

Degree of  
concentration and  
balance among  
competitors  
marketing essay



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## **Introduction**

### **Description**

In the late 1840's and 1850's is when America began to change. German immigrants changed America forever by bringing over lager beer and introducing it to American culture. This was not the first time beer was introduced here but was the first time for a lager. Before this time most beers were produced at home by people and were mainly ale, porter, and stout. During this time technology was making great advances which also led to the rising increase of beer in America. One of the first advancements was the mechanical refrigeration. This was a huge improvement because it led to better production and better storing of beer once it was produced. Next pasteurization opened many doors in the beer industry. It made it possible to bottle the beer and also off premise consumption. Both of these factors opened the beer industry up to a much larger market which was never known before. In 1850 there were only about four hundred and thirty breweries in the United States that produced 750, 000 barrels of beer annually.

### **Segments**

The different segments of the industry include Ultra Premium, Super Premium, Premium, and Popular. These are the four major distinctions due to price and are how it is divided up in the industry.

### **Caveats**

There are some states that require brewers only sell through in-state distributors. This is not a nationwide law, but very common in some states.

Also there are different taxation laws regarding alcohol that are varied among the states.

## **Socio-Economic**

### **Governmental or Environmental Factors**

Between 1920 and 1933 alcohol consumption decreased dramatically due to The Noble Experiment, or Prohibition under the 18th Amendment to the United States Constitution. This law prohibited the sale, manufacturing, or transporting of any alcoholic beverage. Prohibition became very unpopular during the Great Depression and in March of 1933, United States President Roosevelt signed an amendment to the law allowing manufacturers to sell certain kinds of alcoholic beverages. Then in December 1933, the 21st Amendment was signed into the Constitution which repealed the 18th Amendment. As Prohibition was repealed the sale and manufacturing of beer began to increase steadily throughout the years as it continues to rise today. Even with the current economy and concentration of the market, beer accounts for 85% of the entire United States alcoholic consumption. American breweries will continue to grow and increase throughout the years without the boundaries of Prohibition ever existing again.

### **Economic Indicators**

Some of the economic factors influencing the brewery industry include providing jobs for millions of people across the states, a positive contribution to the economy, and even stabilizing communities. Some negatives that come along with this industry are the problems of underage drinking, but this industry strongly works at correcting this problem and provides

education and awareness on this subject. Many breweries have scholarship programs; they often give back to the community through disaster relief programs, and promoting recycling and community diversity. The brewing industry is not only concerned with providing a great beverage to their consumers, but also improving the lives of their consumers and those around their consumers. This industry alone provides over 946, 000 employees in the United States alone. There are over 2, 000 United States breweries and importers and 2, 700 distribution facilities. There are many facilities and distributors in the United States, there are five main names that control over 89% of the market. Anheuser-Busch, Miller Brewing, Coors, Stroh and G. Heileman continue to dominate the brewing market, with Anheuser-Busch producing the largest percent of the beer sold in the U. S.

## **Porter's Five Forces**

### **Threat of New Entrants**

### **Economies of Scale**

For the national breweries internal expansion was key. After breweries were more stable and able to operate at a higher capacity they began to increase the size and efficiency of their plants. This also led to an improvement in the packaging of their products, and with the increases in technology that were available they were able to use special fermentation processes that were combined with automated brewing. All of these factors also contributed to more plants being built and operations growing.

## **Working Capital Requirements**

Coors spends a great deal of their revenues on ingredients to produce their product. When comparing Coors to the rest of the industry, Coors spends about three times the amount of time fermenting their product as opposed to their competitors only using it for about twenty days. This costs Coors a great deal of money, but they are convinced it is evident by their sales and satisfaction of their consumers so they are willing to spend the extra buck now to get more in the long run. Coors looks at the big picture, and because they have been such a leader for so long, they have the funds to go the extra mile where as some of their competitors do not.

