

Industry and business overview of heineken



Beer is at present world's most consumed and oldest alcoholic beverage in the world, Max N., (2005). According to Heineken International (2011), expected that worldwide beer consumption grow by 2% to 3 % annually but growth forecasts different vary substantially in regions. Heineken is the world's 3rd great brewers and based in Nederland it's committed to growth and remaining independent. The Heineken premium brand is available in most of the world. The Heineken's aim is to be a leading brewer which it operates markets and to earn the world's most valuable brand portfolio. According to Heineken International (2011), The Company operates over 125 breweries in more than 70 countries and in Europe Heineken is the largest brewer and the world's 3rd largest by volume and number of people employed is more than 55, 000 people. Heineken and Amstel are the leading beer brands, under Heineken group brews and sell more than 200 international premiums, regional, local brands including beers and ciders, Newcastle Brown Ale, Foster, Kingfisher, and Primus etc.

Activity 1: Understanding the Business

Suggests the income streams and costs

Income Streams

Source: Heineken International (2011), Annual Report, 2009 [Online]

Product sold

According to Heineken International (2011), Annual Report (2009), Revenue is EUR 14, 701 million gains from the sale of products. Consolidated beer

volume is 125. 2 million hectolitres and Heineken volume in premium segment is 25. 1 million hectolitres,

Heineken International (2011), Annual Report (2009),[Online].

Other income

Other revenues are gains from rental income and pub management services also technical services that are giving to third parties. When the services have been delivered Rental income and technical services are state in the income statement. Also some Other incomes are gains from property sale, equipment and plant, intangible assets and (interests in) subsidiaries which are accounted for EUR 41 million, Heineken International (2011), Annual Report (2009) ,[Online].

Costs

Raw materials, consumables and services cost

This includes cost of Raw materials EUR 1, 140 million, non-refundable packaging cost EUR 1, 739 million, Goods for resale cost EUR 2, 253 million, Inventory movements, marketing and selling expenses EUR 1, 664 million, Transport expenses EUR 934 million, Energy and water cost EUR 319 million, Repair and Maintenance cost EUR 299 million. Other expenses include rentals of EUR 184 million, consultant expenses of EUR 158 million, telecom and office automation cost of EUR 145 million and other fixed expenses of EUR 820 million, Heineken International (2011), Annual Report (2009) , [Online].

Research, Development, Software and other intangible assets costs.

According to Heineken International (2011), Annual Report (2009), [Online], Research, Development, Software and other intangible assets costs is EUR 1,083 million these includes purchase of software's and expenditure on internally development and maintain of software. Also Expenditure on research activities such as design and improve product brand image (Heineken DraughtKeg, improved design of the new iconic Bottle) .

Government Grants

According to Heineken International (2011), Annual Report (2009) ,[Online], cost is EUR 70 million Government grants has been surety to the authorities in countries where Heineken operates as security for the payment of taxation, especially excise tax paid for beers, spirits and import duties.

Other net finance expenses including income Tax

According to Heineken International (2011), Annual Report (2009), [Online], Other net finance expenses including income Tax , impairment losses recognised on investments, and gains or losses on hedging instruments that are recognised in the income statement cost is EUR 214 million.

Personnel expenses

This includes Wages and salaries EUR 1,554 million, compulsory social security contributions EUR 287 million, contributions to defined benefit plans EUR 17 million, increase in other long term employee benefits EUR 7 million, Expenses related to define benefit plans EUR 107 million, Equity-settled

share-based payment plan EUR 10 million, Other personnel expenses EUR 397 million, Heineken International (2011), Annual Report (2009),[Online].

The measures of performance for the Beer Industry

According to Plato Logic Limited (2011), “ Global beer consumption grew by 1. 8% in 2008, but a sharp slowdown to less than 1% growth forecasted for 2009 also China strengthened its market position further as the world’s biggest beer market in 2008 by achieving record sale of 407mhl”.

