Global Beer Manufacturing

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Agenda

- Introduction
- Industry Analysis
- Advertising Strategies
- Investment Recommendations
Introduction
Why Global Beer Manufacturing?

A unique and powerful product, beer pervades the globe and spans all lifestyles. It both inspired and destroyed Prohibition, and to date, the drink ranks as the third most popular beverage – ceding its rank only to water and tea. In addition to beer’s widespread appeal though, global beer manufacturers have generally used fascinating direct-to-consumer marketing approaches that have gone down in history, and examining their effectiveness and execution will yield some insights into successful advertising.

“He was a wise man who invented beer.”

- Plato
Why Global Beer Manufacturing?

Although many consumers have brand preferences in beer, in one blind taste test, “beer drinkers could not distinguish one brand from another and could not identify their favorite brands”

(Allison and Uhl)

⇒ Advertising leads to higher prices
Industry Analysis
Background: Rise of the Parent Company

1950-1964
- Anheuser-Busch has been the leading firm in the industry every year since 1957.
- Economies of scale in advertising and increased use of television advertising by top brands
- Decrease in independent breweries from 404 to 150

1965-1974
- Low advertising
- Independent breweries drop to 57

1975-1986
- Miller joined the top three in 1976, following the introduction of Lite beer.
- The Lite Beer Wars between Anheuser-Busch and Miller
- Independent breweries drop to 33

1986-present
- Coors became one of the top three brewers in 1989 after it expanded nationally and displaced Stroh.
- Microbreweries and craft beers take off
Global Brands

Carlsberg

Heineken
Process

Raw Ingredients
- Barley, malt, sugar, yeast, etc.

Processing
- Draught, bitter, heavy, light and cold filtered lager; ale and stout.

Packaging
- Kegs
- Bottles
- Cans

Distribution
- Pubs, bars, and hotels
- Wholesale and retail alcoholic beverage distributors
Revenue

Background

- **Raw materials**\textsubscript{2012} $\approx$ 58.3\% of revenue
  - Most will go to packaging, then ingredients
  - Raw ingredients
    - Prices projected to decline to 2017
    - Compensate shortages

- **Labor**\textsubscript{2012} $\approx$ 7.6\% of revenue
  - Initially decreased after major mergers
  - Projected to increase to $\approx$ 8.0\% by 2017
# Global Revenue + Production

## Beer Industry Revenue (2009)

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>39.4</td>
</tr>
<tr>
<td>North America</td>
<td>22.2</td>
</tr>
<tr>
<td>North Asia</td>
<td>20.4</td>
</tr>
<tr>
<td>South America</td>
<td>10.0</td>
</tr>
<tr>
<td>South East Asia</td>
<td>3.0</td>
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<tr>
<td>Africa &amp; Middle East</td>
<td>2.0</td>
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<tr>
<td>Oceania</td>
<td>2.0</td>
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<tr>
<td>India &amp; Central Asia</td>
<td>1.0</td>
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</tbody>
</table>

## Beer Production (2009)

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<thead>
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<th>Percentage</th>
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<tr>
<td>Europe</td>
<td>33.3</td>
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</tr>
<tr>
<td>North Asia</td>
<td>24.2</td>
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<tr>
<td>South America</td>
<td>11.1</td>
</tr>
<tr>
<td>South East Asia</td>
<td>3.4</td>
</tr>
<tr>
<td>Africa &amp; Middle East</td>
<td>4.7</td>
</tr>
<tr>
<td>Oceania</td>
<td>1.3</td>
</tr>
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<td>India &amp; Central Asia</td>
<td>1.6</td>
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</table>
Key Success Factors

 Competition

■ Research
  ■ For market, geographic areas to sell

■ Economies of Scale
  ■ Determines unit price
  ■ Distribution

■ Brand equity

■ Economies of Scope
  ■ Advantage in distribution and advertising
Industry Profit

Background

- Profit margin\(_{2012}\) \approx 12.8%
  - Anheuser-Busch InBev and Miller Coors rebound
  - Contrary to smaller breweries
    - Variable and sometimes negative
- Forecast to decrease to \approx 11.6\% by 2017
  - Changing preferences
Concentration