## **Proprietary Product Differences**

Adolf Coors came from Europe and arrived in Golden, Colorado. He first was a wine deliverer but then became a brewer of what we know as Coors Beer today. Golden, Colorado is where the perfect source of high country ingredients and perfect water combined with other ingredients make their distinguished and perfect beer. This still remains the only place today this beer is manufactured because of the naturalness of these ingredients. They use the snowmelt from the mountain as it travels down the canyon to create that unique and refreshing taste. It is the main ingredient for their product and it is a soft water that is perfect for their beer. Next they use barley from an elevation of 1, 500 feet as another primary and unique ingredient for their product. They use two row barley which has very plump kernels to give it extra flavor that no other competitor can duplicate.

## **Absolute Cost Advantage**

Coors Brewing has a patent of the very popular Insulated and Refrigerated Transport Line. This product provides enhanced temperature control of one or more beverages in the transport line. This has been a major advancement in the industry and Coors was the first to coin it and patent it for the use of their products only.

## **Brand Identity**

Brand Identity is very important in this industry. As stated earlier, there are over 2, 000 breweries in the United States, but of those, five of them make up 85% of sales in the United States. That goes to show exactly how important brand loyalty and awareness are in this industry and how that causes there to be a high barrier to entry. Although these five particular firms do control the majority of the market, they still do spend a great deal of money on advertising and marketing research to further expand their position in the market.

## **Access to distribution**

There are many different factors here for both the producer and consumer. Any firm entering the market had a difficult time because the leaders who served the largest brewers did not also supply any other brand so it made it difficult for them to get involved in the distribution channels. The power of the buyer was high because the wholesalers who purchased and provided the beer do not make much profit, so buyers are in great control. This was a reason brewers consolidated because the increase in sales of one brand would be the result of taking away from its competitors and not an increase

in the overall market. This was huge for the industry and thus caused them to consolidate so there actually would be profits made rather than up and down activity that was just a shift in consumer spending.

## **Expected Retaliation**

I wouldn't necessarily call it retaliation but competition. It would be very hard for a newcomer to come into this market and try to retaliate against anyone already established in the market because of the extremely high barriers to entry. It is proven very difficult for a new company to emerge after the market has already reached a point where brand loyalty is extremely difficult to change because consumers stick with what they know and love. Some companies have tried to combine themselves to compete with the larger companies in the industry but it has not yet been able to work as the five major brewers control such a large portion of the market.

## **DECISION MATRIX**

Business Strength - Competitive Position

Long term industry Attractiveness

High Attractiveness

Attractiveness of industry

Medium Attractiveness

Barriers to entrants

Low Attractiveness

Threat of new entrants

## **Suppliers**

### **Supplier concentration**

There are a large number of suppliers in this market. Due to the higher number of suppliers as opposed to actual firms, it gives buyers a great deal of power in the market.

### **Presence of substitute inputs**

The level of substitutes in this industry is high but there are pros and cons to each substitute. There is no other combination of lager exactly like Coors, but there are many that attempt to make a product as similar as possible with different benefits to get customers to choose their product as opposed to Coors. Because there are many substitutes available, this also increases the consumers buying power in this industry.

### **Differentiation of inputs**

Suppliers are able to differentiate their product whether it be by the look, advertising they use, ingredients, or even by their level of experience and satisfaction. Coors uses their unique ingredients to differentiate them in a very competitive market. They focus on their water and barley they use from Golden, Colorado that no other company is able to use.

### **Importance of volume to supplier**

We do buy a significant percentage of the total amount produced by these breweries. In the United States alone, we purchase over 85% of our beer from one of the five major companies that brew here in the United States.



Without the demand for this product, these breweries would be forced out of business or at least out of the United States market and move elsewhere.

### **Impact of Inputs on our cost or ability to differentiate**

Fortunately, we as consumers have a significant impact on the industry's cost structure. This is beneficial to the consumer as well as the economy. Because the consumer has such power, it keeps the market moving and growth in the economy.

### **Threat of forward or backward integration**

There is indication of vertical integration occurring in this industry. This has been a huge factor that the suppliers are working to gain access of more of the distribution channels. This is giving them more power over the industry.

### **Access to capital**

Because Coors is in such a powerful position in this market, they are likely to have access to capital for future projects including new ventures, expansion, and more facilities. If they were not one of the heavy hitters in the industry it would be much more difficult to acquire the capital they need to thrive and function in the market.

