

Sab miller: strategy analysis and pest



INTRODUCTION

SAB Miller is a South African brewing company and is the second largest brewer in the world, with sales and distribution across six different continents. SAB Miller with wide brand portfolio, both international premium beers to local brands it has come a long way, weathering turbulent times and political crisis. It is also one of the largest bottlers for Coca Cola.

VISION AND MISSION OF THE GROUP

VISION

To be the most admired company in the global beer industry

Investment of choice

Employer of choice

Partner of choice

MISSION

To own and nurture local and international brands that are the first choice of the consumer

VALUES

- Our people are our enduring advantage
- Accountability is clear and personal
- We work and win in teams
- We understand and respect our customers and consumers
- Our reputation is indivisible

CORPORATE STRATEGIES EMPLOYED BY SAB MILLER

SAB Miller being one of the oldest (100 plus) brewing company it had tremendous experience in the brewing field and the strategies used by SAB Miller are categorized as follows:

- Political
- Acquisitions and mergers
- Wide portfolio
- Brand value

POLITICAL

SAB being oldest brewing company in South Africa it was battered by political crisis during the 20th century. It has emerged as a company with building its operations in emerging and mature markets. During 1948 due to racist system of “ Apartheid”, there was opposition to the company. SAB also came across various other forces during this period they are:

- Business restricted to the country only
- Restrictions on doing business with international companies
- Investing in or trading with South African companies
- SAB formulated solution in order to comply with Government restrictions they were:
 - In 1950, SAB moved its HO from London to Johannesburg.
 - Focused on expansion mostly in southern parts of Africa and South Africa
 - Dominating the local market and domestic beer production
 - Expanding its product portfolio

- First company to employ the code of non-discriminatory employment
- In 1970 SAB became fully incorporated in South Africa and by the year 2000, it dominated the South African market to such an extent that 49 of every 50 beer consumed were brewed by SAB.

IMPLICATIONS

Due to the political conditions in South Africa SAB had very less room of doing business internationally, but these restrictions helped them to create a monopoly in South Africa. It owned a 99 percent market share here. It also incorporated its head quarters to Johannesburg, which helped it develop its market in Africa. Employing non-discriminatory code of employment helped it to gain public support. It expanded its portfolio by buying local breweries and started producing locally brewed Guinness, Amstel, and Carling black label.

ACQUISITIONS AND MERGERS

Due to the restrictions on local companies by the government, SAB had to settle in for the local South African market. Dominating the local market and eliminating competition was the goal of the company at the time and it was achieved by acquiring other local breweries and distribution facilities and by rationalized production. SAB also obtained the licensing of locally brewed Guinness, Amstel and Carling black label.

SAB made major acquisitions immediately after when the imposed restrictions were relaxed due the finalized process for establishment of a multiracial democracy in 1990.

SAB acquired Stellenbosch Farmers Winery in 1960.

In 1993, SAB acquired Hungary's largest brewery, Dreher that opened new door for further developments into central Europe

In 1994, SAB in joint venture with Tanzanian government it revitalized the brewing industry and also in countries like Zambia, Mozambique and Angola, SAB gave boost to production and distribution.

During the 90's SAB established operations in China, Poland, Romania, Slovakia, Russia, and Czeck Republic.

Acquiring 100% stakes in the Miller brewing company in 2002 was one of the most significant acquisitions made by SAB and becoming SAB Miller in the process.

Licencing of shebeens and launching them in retail mainstream.

SAB Miller also bought out its joint venture partner in India.

SAB Miller in 2005 merged with South American brewer Grupo Empresarial Bavaria.

IMPLICATIONS OF ACUSITIONS AND MERGERS

SAB controlled an estimated 99% of the market share in South Africa and had dominating positions in Swaziland, Lesotho, Rhodesia and Botswana.

SAB was able to diversify their business through joint ventures.

Due to fragmentation and small-scale business in Europe and Asia SAB was able to create profitable and fast growing business.

Launched quality products than their competitors for which the consumers had to pay more.

SAB promoted their premium brands.

Developing countries have growing economies thus opening doors for attractive markets.

SABMiller sends in both technical and distribution teams for inspection before it enters the market

Scare of HIV pandemic cost SAB costly labor, decrease in productivity

SAB business spread provided them with portfolio business

With volatile market in emerging economies where in SAB incurred majority of its profits, it had indirect effect in confidence of SAB in these countries.

SAB listed itself on LSE to give boost to its infrastructure.

Share price drop by 15.5% relative to FTSE 100 in the year end Nov 2000

Acquiring Miller Brewing Company made it second largest brewer in the world.

SAB could balance out loss in one country with profits in other countries.

Expanding production capacity and raising the quality of product in India.

Dip in share price of SAB Miller after acquiring Miller Brewing Company.

Introduced new packaging with new sales and distribution system and enhanced the flexibility of their production facilities.

SAB Trained around 6000 newly licensed taverniers in business skills.

SAB introduced broader and segmented brands

SAB gained strong and profitable market in South America; profits went up by 25%.

PORTFOLIO EXPANSION

SAB Miller brewing company is the second largest brewing company and has a wide portfolio globally, it has over 200 varieties of alcoholic and non-alcoholic beverages, produced and distributed. The major premium brands are Pilsner Urquell, Peroni Nastro Azzurro, Miller Genuine Draft, and Grolsch.