Competition

- $\text{CR}_4 = 86.7\%$

- In 2008, two major mergers
  - Miller Coors (SABMiller and Molson Coors)
  - Anheuser-Busch InBev

- Middle sized breweries $= 10\%$
  - Decrease through acquisition

- Microbreweries $= <10\%$

$\Rightarrow$ Results in **High Concentration**
Increases in Competition

Competition

- Dominate distribution and raw materials
- Other beverage industries
- Global
  - Imported brands like Heineken
Internal Competition

- Brand, quality, packaging
- 21-35 years old
- Beer tastings and brewery tours
- Brand loyalty competition
- Expected growth
External Competition

- International competition since 2008 has decreased
- Expected to grow for next five years
- Other beverages taking market share
  - Wine
  - “Adult drinks”
### Barriers to Entry

<table>
<thead>
<tr>
<th>Craft-Brewery</th>
<th>Large-Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnkey facilities</td>
<td>Significant cash flow</td>
</tr>
<tr>
<td>Lower taxes</td>
<td>Continuous investment</td>
</tr>
<tr>
<td></td>
<td>Preexisting agreements with distributors</td>
</tr>
<tr>
<td></td>
<td>Shelf space in retail</td>
</tr>
<tr>
<td></td>
<td>Diversifying portfolio</td>
</tr>
<tr>
<td></td>
<td>More funds for advertising</td>
</tr>
</tbody>
</table>

United States is highly regulated: producers ≠ wholesalers
International Competition

- \( \text{Imports}_{2017} \approx 16.3\% \) of revenue
- \( \text{Exports}_{2017} \approx 26.1\% \) of revenue
- Small breweries have no impact on exports
- Two major players are international
- Increase in licensing agreements
Advertising Strategies
The Big Questions

- What is the importance of advertising and product differentiation for structural change in the industry?
- To what extent can brewers use advertising to alter market share?
- What is the social cost of advertising?
- How is the alcohol advertising regulated?
Product & Ad Differentiation

- Media support behind the brand and the design of the packaging and logo contribute to the appeal of a product.

- There can be strong consumer loyalty to beer brands, and it can be difficult to shift market share away from these brands.
Product & Ad Differentiation

- Especially at the premium end of the market, taste can be a basis of competition.

- Greater competition based on taste has become apparent with the rise of the craft brewing (microbrew) category in mature markets such as the United States.
Product & Ad Differentiation

- In countries where the domestic beer market has already reached a mature stage of its life cycle and price competition is limited, competition usually takes place through marketing and brand promotion.
Product & Ad Differentiation

The combination of market saturation in many larger markets and value propositions centered around taste means:

- *Product differentiation* is not based upon price, but rather perceived superior quality and taste.
- *Advertising differentiation* is based upon well-established name brands that tend to cause consumer brand loyalty.
Advertising Expenditure By Parent Company

- Anheuser-Busch InBev
- Boston Beer Co
- Constellation Brands Inc
- Diageo Plc
- HEINEKEN NV
- MIKES HARD LEMONADE CO
- Sabmiller Plc

Millions (Dollars)
Average Cost Per Ad by Parent Company

Thousands (Dollars)

- Anheuser-Busch InBev
- Boston Beer Co
- Constellation Brands Inc
- Diageo Plc
- HEINEKEN NV
- MIKES HARD LEMONADE CO
- SABMiller Plc
Programing Selection: Reaching the Target Market + Controlling Consumption Habits

- What day?
- What time?
- What type of show? Which show?
Top 10 Programs Type for Beer Advertising

- Millions (Dollars)
Top 10 Programs for Beer Advertising

Millions (Dollars)

- AFC FOOTBALL GAME
- AFC FOOTBALL GM 1
- AFC FOOTBALL GM 2
- NBC SUNDAY NIGHT
- NFC FOOTBALL GAME
- NFC FOOTBALL GAME
- NFC FOOTBALL GAME
- SUMMER OLYMP-EVE-
- SUPER BOWL XLII
- SUPER BOWL XLIII
Anheuser Busch: Program Type