## **GRAPHY OF US BREWING INDUSTRY AND INFLATION INDEX**

### **Access to labor**

The access to labor is great in the brewing industry. It also provides great help to our economy as well as provides jobs for thousands of people across the United States. Currently, there aren't labor unions in the brewing

industry which I see as a positive aspect for the firms themselves as they  
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have complete control over their workers. On the other hand, for the employees it doesn't give them many guarantees in the workplace that could be established through a union.

## **Buyers**

### **Buyer concentration**

There are fewer buyers than firms in this industry which then gives the buyers the power. They can basically manipulate the breweries to forming into what they want and need.

### **Buyer switching costs**

There are switching costs, and because of that buyers are less likely to switch suppliers. It is very rare that a buyer will switch suppliers unless a major conflict arises or they can eliminate certain costs and get it at a lower final cost.

### **Buyer information**

Most buyers do understand what is going on in the brewing industry which gives them an advantage in the market. By having more knowledge they are able to make more informed decisions regarding purchasing.

### **Threat of backward integration**

There is not a threat of backward integration in this industry.

### **Pull through**

Because brand loyalty is very important in this industry, pull through is also very important. Although it is important, it does not give the firm complete power over the buyer, but does put them above their buyers.

## **Brand identity of buyers**

Though research provides analysis of their customers, there isn't a brand identity of buyers. There is a very wide range of people in this market, therefore almost impossible to give a specific identity to them.

## **Price sensitivity**

Brewers are not easily able to pass cost increases on to their customers, because the availability of substitutes is so high they would just go find another similar product elsewhere. It is fortunate for the consumers in this case they are not likely to take in the cost increases by the brewers.

## **Price to total purchases**

The purchases by buyers of products by the breweries do represent the majority of total purchases of the entire list of products. Although they have branched off into several different subcategories, their beer represents the largest

## **Substitute Products**

### **Relative price/performance relationship of substitutes**

Overall in this market, there are very few differences in products of this nature. It is very common that the only difference is a slight change in quantity of an ingredient, or the packaging, or price. Substitutes are very similar overall.

### **Buyer propensity to substitute**

It really depends on the taste of the consumer. If they want a different style instead of this lager, then they might go with a substitute. All they can do is

market it to the best of their ability and at least get those customers to try it and work their magic from there.

## **Rivalry**

### **Degree of concentration and balance among competitors**

There is not too much differentiation in this market because it is a beverage, refreshing, and tasty. The life cycle of this product isn't very long because it usually does not sit in the consumers home very long once purchased. So the industry is constantly trying to differentiate itself to remain one step ahead of competition whether it be by a new design, the new labels that tell you if it is cold enough, or the crisp taste once you crack it open.

### **Diversity among competitors**

The diversity would mainly be the different types of alcoholic beverages, and the many different types of beer that are out there. Rivalry is huge because there isn't too much room for differentiation so once you get a consumer, you want to keep them with your brand loyalty.

### **Industry growth rate (past and projected)**

This industry has seen steady growth even during the hard economic conditions that we are currently facing. It was even popular during the Great Depression when people had little or no money at all, but this industry was still on the rise.

### **Fixed costs to value added**

Fixed costs are somewhat high in this industry which explains the economies of scale that was previously stated.

## **Intermittent overcapacity**

Currently, this industry is running between capacity utilization and is at average activity levels.

## **Product differentiation**

As stated above, there is not too much room for product differentiation but the little that any company in the industry is able to provide is extremely helpful and vital in their success in edging out their competitors.

## **Growth of foreign competition**

The increase of foreign competition hasn't really hurt the US market all that much. There are some foreign companies edging their way into the market, but whenever they do, a US manufacturer does them one up and coins a product very similar at a cheaper, " domestic" price.

## **Corporate stakes**

This industry relies heavily on the revenues from their alcoholic beer industry. Although they do also sell merchandise among other various things, this is their primary source of revenue.

## **Exit barriers**

The easier way to exit this industry would either be by merger or a joint-venture with another company so that it would still be possible to mitigate losses and have a possible opportunity for net income.

## **Conclusion**

### **Critical success factors**

My conclusion is that differentiation, brand loyalty, and efficiencies are the three main success factors. These three factors are vital to the success in this industry.

