit margins, product pricing and net income.

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It is an uphill battle for Asia Brewery. Its main rival, San Miguel Corp.’s Pale Pilsen beer has been downgraded by the government to the lowest class of fermented liquor. This will give SMC the advantage of having the chance to reduce prices as a result of a smaller tax under the present excise system. The downgrade which should not have been allowed under the law if it should result in reduction of tax payment, may have the effect of eating away into the already small demand for beer brewed by Asia Brewery of Lucio Tan. Under the government’s original plan on sin taxes, about P12 billion is expected to be collected from fermented liquor or beer.

Finance Secretary Cesar Purisima, without giving a public explanation, succeeded in getting the bicameral committee to reduce the tax burden of beer to P4 billion. With ABI now marketing Asahi beer, the biggest competitor of Kirin which owns a substantial stake in San Miguel Brewery, a possible war between two Japanese brands may be brewing. The Philippines can become the new battleground for the two brands. At the start. ABI was marketing two hugely popular brands worldwide-Carlsberg from Denmark and Coors from the US. It dropped the two brands because of huge transport costs.

ABI cannot compete effectively with San Miguel without incurring huge losses. ABI does not hope to take so big a slice of the market of San Miguel. Its strategy is to make beer available to those who cannot buy Pale Pilsen and its various variants. ABI has not been able to give San Miguel beer any semblance of meaningful competition. The familiarity of the market with San Miguel is indestructible. In the same way that Lucio Tan’s Tanduay rum bought from the Elizaldes is lord and master in the rum market. The problem of ABI became more complicated when the present sin tax law downgraded pale pilsen to the category of ABI’s Beer na Beer brand, the poor man’s brew.

Asia Brewery hardly makes that much in profits from beer. It is the beer drinkers who profit from its presence. The perception in the market is that if ABI had not come into the scene, San Miguel would have a beer monopoly. It will raise the price of beer to the limits. It cannot. If it does, ABI might expand its share of the market. It would be recalled that Lucio Tan advanced a few billion pesos to buy Eduardo Cojuangco’s stake in San Miguel, presumably including beer. Negotiations fell for reasons only Tan and Cojaungco know.

It is on record that San Miguel under the management of the Sorianos got scared when Lucio Tan came up with Asia Brewery. There were reports that SMC was causing, directly or indirectly the destruction of ABI beer bottles. With ABI marketing Asahi beer, SMC might finally find a competitor that can eat away a portion of its demand. SMC knows the market of beer and drinkers of distilled spirits. When people’s incomes go down, the drinkers switch to cheaper drink. San Miguel also dominates that market with gin. Today, the company is exporting rum and gets a profitable share of cheaper distilled spirits.

A beer war is brewing

IV. Methodology

Financial Statements ─ San Miguel Brewery

Financial Statements ─ Asia Brewery Incorporated

\* Comparison of Sales and Cost of Sales

SAN MIGUEL BREWERY
For the Year Ended For the Year Ended
December 31, 2011 December 31, 2010
(in millions)
Beer Sales
Domestic P 58, 010 P 55, 211
Exports 351 365
International 13, 233 11, 789
Other Revenues 316 210 Total 71, 910 67, 575

Having turned in strong results in both their domestic and overseas markets, San Miguel Brewery reported another record-breaking year having sold 224 million cases in 2011, three million cases more than the previous year, a 1. 4% increase from last year, and their sales revenue grew 6. 4%, reaching almost P72 billion.

ASIA BREWERY
For the Year Ended For the Year Ended
December 31, 2011 December 31, 2010
(in millions)
Beer Sales
Domestic P 10, 016 P 8164
Exports 290 160
International 3, 225 4980
Other Revenues 851 211 Total P 14, 382 P 13, 515

Alongside with the SMB, is the little by little bloom of Asia Brewery which increased its sales revenue from P13. 515 million to P14. 382 million during 2010. Distribution remained ABI’s key competitive advantage with volume generating initiatives further improving product availability among served outlets both domestically and overseas which blocks SMB from dominating the beer industry.

Based on the graph, we can see that SMB’s sales is much higher that ABI leading to the 80% market share in the beer industry during 2011. Going back to the Income Statements of both companies, the gross profits are P12. 182M and P2. 412M respectively for SMB and ABI. This significantly indicates that SMB is the leading beer company in the Philippines.

\* Analysis of expenses and other overheads

Based on the Income Statement, selling and administrative expenses got the highest percentage of cash outlays for both companies. It covers about 80% of the total expenses of both firms and the remaining is for interest expenses and other financing charges.

Selling and administrative expenses includes advertising, distribution, trucking, handling costs, commissions, freight-out, rent, salaries of administrative staffs, office depreciation, etc.

\* Market-segment Share

In the Philippines, San Miguel Brewery remains the undisputed leader in the industry. They have maintained their dominant market position through brand strength, quality product offerings, extensive trade distribution systems, customer-oriented programs and promotions, and unparalleled customer service. San Miguel Brewery controlled 80% of the beer market during 2011. Its contribution to the total alcoholic beverage category also exceeded targets, reaching 67% in 2011. This consolidation led to big economies of scale and high levels of profitability, which, with few exceptions, was positively correlated with national consolidation levels.

Meanwhile, the remaining percentage is controlled by Asia Brewery. It is significantly lower than San Miguel Brewery but still fighting for the coming years. The Company believes that its market leadership, size and scale of operations, and extensive distribution network in the Philippines create high entry barriers and provide the SMB with a competitive advantage
in the Philippines.

