

A strategy case study of coors business essay



**ASSIGN
BUSTER**

The brewing industry in the US consists of ales, stouts and bitters, low alcohol beers, premium lager, specialty beers and standard lager which generated total revenue of approximately \$78.8 billion in 2008 (Brewing Industry-Datamonitor, 2009). This revenue has grown tremendously compared to the industry revenue back in 1985 which counted for approximately \$38 billion.

The brewing industry has experienced maturity cycle and would likely remain like this in the following years. The key players in this industry are AB InBev and MolsonCoors, controlling four-fifths of the US market. Some trend that has been happening in this industry is premiumization of price points and perceived quality by consumer (IBIS, 2010). Looking ahead in the future, there is an opportunity of growth as consumer demand cheaper alcoholic beverages.

Segments

The brewing industry is divided into six different segments based on the total market's revenues. Standard lager has the largest market share in the US (35.7 percent), followed by premium lager (34.2 percent), specialty beer (26.5 percent), ales, stouts and bitters (0.7 percent), and low/no alcohol (Brewing Industry- Datamonitor, 2009).

Caveats

This paper is written based on past secondary data in brewing industry, some limitations that researcher found were including difficulties to find the most up-to-date company and industry data.

Socio-Economic

Relevant Governmental or Environmental Factors

The level of government regulation is heavy in brewing industry and tends to increase in the following year. Government regulates the minimum drinking age (21 year old) and trading hours (IBIS, 2010). Bureau of Alcohol, Tobacco Firearms and Explosives (ATF) regulates labeling, marking, packaging, branding, and production of all alcoholic beverages in the US (IBIS, 2010). Each State also imposes different state excise tax; the average rate is 19 cents per gallon. The state regulation is stricter in eastern states than in the west (IBIS, 2010).

The age profile of the population also affects the demand of beer. The highest consumption of beer lay in the 21 to 35 year old than for other age group. The US beer consumption has increased dramatically over 1945-1985 period as baby boomer reached the legal drinking age (Ghemawat, 1987).

Economic Indicators relevant for the brewing industry

IBISWorld predicts that the US brewing industry's revenue will decline at an average annual rate of 0.3 percent per year to 36.7 billion (IBIS, 2010).

Price of raw materials such as malt and hops will affect the industry, as it accounted for a quarter or fifth of total raw material costs. The trend in increasing of raw material and shipping costs will decrease the industry profitability.

Exhibit 1 projects selected raw material prices and shipments for brewers in the US.

Porter's Five Forces

Threat of New Entrants

Threat of new entrants is medium

Economies of Scale

The significant economies of scale in this industry are advertising and promotion material and control over distribution channels. Brand recognition is one of the most important key of survival in this industry, therefore, large company usually has enough revenue for advertising and branding; it is hard for the new player to enter the industry and gain enough market share to survive. In addition, cost to establish distribution channel is high due to high regulation (IBIS, 2010).

Working capital requirements

Coors' working capital was accounted for \$181. 9 million (December 2008) and \$121 million (December 2009) (Molson, 2009).

Proprietary product differences

The way Coors differentiate their products from competitions is paralleled with Michael Porter's strategic positioning (Porter, 1996). Coors tried to differentiate their products by offering higher quality product by utilizing two unique aspects in its brewing process. First, Coors uses natural fermentation process which takes 70 days compared to the average 20-30 days. Second, Coors does not pasteurize the beer because the heat from the process has a potential to harm the taste (Ghemawat, 1992).

Absolute cost advantages

Cost advantage that brewing industry can achieve is different from other industry such as pharmaceutical. Brewing company that produce high variety of brands can achieve cost advantage through distribution channel and media advertising (IBIS, 2010).

Brand identity

Brand identity tied closely to consumer's brand loyalty. The US brewing industry has a high degree of product differentiation in the market; therefore strong brand recognition will help the company to survive in the beer market.

Access to distribution

Brewing companies get their product to the customers via wholesalers and retailers. Retailers such as bars and restaurants only carries limited number of brands, while supermarket and liquor store usually offers wider selection of brands. Datamonitor cited that supermarket and hypermarket distributing approximately 55.8 percent of the total market volume (Datamonitor-Brewing Industry, 2009).