### **Prognosis**

I would definitely invest in the brewing industry as it has shown constantly increasing growth and the ability to sustain their place in the market. Not only are they continually improving their products and product lines, they are becoming more and more aware of what the consumer wants, and finding ways to provide it for them at the lowest cost to all parties.

Business Strength - Competitive Position

Long term industry Attractiveness

High Attractiveness

Attractiveness of industry

Adaptability in the market

Medium Attractiveness

Barriers to entrants

Low Attractiveness

Threat of new entrants

High fixed costs

## **Part II: Firm Analysis**

### **Current Situation**

#### **Brief firm history**

Adolph Coors is the sole founder of Coors Brewing Company that officially opened up to the public in 1873. The home of this company resides in Golden, Colorado. Coors Company is a firm believer in the quality and uniqueness of their ingredients and that is why it is still only brewed there today. They rely on the two main ingredients they get from their surroundings in Golden, the natural water from the snowmelt atop the mountains as it travels down the canyon and the barley grown there. Though it was rough during Prohibition times, they found other ways to make ends meet besides the sale of their beer. Coors also produced malted milk, cement and porcelain. These products were their foundation during the times of Prohibition, and although they are not their prime product today, they still do make and sell them.

#### **Strategic posture**

The Coors family prides themselves on their mission and values and promises to always hold each other to the highest standards. Their mission states, " is to be a top four global brewer in profitability, fueled by our people who are committed to delivering exceptional results and creating extraordinary brands" (Coors Website). As stated in their vision, they are a family, driven by " their people", they are all one. And they are committed to doing the extraordinary.

## **External Environment**

### **Socio-cultural**

Some of the general outside environmental factors that are currently affecting Coors are the poor economic conditions, and the current recession we are in. People are being more frugal with their money and they do not have as much disposable income so they are not spending what little they do have as much on alcohol or beer as they have in the past. Also are more taxes being levied for sales tax. In addition to the sales taxes and other tariffs, there are more strict laws being put in place regarding consumption or alcohol and the sale of it.

### **Task environment**

The technological factors that I focused on were the improvements in refrigeration, pasteurization, and cycle life of their product. They have made drastic improvements combines with the industry advances in technology that have helped them get to where they are today. The biggest future threat that poses a risk to Coors is not necessarily their competitors, but the state of our economy. Although they have still shown steady increases in revenues throughout their brand, it still is not at the amount they would like. It is realistic that if the economy doesn't turn around soon, it will begin to diminish or max out and people will begin spending what little they have on alcohol now on something more of a necessity.



## **Internal Environment (Strengths and Weaknesses)**

### **Management**

#### **Board of Directors**

Currently residing on Coors board of directors are fourteen men and women some from inside the Coors Family, members of other organizations, as well as members from other corporations that are all there to represent Coors best interests' and represent them in the fullest capacity. They are all representing different parts of the entire corporation and each bring their own individual skills and expertise to complete the Coors Team. They each are specialized in their own areas, and many of the board of directors also serve on the management team because at Coors everyone is involved and a part of the greater team.

#### **Top Management**

Coors has two main CEO's, one for here in the United States and the other in Canada. They felt it was important to have someone in charge of both locations because they are so different in so many capacities and it is best to have someone designated to each area. Although they do have a main CEO, they have many other supporting members of their team who are just as important and contribute a great deal on a daily basis.

#### **Marketing**

In the management team, Coors has many different men and women that are devoted to their work and specialize in many different areas to make sure all areas of the company are covered completely. In their management team they have regular meetings and objectives they wish to accomplish at

any given time and are always meeting and keeping each other updated to make sure they are doing their part to meet their individual goals, help their team members meet their goals, and overall help Coors meet and exceed all of their goals and sustain their place in the market as well help them continue to rise to the top and become the front leader in the industry.

Some trends I noticed with Coors is that they are doing a great job of continuously changing as the market is ever changing. They have a great team of people working on their four p's, price, product, promotion, and placement. They know each one of these elements is key to the success of putting their products in the right price category for its worth, comparable to competitors and substitutes as well as the channels in which they use to distribute it. It can make or break a product if the launch is not successful or doesn't reach enough of their target. Each four of these factors is extremely pivotal in the success of every individual product Coors produces as well as their organization as an entity.

