

General information and the history of beer

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Beer is the oldest and most widely consumed alcoholic drink in whole world and the third most popular drink overall after water and tea. Beer is produced by the brewing and fermentation of starches, mostly produced from cereal grains and usually malted barley, and also wheat, corn wheat and rice may be used as well. Almost all beers are flavored with hops. Hops are also used to add bitterness to the beer and be as a natural preservative. Although there are deferent beers with flavored with herbs or fruit smell.

Beer has appeared between 9, 000 and 14, 000 years ago, being as old as the civilization. Beer is one of the oldest products of civilization, and may even have been a stepping-stone to the invention of leavened bread. The grain, from which beer is made, was the first domesticated crop that started the process of farming during the nomadic times. By that time the beer was cloudy and not filtered, and people were using „ drinking straws” when drinking beer, in order to avoid brewing residue in the mouth (Wikipedia, 2011).

In ancient times beer was mostly used as barter, instead of being sold and a Babylonian King had even introduced a daily norm of beer per day. A normal worker received 2 liters, civil servants 3 liters, administrators and high priests 5 liters of beer per day. The Egyptians also have taken part in the history of beer brewing. They have been experimenting with unbaked bread dough and were improving the taste of beer. Beer is an especially important drink in countries such as Belgium, Germany, Ireland , and the UK, with nations such as France, the Scandinavian countries, the Czech Republic, and others having strong and unique brewing traditions with their own history, characteristic brewing methods, and styles of beer producing.

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RELATION BETWEEN GERMANY AND BREWING

The most widely known event in the history of brewing is the establishment of standards for brewers by the Germans. They decided that to the production of beer, only four ingredients should be used: water, malted barley, malted wheat and hops. It is emphasize that beer was for the first time brewed on German soil. Germans brewed beer not just for God sacrifices, but also for their own enjoyment. Germans started to open even brewery family businesses. Beer is in Germany a major part of their national culture. Germany has more breweries than in any other country. There are almost 1, 300 businesses producing beer.

Figure 1 German Beer Statistics

% Age of European Production:

26. 5%

Total beer consumption:

107, 800, 000 hectoliter

Consumption per head:

131. 7 l

Number of breweries:

1294

Beer exports:

8, 539, 000 hectoliter

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Beer imports:

2, 168, 000 hectoliter

Draught beer percentage:

22%

Notes:

The only countries with which Germany has a trade deficit in beer are Belgium, the Czech Republic and Mexico.

MARKET STRUCTURE

On the one hand, Germans are beer drinking nation. Their consumption per/capita is almost 60% higher than the western European average consumption and the beer market from Germany is still the largest in the world. Even if there are 1, 300 breweries in Germany, therefore Germany's beer market is highly competitive. Their output is only around a third of the whole beer production in EU.

On the other hand German consumers started to move away from the alcoholic drinks, the desire of a healthier way of leaving is rising, and German is tend to consume more mineral water, juice and coffee. The result of this is 7% drop in the beer consumption in Germany since 1998.

Even though Bavarian-style beer continued to grow, and beer-based mixed continue to have high demand. Young generations of consumers are trying to discover new and different types of drinks, such as beer mixed with lemon-lime soda or cola etc.

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Imported beer is account only 5, 9% of the total beer consumption in Germany. This is due to the fact that domestic breweries created a strong preference among the consumers. The import share remains more or less constant in spite of several major international breweries that previously sold their products through exports now producing under license in Germany. Pils is the dominant segment in Germany with a market share of some 60% in total. In addition, there are a number of special German beer types such as Weizen, Alt and Kölsch.

EVALUATION OF MAJOR BREWERY COMPANIES IN GERMANY

BECK'S BREWERY is a brewing company in the north part of Germany, in city of Bremen, since 1873. Beck's was first owned by a local family, and later it was sold to InterBrew. Beck's beer is famous of it quality and world-wide known brand, drunk by millions of consumers every year and is ranking number 5 among the most selling beers in Germany. By exported volume, Beck's is on the first place among German Beers, and it is sold in more than 100 countries in the world. The largest markets for Beck's outside Germany are the United Kingdom, the USA, the Ukraine, Australia, Italy, Romania, and Russia (Brauerei Beck & Co, 2011).

Products of Beck's Brewery

Beck's – the main brand, a pilsner

Beck's Blue (Alcohol Free)

Beck's Premier Light

Beck's Gold

Beck's Green Lemon

Beck's Green Lemon

Alcohol Free

Beck's Chilled Orange

Beck's Level 7

Beck's Ice

Beck's NEXT

Beck's Dark

Beck's Oktoberfest

Beck's VIER

Beck's Brewery is an attraction of the city, because the company organizes tours in the inside the brewery and gives sample of finished products and afterwards visitors can enjoy food at the Beck's café, or browsing for beer-related souvenirs. Besides the organizing tours, the company also uses other ways to advertise its products. The sponsor various sport events, festivals and have more advertisements on TV and magazines.

OETTINGER BREWERY is the best selling beer brand in Germany since 2004 with an output of almost 6. 61 million hectoliters sold annually. Moreover a big factor that contributes to this big amount of sales is the low-price <https://assignbuster.com/general-information-and-the-history-of-beer/>

strategy. Oettinger appeared in the market, by using a gap from its industry. The brewery started to sell cheap beer in big volumes, so that people would afford it and would have a beer they just wanted for the lowest price and relatively good quality. In order to avoid competition, Oettinger bought the beer brand “5.0 Original” and the corresponding brewery in Braunschweig. Braunschweig was his competitor, a brewery from the same segment of market (The Oettinger Group, 2011).