Coors unpasteurized products demand a special method of distribution. The company usually ships its beer in refrigerated rail cars and trucks to wholesalers' warehouse. Distribution for Coors beers has changed overtime, in 1970 "over two-thirds of company's wholesalers carried nothing but Coors", and then in 1985 the distribution comprised 569 independent wholesalers and 5 company-owned ones. (Ghemawat, 1992).

Expected retaliation

Even though large economies of scale exists to prevent new entrants, the market definitely see more and more small brewing facilities that successfully achieve economies of scale of large brewing company. The Boston Beer Company is one of the examples; the company chooses to focus more in developing taste and marketing and decide to outsource the brewing, packing, and distribution process (IBIS, 2010).

Suppliers

Bargaining power of suppliers is moderate.

Supplier concentration

Raw materials in this industry includes commodity such s malts, rice or corn, hops, yeast, aluminum, and bottles (Ghemawat, 1987). Since the main raw materials are commonly available, beer industry can switch from one supplier to the other with low switching cost. Therefore, supplier concentration is low.

Presence of substitutes inputs

Presence of substitute input is low. This fact is due to the main beer ingredients such as hops, malt, barley and yeast are irreplaceable. Therefore, the brewers still depend heavily on suppliers input and give them higher bargaining power.

Differentiation of inputs

The differentiation among input lays on the quality of the material. Brewers are competing against each other to obtain the best quality of materials. This element definitely increases the bargaining power of the supplier.

Importance of volume to supplier

The suppliers' clients are not necessarily limited to the brewers only. The barley growers for example can sell their products as cattle feed. This alternative market boosts supplier's power (Brewing Industry-Datamonitor, 2009).

Impact of inputs on our cost or ability to differentiate

Since raw materials are accounted for a quarter or fifth of total raw material costs, this will give higher bargaining power for supplier.

Threat of forward or backward integration

There is a threat that brewers have become their own suppliers by growing their own hops. Since World War II, due to increase price of cans, major industries decided to produce their own cans. Giant brewer like Coors also makes most of its labels and secondary packaging (Ghemawat, 1987). Therefore, this backward integration will weaken the power of supplier.

Access to capital

Based on MolsonCoors' financial reports; their gross margin is stated as 43.05 percent in Fiscal Year on 2009. While return on equity and return on investment is 11.11 percent and 7.38 percent respectively (Molson, 2009).

Access to labor

Labor is the next largest cost to this industry, accounting around 10 percent of industry revenue. The ratio of wages/salaries to industry revenue was used to be around 18 percent in 1999, but has fallen steadily because of heavy investment in new plant and equipment (IBIS, 2010).

Buyers

Bargaining power of buyers is moderate.

Buyer concentration

The buyer in this industry is highly concentrated since the majority of the buyers are supermarket chains. Big supermarket like Wal-Mart has a significant bargaining power over the producer because of the size of the market that they offer.

Buyer switching costs

Buyers only incurred low switching costs which increase their bargaining power.

Buyer information

Most buyers understand the basic of brewing industry. Even, brewing has been considered as a family tradition in some area. However, with each brewing company is famous for their secret recipe, therefore there is a possibility for brewer to increase its profit margin.

Threat of backward integration

Threat of backward integration is not available.

Pull through

The brewing industry is able to create pull through due to its large advertising expense. The pull-through marketing will increase buyers brand recognition to specific brand.

Brand identity of buyers

There is a strong brand identity among buyers. This is why brewers also market a premium beer in order to cater to different market segmentation.

Price sensitivity

Since there are so many varieties of products and brands in the market, the beer price sensitivity is high.

Price to total purchases

Buyers such as a supermarket purchase are dependent on the size of the supermarket itself. The bigger the capacity then the more products they purchase, and vice versa. However, retailers such as liquor stores will have a significant percentage of beer purchase.

Substitutes Products

Threat of substitutes is moderate.

Relative price/performance relationship of substitutes

The main substitutes for beer products are spirits, wine, and other non-alcoholic drinks. In the brewing industry, price is not the most important factor. Competition is driven primarily on brand loyalty, advertising and product packaging (IBIS, 2010)

Buyer propensity to substitutes

Imported beers can be considered a substitute for domestically produced beers. Demand for alcoholic beverages, including beer, is higher among households which have higher disposable income (IBIS, 2010).

Rivalry

Rivalry in this industry is high.