They started their expanding its portfolio by gaining control over Stellenbosch Farmers Winery in 1960.

Between 1960's- 70's it obtained license to brew locally Guinness, Amstel and Carling black label.

In 1987, SAB acquired Lion Match Company.

Re-launch of Miller genuine draft with high end positioning of mainstream market.

Launch of Peroni Nastro Azzurro.

EFFECT

Dominating the South African Market

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Leading match manufacture in South Africa

Better market position

Increase in sales

Profitable production and distribution

Capture of demographic market

Competitive advantage on the world stage

Improved marketing, sales and distribution

Annual report emphasized the importance broader portfolio in the company's corporate success.

PEST ANALYSIS

PEST analysis of an organization is an important part of strategic planning, as it looks at the external environment in which the firm operates.

PEST analysis helps company to develop strategies. The factors taken into account are:

Political

Economic

Social

Technological

Political Factors

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Under Political factors we have is the government rules and regulations on operations of a firm or company.

For SABMiller the following factors apply:

- South African government regulations
- Crisis due to racism
- International dealing and trading restrictions
- Employment laws

Economic Factors

Economic factors include exchange rate, taxation, market growth trends, GDP, disposable income, inflation, production volume, etc

In SABMiller's case, the following apply:

- Volatility of the exchange rate in developing countries
- Economic growth in developing worlds
- Listing on LSTE
- Acquisition of Miller Brewing Company
- Sensible product pricing
- Production and distribution costs
- Resource and labor cost
- Labor unrest

Social Factors

Social factors include the demographic and cultural aspects, health and living standards, population shifts and so on.

In case of SABMiller

- Change in consumption pattern
- Attachment to locally brewed beer
- Consumers becoming health conscious
- Class structure

Technological Factors

Technological factors include new invention, improvised tools and techniques, communication etc. It can lower barriers to entry, can lower down minimum efficient production levels, and influence outsourcing decisions.

In SABMiller's case are as follows:

- Research and development
- World class Automation in developing countries
- Production and distribution expertise
- Technology improvements

Q&A

1. Identify the corporate logics that SABMiller have adopted over the course of the case.

As discussed above SABMiller has adapted various strategies in order to be a leading brewer, they are:

Dealing with political rules and regulations

Acquisitions and merger on a global scale

Broader portfolio

Business in developing economies e. g. China, India

Repositioning and re-launching of products

Buying controlling stakes in newly privatized brewery

2. Strategy

a. Explain the strategic position that SAB finds itself in 2007.

As described SABMiller has good strategic position apart from fierce competition by Anheuser-Busch.

Dominating positions in South African and South American markets with good market share in Europe

SAB has expanded globally especially in Central and Eastern Europe, China apart from Southern part of Africa. It has operations in over of 18 countries with 30 breweries, with capacity 30. 5 million hectoliters capacity and 22 sorghum beer with 8. 5 million hectoliter capacity thus can create major market in these countries.

Though SABMiller lost the bid to acquire Harbin Brewery to Anheuser-Busch, it had competitive market in China with market growth by 6-8 percent per year.

With wide portfolio, SABMiller was able to capture the demographic market.

SAB was able to balance out loss in one country with profits in other countries.

With growing economies in developing countries, there was increase in disposable income, which gave way for better market share and profits with attractive pricing.

Even though SABMiller had a few problems with share price drop due to listing company in LSE and acquisition of Miller Brewing Company, stakeholders must have a firm belief in the SABMiller as it a FMCG company. The chance of losing share value is rare and with globalization of the company, the chances are high profitability and higher dividends to shareholders.

1. Acquisition of the major breweries and winery has helped SAB in dominating as well as having monopoly in countries
2. SABMiller had a strong and wide portfolio with launch of new products and attractive pricing, creating strong demographic market and flexibility in the system.
3. SABMiller could use its world-class technology and operation expertise to develop market in continents and also SABMiller sends in both technical and distribution teams for inspection before it enters the market

Africa – Has around 99% market share in South Africa and dominates in the rest of Africa.

Asia/E. Europe – Has breweries in Asia Pacific but with fierce competition and growth of market in India. Good market share in Russia, Romania, and Czech Republic and with acquisition of Hungary's brewery Dreher which paved way

for further developments in Europe. However, the future here remains uncertain until any major take over is carried out.

Latin America – Merger with Grupo Empresarial Bavaria 2nd largest brewer in South America consolidated SABMillers position.

4. Acquisition of Miller Brewing Company is the only major deal by SAB and becoming 2nd largest brewer, but has a tough time because of stiff competition by Anheuser-Busch.

5. SABMiller has a strong and diversified business with broad portfolio that will ultimately pay off as it creates a demographic market and flexibility in operations.

6. Joint venture with Grupo Empresarial Bavaria 2nd largest brewer in South America opened doors in Latin America, with lower investment and creating opportunities for itself

3. On the basis of your analysis, recommend the strategy that SAB should follow.

In my opinion SABMiller must develop their markets in Asia i. e. in China, India, and Asia Pacific. Though the market remains volatile, the chances of profit making are high. SABMiller must look forward to acquire Harbin brewery in China, as the market growth rate is 6-8 percent per year.

SABMiller must try acquiring majority stakes in Bavaria brewery, as there is growth in market.

SABMiller can dominate the local market and develop excellent operations by acquiring breweries with low performance, but with dominating market share with its expertise in production, distribution operations.