## **Operations/Production**

Coors has a development team that is always researching and developing new ways to enter the market, or to re-invent their products, or focus on another target group. Coors does not get satisfied with people stable in a market, but they want to push the envelope and push not only themselves but their competitors to get to a higher goal to better each other and their consumers. They do many different projects, some which never even make it to the final market, but they do experiments to test products in the market and how the consumers will respond and they highly value the input they get and go from there based on the costs and findings.

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## **Finance**

### **\*Coors Website**

As you can see in the trends of this graph provided by the Coors Website, overall it looks steady. But you can see the price has fluctuated a bit, but overall considering the economy and consumer spending it hasn't moved too drastically. In relation to the earnings, you can see even with the poor economy, earnings are continuing to increase which is a very positive note for the company knowing it can not only withstand anything their competitors throw at them but also sustain in a very unstable economy.

## **Human Resource Management**

Unions are not involved in this particular company in the industry.

## **Management Information Systems**

I did not find any problems with its MIS system to report on.

## **Critical Success Factors**

Coors is always trying to improve their strategies and objectives. They have many internal groups that focus on very specific issues that they are facing and by segmenting them into smaller more specific groups where specialization takes effect. When each group focuses on their group objectives, it is easier to control the technological advances taking place in the general industry. It is very important they continue to break up the large industry into subcategories so they can accomplish more and have more people focuses on a smaller group than a whole general market which will make it easier to pinpoint the needs of that group.

## **Strategic Problem**

Management has failed to ensure the long-term survival of Coors because they are not specific enough and focused enough on their target market in each area in which they operate. They truly need to focus on their customers and what they want and are looking for and when they find that out they need to be able to make it unique so they stand alone from all competition. The problem here is that Coors needs to seriously differentiate itself from both competitors and the substitutes that are in the market. They need to do this by further research and development and even breaking down their research groups into more specific categories to look at it from different perspectives. Also I think it would greatly benefit them if they were able to get people to come in and volunteer their input and form a focus group to get the actual consumers opinions and thoughts as opposed to just the general managers and CEO's who sit in the top office. It can really add another dimension to a company by getting their actual consumers input besides just the people behind the scenes trying to design and designate everything.

## **Strategic Alternatives**

Coors current strategy isn't horrible and I feel just with a few strong modifications and things made more specific it would go a long way, especially in the long run. It might take a bit to notice change because they are smaller changes but the effect will be lasting. By making more specific groups they will be able to get a more in depth idea about what they should be focusing on.

## **Recommendation**

I recommend that Coors initiate focus groups of a range of their previous consumers, potential consumers, and even those who are not their consumers. I think they should have a range of age and both male and female and ask them series of questions, get their input on different issues involving their product and then even give them the opportunity to voice any suggestions they have for the company. Find out what their actual likes and dislikes are, why they're purchasing this product as opposed to their competitors' and if they are not purchasing it, why they are not. This will really re-establish the relationship with their previous consumers, build a relationship with future consumers, and create a relationship with those who haven't been their consumers in the past. I think if Coors continues to improve along with technological advances, these focus groups will greatly benefit them and their customers for years to come.

I also think they should continue these groups, both keeping some of the same people and adding new people all the time so they are always changing their demographic and it would help them adapt in the future and connect with their consumers, which is something they can definitely use to sell their product and differentiate them from their competitors.

## **Implementation**

I would specifically implement a very specific set of guidelines for a focus group to be initiated immediately and make it a continual and ongoing process to help Coors tap into the markets they have yet been able to and also to strengthen the markets they are currently in by building a strong relationship with their customers, new, old, and future. Once Coors does this <https://assignbuster.com/degree-of-concentration-and-balance-among-competitors-marketing-essay/>

they will launch themselves further into their respective market and reach a broader range of customers and take Coors to an entirely new level. Once they have had their focus groups running for awhile with continuous improvements and re-evaluations, results will be shown and they will propel themselves to the top of the industry and be able to sustain that level.