Degree of concentration and balance among competitors

In 2008, this industry market is heavily consolidated in just two companies: MillerCoors and AB InBev. These companies were formed after the merger of SABMiller with Molson Coors Brewing Company and Anheuser-Busch with international beverage behemoth InBev. The resulting companies dominate the industry and are responsible for approximately four-fifths of all beer production within the US (IBIS, 2010).

Diversity among competitors

Firms in the brewing industry follow similar strategy. The major firms tried to acquire each market segmentation by producing different beers that will cater to different people.

Industry growth rate

The brewing industry in the US has reached maturity stage, growth rates has remained stagnant and even declined over these past year. The industry growth in the 1986 was increased by 2. 2 percent to 186. 5 million barrels followed by a gradual upward trend throughout the 1990s (IBIS, 2010). However, market saturation and recession has decreased the growth rate. The projected compound annual growth rate in 2008-2013 is 0. 9 percent (Brewing Industry-Datamonitor, 2009).

Fixed costs to value added

Fixed costs are considered high in this industry due to large amount of investment needed in order to establish manufacturing plant and promotional expenses.

Intermittent overcapacity

The brewing industry is in the normal range in terms of capacity.

Product differentiation

There is a high product differentiation in this industry. Each brewers try to differentiate themselves from other brewers through advertising, packaging and product taste.

Growth of foreign competition

Imports in this industry are medium but increasing.

Import penetration of beer into the US market had growth substantially before declining in 2007 due to a weakening dollar. The imports destination is including Mexico, Netherland, Canada, Ireland and the United Kingdom. The imports size has grown greatly due to aggressive marketing by foreign brewers, combined with the increasing preference for exotic beers in the US (IBIS, 2010).

Corporate stakes

Most firms in this industry depend on this industry segment.

Exit barriers

Exit barriers are moderate. There are high possibility of joint-venture, merger, and company acquisition in this industry.

Conclusion

Critical Success Factors

Based on the industry analysis, brewers need to achieve some of the critical success factors in order to success. The critical success factors are: economies of scope, effective advertising and promotion, and established distribution networks.

Development of brand name is critical for company success, both in competition between brewers and competing against substitutes products. Economies scope also provides an advantage to larger players, which can achieve more cost-effective promotional campaigns.

Prognosis

The brewing industry has reached maturity stage, along with slow growth rates and sluggish consumer spending. However, the industry is expected to experience growth between 2011 and 2015 as consumer confidence becomes stronger (IBIS, 2010).

This industry is highly concentrated, with only two major players rule the whole industry. However, this industry is still considered profitable; as in 2013, the market is forecast to experience increase of 4.6 percent in revenue.

Part II: FIRM ANALYSIS

Current Situation

Brief firm history

Adolph Coors, Sr., started Coors brewing company back in 1873 in Golden, Colorado. Coors has very diverse businesses such as porcelain, food product, biotechnology, oil and gas, and health system; however, their 84 percent of Coors' revenue back in 1985 is tied to the brewing division. Nowadays, Coors' brewing division has product portfolio for more than 65 partner brands, 18 breweries, and operations in more than 30 countries (Ghemawat, 1987).

Molson Coors Brewing Company was formed after merger between Colorado-based Adolph Coors Company with Canadian Molson Brewing back in February 2005. Nowadays, they are considered as the best-selling and fastest growing premium light beer in the US. The company also recently formed joint-venture with SABMiller in the US (Molson Coors).

Molson Coors has experienced declining revenue in the US segment. Based on their financial report, they only generated \$1, 504. 8 in 2008 compared to \$2, 764. 9 in 2007 (IBIS, 2010).

Strategic Posture

Mission

Molson Coors “ Our Brew” stated the company's goals, vision and approach to work together. Their mission is to create an “ exceptional results and extraordinary brands” through its human capital (Molson, 2009).

Current Strategy

Molson's current strategy is to focus more on the brand growth and product portfolio by increasing volume production, strategic pricing and gaining larger market share. They also tried to expanding their iconic brand, " Rocky Cold Refreshment" into new global market (Molson, 2009). Additionally, Coors' also plan to build their second brewery in Virginia or North Caroline due to limited production capacity in Colorado plant and rising transportation cost (Ghemawat, 1987).