Top 5 Global Beer Markets, 2008

Source: Plato logic Limited. (http://www.platologic.co.uk/pr_world_beer_report_2009.htm)

Top 20 Beer Brands in year (2007)

Source: Anheuser- Busch (2007) via <http://www.anheuser-busch.com/mediakits/08/08%20Top%20%20Beer%20Brands%20-%20Oct%2007.pdf>.

“ Anheuser-Busch InBev, SABMiller, Heineken and Carlsberg beer brands accounting for more than 50% of beer sales volumes and up to 75% of the global profit”, Plato Logic Limited (2011).

Over the past 5 years the beer category average growth rate was 3. 5% globally. However according to SABMiller (2011), this reflects different pictures in growing and developed markets with average growing rate of 6. 8% . while developed markets gradually become less by 3. 4%. The largest contributor to this growth rate is China is now the world’s biggest beer

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market. China recorded a rise of over 7%, despite being hindered by heavy weather conditions that affected for consumer demand, SABMiller (2011).

The measures of performance of the Heineken Company and beer Industry

Financial performance (In millions of EUR)

Source: Heineken International (2011), Annual Report (2009) via http://www.annualreport.heineken.com/report_of_the_executive_board/financial_review/index.html

Revenue and expenses – According to Heineken International (2011), Annual Report (2009), [Online], Heineken revenue increased by 2.7 % from EUR 14.3 billion in 2008 to EUR 14.7 billion in 2009 and decreased organic growth by 0.2 %. However Heineken Annual Report noted that other income is increased from EUR 32 million in 2008 to EUR 41 million in 2009. Main reason is of increased cost of sale of property, plant and equipment.

Furthermore Total cost management (TCM), Heineken's wide cost reduction programme for the period 2009 to 2011 which is delivered mainly savings in fixed cost spending. Therefore other expenses were decreased by EUR 36 million. In 2009, exceptional restructuring charges as part of personnel expenses related to Total cost management amounted to EUR 63 million before the tax, Heineken International (2011), Annual Report (2009).

Heineken International (2011), Annual Report (2009) further noted that Costs of raw materials and packaging decreased by 4.4 %, of which 3.2 % which was due to low volumes and low purchasing prices for barley the end of

2009. Furthermore Marketing and selling expenses reduce organically by 3.7% to 11.3% of revenue in 2009 from 11.7% in 2008,

Heineken Signs Sponsorship Deal With ESPN Soccernet - According to adoimagazine.com, Interactive Hub has secured a sponsorship deal with for the UEFA Champions League (UCL). The 3 season agreement will run until the 2012/2013 season.

Heineken supply lager for London Olympics 2012 - According to Ruddick G., (04 Feb 2011), London Olympics Business, Heineken UK will be the official lager supplier in the London Olympic 2012, typically worth around £10m, that pushes London 2012 closer to its target of raising £2bn from sponsorship.

Heineken profits up - According to BBC News (25 August 2010), Business, Heineken Net profits for the first half of the year increased to 621m Euros (£510m, \$788m), up 17% on the same period last year.

Heineken's acquisition of FEMSA and Latin American markets - According to Curran P., (01-12-2010), The Heineken's acquisition of FEMSA strengthen Heineken's position in the Americas also substantially increase its share in Mexico and Brazil further securing its joint venture with FEMSA in the US premium beer import market. Mexico and Brazil are other two leading markets in Latin America and those countries accounted of 63% beer volume of those regions in 2009.

Heineken NV sees profits grow – According to Canadean's,(17/02/11), latest beer news Heineken's Non-organic net profit rose by 41 per cent to €1. 4 billion (£1. 2 billion), while its premium volumes climbed by 3. 4 per cent.

Nearly 1 million jobs rely on sector – According to Canadean's news , (17/02/11), A new report, conducted by Oxford Economics and commissioned by the British Beer & Pub Association (BBPA), showed that 980, 000 people are reliant on the licensing sector for employment, with the beer and pub trade bringing £21 billion into the economy annually.

Value Chain for the Heineken International

Firm infrastructure

According to Heineken International (2011), Heineken structured like Holding Company. The role of the Heineken Holding N. V. has performed for the Heineken group since 1952. It has been set to safeguard Heineken continuity with independence, stability and steady growth of the Heineken group's activities.