Oettinger uses different ways to maintain the beer price as low as possible:

No advertisement and promo campaigns.

Concentrating only on one brand, compared to other breweries which have twenty and some times even more brands.

Direct delivery from brewery to stores, no intermediaries.

The brewing process is highly automated only few employees are needed for production.

PORTER 5 FORCES ANALYSIS

Force 1: Supplier power

Suppliers have small bargaining power in the brewing business, which works in technique brewers' goodwill. There are a lot of manufacturers and suppliers who provide brewing equipment. Brewers can also buy used or refurbished already existing equipment. Many of the companies that supply brewing equipment do not focus just on that area, they also offer other products and services and the brewing equipment is just one phase of their operation.

Supplier concentration is low, which can possibly increase the sustainable profits. As far as supplier substitutes, the ingredients that go into the brewing of beer cannot be replaced. Those ingredients are necessary for the production. Brewing must have malt, hops, barley, yeast, and water. The beer brewing industry relies heavily on supplier input. Especially the ingredients that are in beer, consequently the suppliers are in constant need to keep this industry operational. Which means there is a threat of supplying integration; the larger brewing companies produce enough capital to possibly buy plots of land to grow their own malt, hops, or barley (Beer Brewers Industry Analysis, 2008).

Force 2: Buyer power

The main buyers of beer in the brewing industry are distributors. There are over 1, 900 beer distributors' nationwide servicing approximately 320, 000 retail businesses. Bargaining power of buyers increase when: there are few distributors in the market; the distribution industry is increasing very fast than the manufacturer's industry; and when new competition cannot emerge. The distributors are the ones with all the connections to the consumers & retailers, thus the distributor control the prices based on what income margins they require. The distributors are consolidating and increasing in power. Moreover, distributors are limiting new competition. So, overall the Porter's force of Buyer Power is a negative for the Beer Brewing Industry (Beer Brewers Industry Analysis, 2008).

Force 3: Substitutes

Figure 2 Beverage Consumption

Category

% Of Beverage Consumption

Soft drinks

49.0%

Beer

19.4%

Fruit beverages

13.2%

Bottled water

12.2%

Sports drinks

1.8%

Wine

1.7%

Rtd tea

1.6%

Spirits

1. 1%

Total beverages

100. 0%

Beer has a lot of substitutes as you can see from Figure 2 some of them are wine, spirits, wine cooler, and specialty drinks. But also soft drinks, water, fruit juices, tea, and sports drinks may be considered as its substitutes.

According to the figures from the Beverage World Publications Group, Beer constitutes for 19. 4% and soft drinks account for 49. 0%. This makes beer consumed more than bottled water, fruit juices, sports drinks, wine, spirits and tea. These factors increase the threat of substitute goods for the beer industry, which has a negative effect on industry profits (Beer Brewers Industry Analysis, 2008).

Force 4: Rivalry

Rivalry is the extent to which companies compete with one another for customers. Rivalry can be price-based or non price-based (Michael Porter's Five Forces, 2009) Rivalry is measured by the concentration level of the industry; the more concentrated the industry, the less rivalry. Other factors that increase rivalry are large capital asset requirements and high switching costs.

This industry is experiencing significant concentration effects, which decreases rivalry. Also, there are significant barriers to exit, which increases rivalry. The proposed joint venture MillerCoors would act to decrease rivalry

overall. Therefore, the overall effect of rivalry on this industry is neutral (Beer Brewers Industry Analysis, 2008).

Force 5: Entry Barriers

In the Germany beer brewing industry there are a substantial amount of entry barriers that protect the firms currently in the industry from the new entrants. “ Price competition combined with increasing vertical integration and the inherent production economy of the market leaders makes it very difficult for an inefficient major brewer to compete on a national scale.” (CNBC, 2011 “ Liquor Sales Slow Along With Econom”) Overall the German brewing industry faces a large amount of barriers to entry as there are economies of scale, brand loyalty and large capital requirements, product differentiation effects, possibly limited access to distribution channels, and large amount of government regulations. All of these factors reduce the threat of entry into the national beer brewing industry which in turn raises the industry’s potential for sustained profits (Beer Brewers Industry Analysis, 2008).

5 FORCE SUMMARIES

Force

Key Drivers

Effect on Industry Profit

Bargaining Power of Suppliers

Small suppliers relative to brewers

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Bargaining Power of Buyers

Consolidation of industry; distribution connected to retailers

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Substitutes

Growing substitute industry; low switching cost

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Rivalry

High concentration; high innovation

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Entry Barriers

High capital requirements, economies of scale, closed distribution channels, high government regulation.

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Conclusion

In conclusion I would like to emphasize that beer market in Germany is very product differentiated and diverse. The competition forces are high and in parallel, customers have different offers from what to choose. Germany is the biggest exporter of beer in the world and has the most breweries.

Beer has various substitutes, even though it is on the second place among other drinks. Each brewery is trying to gain competitive advantage.

Oettinger lowers the prices and Beck's uses more advertising channels.