External Environment (Opportunities and Threats)

Socio-Cultural

The level of government regulation is heavy in brewing industry and tends to increase in the following year. The industry also experienced stagnant revenue due to recession. Threat of substitutes also becomes an important issue for Coors to be addressed. However, there are still some opportunities for Coors to increase its market share by expanding to international market.

Task Environment

IBISWorld predicted that the revenue of the US Brewing industry will increase at an average annual rate of 1.3 percent to 39 billion over five-years (IBIS, 2010). This will be such a good opportunity for Molson Coors as they expand their product offering.

However, looking in the long run, threat of substitutes will affect the company significantly. Increase competition from imported beers and substitute beverages, and decreased in consumer's discretionary income will

be the most important issues to address for Coors Company (IBIS, 2010).

Additionally, increase in raw materials will reduce Coors' profitability.

Internal Environment (Strength and Weaknesses)

Management

Board of Directors

There are 15 members of the Board of Directors; 12 members are elected by class A shareholder (hold the majority of voting rights) and three directors elected by class B directors. More than 50 percent of the voting power of Molson Coors is controlled by the Coors and Molson Company (Molson Coors).

Top Management

Molson Coors has two CEOs as the impact of company mergers. Peter Swinburn the CEO, has a strong background in international market expansion. His background includes serving as CEO of Coors Brewers Limited in the UK. Additionally, Dave Perkins, who used to hold the position as Molson's chief market development office, has the expertise in corporate strategy including mergers and acquisition.

Molson Coors "Our Brew" stated the company's goals, vision and approach to work together:

In breweries and offices around the world, we are all focused on delivering exceptional results and creating extraordinary brands that delight the world's beer drinkers

We intend to win the right way, take smart risks, be decisive, and take personal accountability for delivering results while putting a team first

These values and shared sense of purpose is core to our culture and to the achievement of our ambitions (Molson, 2009).

Marketing

Product offering compared to competition

Coors' offer a wide variety of product portfolio depends on the geographic segments. Coors joint-venture with Miller has increased its product offering in the market.

Product Pricing

Beer price experienced a decreased in by 30 percent between 1960 and 1980, due to cost reductions and pressures to fill excess capacity. Anheuser-Busch and

Sales and Distribution

In the US, one-fourth of Molson Coors products are sold on-premise in bars and restaurants while three-fourth is sold off premise in liquor stores, convenience stores, grocery stores and other retail outlets. The company also own three distributorships which handled approximately 2 percent of its total US segment volume in 2006. Molson Coors also market their product in Puerto Rico and Caribbean through independent distributor (Molson, 2009).

Advertising and Market Share

Coors has successfully maintains its consumer's brand loyalty " mostly at the expense of Miller" (IBIS, 2010). The challenge that Coors face due to

marketing is how to market their products without cannibalizing the growth of other product within its range (IBIS, 2010).

Exhibit 2 provides a summary of the beer industry market share in the US.

Operations/Production

Coors always emphasizes quality and scale in its production. Coors capital spending tied closely to give the latest innovation in its product. Coors has two unique aspects of its brewing process that has become their competitive advantages over the years. First, Coors aged its beer for 70 days, not 20-30 days like other brewers. This longer brewing process caused them to incurred the highest brewing cost (\$57 back in 1984) compared to \$45 of Anheuser-Busch (Ghemawat, 2010). Second, Coors did not pasteurize its beer as the intense heat can harm the taste of beer.

Finance

Exhibit 3 summarizes the financial performance of Molson Coors in the past five years.

Coors' the US division accounted for 31.5 percent of the total revenue in 2009. Coors generated \$4,774.3 million during Fiscal Year of 2008, which was a decrease of 22.9 percent from year of 2007 (Coors-Datamonitor, 2009). The merger with Miller has reduced its marketing and administrative costs. However, due to recession and sluggish consumer spending sales has declined by 1.7 percent in 2009 for both retailers and wholesalers (IBIS, 2010).

Human Resource Management

Coors is the only major brewing company who is not unionized. In addition, Coors had received several labor strikes over the years due to " racial and sexual discrimination, mandatory lie-detector tests and loyalty oaths, and dismissal for reasons such as denigration of the Coors family and refusal to be searched at work" (Ghemawat, 1987). Coors' most famous labor strike happened in 1977 by the Brewery Union representing 1, 500 employees (Ghemawat, 1987).

Management Information Systems

No relevant information found in this section.