Management

Heineken International (2011) noted that Heineken Holding N. V. is head of the Heineken Group with a Board of Directors. The management of Heineken N. V. is run by the Executive Board.

Heineken currently operate in 5 regions which are The Americas, Western Europe, Central and Eastern Europe, Africa and the Middle East as well as Asia-Pacific. Each operating region is managed by a Regional President. The five Regional Presidents, two members of the Executive Board and five
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Group Directors are included in the Executive Committee, Heineken International (2011).

Primary Activities

Inbound logistics - Heineken operates in many different countries, therefore Heineken purchase raw materials (malt, hops and adjuncts), equipment and other goods and services within order to meet the needs of customers and consumers. Heineken products stored in warehouses strategically to minimize shipping costs to stores. Quality covers the entire supply chain in Heineken; therefore site inspection carried out before harvesting the raw materials. In addition regularly analysis resources such as water main raw material in brewing process, carrying out comprehensive analysis of 200 components every 2 years to evaluate quality of the water supply. Heineken Supplier Code is designed to ensure both ethical and effective sourcing processes that reduce the risk of reputational and financial damage through the supply chain, Heineken International (2011).

Operations - Heineken main operation is Brew beer and they carry out quality controls at every step in brewing process in their laboratories. Heineken operates in more than 170 countries. With total consolidated beer volume of 125. 2 million hectoliters in 2009, producing beer in more than 70 countries through its 140 breweries and also through other brewers under license, Heineken International (2011), AMCO Heineken Prospectus [Online].

Outbound logistics - Heineken is the largest beer and beverage distributor in Western Europe. In every market where Heineken active, Heineken strive for comprehensive coverage through alliances with independent distributors or <https://assignbuster.com/industry-and-business-overview-of-heineken/>

via Heineken own beverage wholesalers. Often, Heineken wholesalers also distribute wine, spirits and soft drinks to the on-trade. Heineken also has brewers throughout the world so that it can ship its finished products to local areas to minimize shipping costs, Heineken International (2011).

Marketing and sales – Heineken has world's leading portfolios of premiere beer brands and is the 3rd most recognized brand of beer in the world. By acquiring smaller brewers in the world Heineken spread brand name even more also in achieving sustainable growth. National advertising play a prominent role in promoting Heineken strengthened brand equity through associations with high-impact, high-profile sports and music events (Heineken cup and OPEN'ER music festival), Social networking sites and video blogs, films. Heineken remain fully committed to the responsible brewing by Respect to the consumer and an acknowledgement of the dangers associated with the over misuse of alcohol. Therefore Heineken can drives to market with products in a responsible way, Heineken International (2011).

Service – In the brewing industry there is little to no after sales service. The company encourage consumers to visit the internet site and register to become part of the “ Heineken”. As part of this, the company could send out periodical surveys to gain input from consumers on product related issues. Heineken International (2011).

Support Activities

Human Resource Management – According to Heineken International (2011), Heineken has the ability to develop leaders by exposing employees to a wide

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variety of businesses, with responsibility. Heineken allows them to take prudent risks as they improve their own leadership and business skills.

Heineken focused on leadership development that ensures smooth succession through Heineken's most senior management levels. Heineken average number of employed is more than 55, 000, Heineken International (2011).

Technology Development – Heineken's worldwide operations are relying on information systems. Information Technology processes, infrastructures and IT Risk monitoring processes are centralised and outsourced to professional outsourcing partners. Which are includes agreements on assurance from IT outsourcing partners, Heineken International (2011).

Procurement –

Thermal energy – Heineken use heat for brewing and 41% of heat generated by natural gas in their own sites. Heineken sites utilise waste heat supplied by their neighbouring industrial plants. Heineken gets biogas from the anaerobic treatment of wastewater and Heineken control nineteen anaerobic treatment plants and it's the 7th largest company that uses the biogas as an energy source, Heineken International (2011).