\* Comparison of Production: Imports by origin, and Exports by destination

The SMB Beer Group depends on raw materials sourced from third parties to produce its products. The SMB Beer Group procures key raw materials for its beer operations through a procurement group that uses standardized procurement procedures. Beer production requires malted barley and hops, which are sourced generally from the United States, Australia and Europe, while new sources in China and India are being developed; and adjuncts, primarily corn, sugar and rice, which are generally sourced domestically (where the breweries are located). In addition, depending on considerations such as price trends and the quality of raw materials, the SMB Beer Group also makes spot purchases in the open market. To ensure the quality of its products, the SMB Beer Group closely monitors the quality of its raw materials.

With the acquisition of San Miguel Brewing International Limited (SMBIL), the Group is organized in two major operating segments – domestic and international operations.

The domestic operations produce and market fermented and malt-based beverages within the Philippines. It also distributes its products to some export markets. The international operations also produce and market fermented and malt-based beverages in several foreign markets. It also imports beer products for distribution in the Hong Kong market.

Alongside SMB’s success in the Philippines, its international operations, through the San Miguel Brewing International, capped the year with exceptional results mainly by better operational efficiencies and cost management programs. Anker and San Miguel Beer premium brands contributed to double-digit volume growth and expanded profit in Indonesia, while San Miguel and premium brands enjoyed higher sales in Hong Kong.

For exports, volume and profit expansion were also evident, especially in proven markets like Sudan, Singapore, Malaysia, Taiwan and South Korea and in emerging markets in Africa and the Middle East. San Miguel Pale Pilsen’s enjoyed growth across the region, driven by exciting below- the-line and advertising campaigns.

On the other hand, the second largest beer producer in the country is set to bring in a new brand to challenge the market dominance of San Miguel. Asia Brewery Inc. (ABI) has partnered with Japan’s Asahi Breweries Ltd. to expand the premium beer market in the country by bringing another product.

ABI is planning expand the premium beer’s share through its exclusive distribution of Japan’s number one premium beer, Asahi Super Dry. The brand will attempt to challenge San Miguel Brewery Inc.’s two premium beers sold locally – San Miguel Super Dry and Kirin, another Japanese brand by Kirin Holdings Co. Ltd.

Budweiser will compete in the premium segment of the Philippine beer market. Distribution will first focus on major cities, including Metro Manila. Budweiser will be sold in standard packaging for the market in 330-ml bottles.

V. RESULTS AND DISCUSSIONS

The Philippine beer market is the fifth-largest in Asia and is expected to experience steady growth in the future. It is dominated by the two largest brewer in the Philippines ─San Miguel Brewery and Asia Brewery.

Based on the results of the study, it reveals that the Philippine alcoholic drinks had a stable volume sales performance in 2011. Domestic companies were the main facilitator of growth as their brands remained in demand among Filipinos due to their affordability and reasonable quality.

The industry also benefited from local manufacturers’ efforts in creating events that increased consumption such as Oktoberfest and summer parties, which resulted in higher volume sales and at the same time strengthened awareness for home-grown labels. The per capita consumption is 22 liters per year, compared to 85 liters per year in the United States.

From the financial statements, the operating income of San Miguel Brewery (SMB) rose to P17. 369 billion, up 14% from the previous year, resulting in a 24% operating margin. SMB’s consolidated revenues reached P71. 910 billion, a 6. 4% increase vis-a-vis last year. International volumes also grew by 9% and expenses also increase by 1. 35%. The net income of SMB for 2011 is P12. 182 billion, an increase by almost 17% from the previous year. This shows that SMB performed well this year and the company’s promise to grow and protect their market leadership in the Philippines has been fulfilled.

On the other hand, Asia Brewery (ABI) still competing with SMB had a net income of P2. 412 billion, a 16% increase compared to 2010. Its operating income grew by 13% over the previous year and incurred a 2. 32% increase in expenses amounting to P3. 786 billion. Revenues reached a 6. 4% increase which amounts to P14. 382 billion. Results reveal that the company did well during 2011 but not good enough to dominate SMB.

Thus, San Miguel Brewery continued to dominate the beer industry in the Philippines covering the 80% of the market. Established volume – generating programs (Muziklaban, the National Beer Drinking contest, the Oktoberfest), numerous on-premise activations, sponsorship of major events and festivals, and consumer loyalty promotions all continued to work for the business raising its profile and strengthening brand loyalty. SMB’s growth strategies based on multi-value distribution and consumption-generating programs continued to deliver strong growth so that continuing profitable growth was enhanced for the majority of products in SMB’s portfolio. But Asia Brewery is not giving up and still enhancing their market strategy to compete with SMB.

Meanwhile, brushed off concerns of a beer industry crunch because of the recently passed sin tax reform bill that raised excise taxes in alcoholic and tobacco products. This caused the price of the said alcohols to increase and therefore to breakeven the increased taxes. From these, we can say that these companies under oligopoly are price setters rather than price takers.

Also, barriers to entry are high. The most important barriers are market leadership and economies of scale, changes in consumer tastes and preferences, access to expensive and complex technology, and strategic actions by incumbent firms designed to discourage or destroy nascent firms. Additional sources of barriers to entry often result from government regulation favoring existing firms making it difficult for new firms to enter the market.

If SMB covers the 80% of the market, is it possible to consider it a monopoly?

Well the answer is no. The distinctive feature of an oligopoly is interdependence. Oligopolies are typically composed of a few large firms. Each firm is so large that its actions affect market conditions. Therefore the competing firms will be aware of a firm’s market actions and will respond appropriately. This means that in contemplating a market action, a firm must take into consideration the possible reactions of all competing firms and the firm’s countermoves. Since ABI is the main competitor of SMB, it prevents it from increasing its prices because if that so, sales of SMB will be greatly affected and probably customers will patronize more of the ABI products with the same product at a lower price.

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