Critical Success Factors

Based on the industry analysis, Coors has achieved some of the critical success factors in brewing industry. Coors addressed the economies of scope by offering wide variety of brands for every market segments. Coors also achieved high brand recognition through effective advertising which is one of the most critical factors that will determine a success of a brewing company. At last, Coors has an established distribution networks.

Strategic Problem

Management has failed to ensure the long-term survival of Coors because of market saturation in their home market and threat of substitutes. One of Coors strategy is to build the second brewing plant in Virginia or North Carolina due to brewing limitation in Colorado site and rising distribution costs related to shipping distance to their wholesalers. This expansion strategy would help them cutting some significant costs such as shipping

and distribution; and giving them more flexibility in terms of production capacity.

However, the brewing industry market for the North America market has become saturated by products, brand and producers. Additionally, consumption and revenue growth have slowed down in the past few years (IBIS, 2010). Therefore, this strategy is only effective in the short-term but will not help Coors' sustainability in the long run.

Strategic Alternatives

In order to survive in this industry while still preserving its place as the market leader, Coors needs to implement a new set of strategies. In this part, we will discuss some alternative strategies that will help Coors achieving their long-run objectives.

Expand the market for Coors' domestic product offerings by selling those products in international market

Coors has successfully established their international presence in the UK and Canada. There is a huge opportunity for them to expand to the international market in China, India, and even Russia. Based on Datamonitor report the beer market in China has reported to have a stable growth over the last five years. The total revenues of the Chinese beer market generated total revenues of \$36, 000 million in 2008 (Molson Coors, 2009).

Advantages:

Opportunity to gain a new market, especially with market saturation in the US and fierce competition from Anheuser Busch

Coors could realize the location economies

There is a possibility to earn a greater return by leveraging any valuable skills developed in foreign operations and transferring them back to the home country

China and India could be their stepping stones to Asian market

Disadvantages:

High Cost to implement a new investment in foreign country

This strategy is not easy to implement, Coors needs to do an in-depth market research in order to succeed

Cut production cost by implementing “Contract Brewing” Strategy

This strategic alternative is related to Coors' plan for multisite expansion. Instead of opening the second brewery in Virginia or North Carolina, the other option would be to outsource their beer production to a smaller brewery. Therefore Coors does not need to invest in another large scale manufacturing plant.

Advantages:

Lower cost of investment (compared to building another plant)

Coors could utilize the time that they would spend in developing a new plant into their new marketing campaign and distribution strategy

Disadvantages:

There is a possibility to receive a negative consumer perception. Just like a made-in-China product perception, an outsource beer would have the possibility to build negative perception just because the consumer doubt about the taste and quality

Possibility to lose the original recipe. One of Coors' competitive advantages is their unique taste that was developed through their secret family recipe. By implementing a licensing/contract agreement with other brewers, Coors will have the possibility to lose its secret recipe.

Recommendation

Expanding Coors' product offering to the new international market in China sounds like the most appropriate strategy to implement right now. This strategy would allow them gaining more market share in China and hopefully able to use the revenue from the foreign subsidiary to complement the stagnant revenue in the home country. In addition, the Chinese beer market is expected to increase by 38.4 percent in 2013 (Beer in China-Datamonitor, 2009).

Exhibit 4 gives market projection in terms of beer production from year 2008 to 2013.

Implementation & Prognosis

The following provides a summary of the recommendations on how Coors should implement their strategic choice.

Organizational structure changes. Coors is defined as a “ controlled company” due to Molson and Coors families voting power that own more than 50 percent of the voting power. The international subsidiary will experience a huge challenge with the current Coors’ organizational structure. Coors needs to implement transnational strategy for their foreign subsidiary since there is a high pressure on cost and local responsiveness.

Marketing. Coors need to research the local marketing policy in China. They will not be able to use the standardized marketing like the one they use in the US due to different advertising regulation and product perception.

Joint-Ventures. The other option if Coors does not see Greenfield as a viable option is to form a joint-venture with company that already has market presence in China such as SABMiller. Coors’ technology know-how can give tremendous contribution to SABMiller’s subsidiary in China.

At last, this strategy is projected to generate approximately \$13, 703. 0 of revenue in the first year of operation. Hopefully with this strategy implementation Coors will be able to gain more market share and revenue from the foreign subsidiary.