Electricity – Heineken buy most of the electricity and remaining 45% of electricity generate in the site by combining heat and power systems, also using diesel generators. Around 6% of Heineken sites are not connected to urban electricity systems and all the electricity use on those generated on-site, Heineken International (2011).

Water – water is used as main raw material for beer industry and also used to cleaning tanks, packaging, production equipment and pipe work, Heineken International (2011).

Raw materials (grains and hops) – Heineken get most of raw materials by participating in joint development projects with malting companies in countries where Heineken operates. In 2009, Heineken UK launched a new supply chain code of conduct to improve the supply chain performance. Heineken operates some of own local Agriculture projects to get raw materials such as Sierra Leone Sorghum Project which is local sourcing project. Sierra Leone is part of the Heineken's Africa-wide strategy to procure at least 60% of its raw materials locally, Heineken International (2011). Furthermore Heineken has developed subsidiaries and partnerships for many of the inputs required to produce beer including screw cap manufacturers, freight companies, and can manufacturers, glass bottlers, cardboard manufacturers, and machinery manufacturers, Heineken International (2011).

Value System for Heineken

Distributors

Customers

Customers

Supermarket

Retail Shops

Pubs, Restaurants, Liquor Stores

Heineken own wholesalers

LT Global Trading

Vinh Hung Co., Ltd

AVH Trading

Local farmers

Heineken Farming projects (Skylark project, Sierra Leone Sorghum Project)

Suppliers

Competitors

SABMiller

Carlsberg

ANHEUSER BUSCH

Heineken

Supplier Information

Demand Information

Apparent goals of Heineken International

Green Commerce

According to Heineken Sustainability Report (2009), by 2012 Heineken aims to reduce carbon footprint of their brands and business. This also includes

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transparently report against clear benchmarks and carbon reduction throughout the value chain support of the new supplier code. Also significantly reduce the total carbon per hectolitre by 2020. Also by 2012 design carbon reduction new package policy, Energy reduction of 15% in cooling, introduce new product evaluation criteria in all regions where Heineken operate.

Green brewer

Heineken Sustainability Report (2009) noted that Use energy in an efficient way and reduce the associated fossil CO2 emissions and develop this concept of the CO2 - natural brewery and implement it in at least three breweries. By 2012 Heineken aim to keep specific water consumption to 4. 3 hl/hl also designed energy efficient breweries and keep fossil CO2 emission to average 8. 5 kg/hl.

Engaging Employees

The secure and safe working environment develops for all employees by achieve zero fatalities across Heineken business. By 2012 implement and audit employee rights and policy by developing training modules for employees high and medium safety risk functions, also set safety targets for other activities that are not relevant for production, Heineken Sustainability Report (2009).

Heineken cares

According to Heineken Sustainability Report (2009), Heineken aims to increase the level of corporate social investment in developing markets, by in 2010 increase funds for the Heineken Africa Foundation to EUR 20 million

after that EUR 1 million investment per year. Furthermore Develop standards for sustainable agriculture and verified by stakeholders.

Responsible beer consumption programme

The combine actions of Heineken and all stakeholders promote and develop “ Enjoy Heineken Responsibility”(provide consumers with information about alcohol consumption and health issues) by 2012 and develop and deliver 100% of commerce or marketing employees a specific workshop for support rules on responsible commercial communication, Heineken Sustainability Report (2009).

Partnership for future progress

According to Heineken Sustainability Report (2009), by 2012 increase the Heineken partnership with markets to at least 50 with third party to address alcohol abuse and implement and evaluate UK and Ireland Government or industry partnership projects.

Strength the international portfolio

Heineken aims to improve both market and value share in its market by increased in brand investment. Therefore Heineken strengthen leading international portfolio by adding the Kingfisher brand and strengthened the distribution in the United States by acquisition of FEMSA Cerveza, Heineken International (2011), Annual Report (2009), [Online],.

Growth in developing markets

Heineken aims to increase its exposure to benefit from developing markets such as China, India, because now Heineken’s 40% of Earnings before

interest, taxes and net finance expenses (EBIT) will be generated from developing markets and 60% from profitable markets.