Peak at Professional Football Game →

Millions of Dollars
Heineken: Program Type

Peaks:
- Soap Opera (1)
- Professional Basketball (3)
- Sports Cast (2)
- Documentary/ Salute/ Tribute (4)
- Slice-of-Life (5)
- Feature Film (6)
Comparative Combative Advertisements

- Competing on two major qualities: calories and taste
- **Miller Genuine Draft 64**
Product Differentiation

Light + Low Alcohol Beer & Ale: $561,659,649

Regular Beer & Ale: $351,237,936

1.6 times as much in advertising expenditure!
Under NAD Review: Anheuser Busch vs. Miller Coors

- Anheuser-Busch claimed its Select 55 with only 55 calories was the “lightest beer in the world,” and went farther to claim it had “nearly half the calories of Coors Light.”

- Decision:
  - Anheuser-Busch could claim that Select 55 had “superior taste”
  - But did not have evidence to support the claim that it had half or less calories than Coors Light
For there to be a social cost: Advertising must INCREASE the amount of beer consumed.

Tremblay’s found that “a 1 percent increase in beer advertising raises external social costs by approximately 41 million dollars.” (Tremblay & Tremblay, 371)

Found that a ban on alcohol ads can reduce:
- Cirrhosis of the liver by 47%
- Motor vehicle accidents by 39%
Advertising Regulations

- Regulation of the global beer industry is relatively high, and trends show that regulation will continue to increase.

- The United States, European Union, and Australia have the strictest regulatory procedures.
Advertising Regulations

United States

- Alcohol and Tobacco Tax and Trade Bureau (TTB) has recently imposed regulations on the formulation, labeling and advertising of flavored malt beverages.

- Regulations vary from state to state and are usually more stringent throughout eastern states than in the country's west.
Regulatory Rules of Alcohol Advertising

1. Prohibit False or Misleading Alcohol Advertising
2. Prohibit Alcohol Advertising that Targets Minors
3. Prohibit Images of Children in Alcohol Advertisements
4. Prohibit Images or Statements that Associate Alcohol with Athletic Achievement
5. Prohibit Images or Statements that Portray or Encourage Intoxication
6. Establish Explicit Jurisdiction Over In-State Electronic Media
7. Restrict Outdoor Alcohol Advertising in Locations Where Children Are Likely to be Present
8. Prohibit Outdoor Alcohol Advertising Near Schools, Public Playgrounds and Churches
9. Restrict Alcohol Advertising on Alcohol Retail Outlet Windows and Outside Areas
10. Prohibit Alcohol Advertising on College Campuses
11. Restrict Sponsorship of Civic Events
12. Limit Giveaways (Contest, Raffles, etc.)
Advertising Regulations
European Union

- The code of conduct in the E.U. is much more lax than that of the U.S.

- The code seeks to ensure advertising does not contribute to excessive consumption or misuse of alcohol, and restricts certain actions such as advertising during certain times of the day or at certain events.
Advertising Regulations

Australia

- In Australia, fewer advertising regulations exist, but they still impose other regulations.

- Government regulations directly control the sale of liquor through licensing laws, and Food Standards Australia New Zealand (FSANZ) develops standards for beverage safety, maximum residue limits, processing, and a range of other functions.
The Big Questions

Let’s Answer Them

- What is the importance of advertising and product differentiation for structural change in the industry?
- To what extent can brewers use advertising to alter market share?
- What is the social cost of advertising?
- How is the alcohol advertising regulated?
Investment Recommendations
Revenue (Millions)

Revenue is very slowly increasing.
Investment Revenue

Outlook is relatively optimistic due to expansion into emerging markets.
Investment

Emerging Markets to Stimulate Growth

- As developed economies begin to stagnate, global beer manufacturers will seek growth from emerging markets, especially China and Brazil.
  - Rising disposable incomes and urbanization will fuel demand.
  - Due to the size of the Chinese population, it is the leading market for beer and has been one of the fastest-growing markets.

- As prices rise in emerging markets, profit margins are forecast to increase.
As per capita consumption grows marginally and population continues to increase in China, look to invest in small- and mid-sized beer manufacturers expanding into China.

Because China is expected to remain a small portion of revenue for large global players over the next 5 years, seek to invest in smaller private ventures.

Also, because regulations are relatively low in China, look for small private ventures to acquire licenses to produce locally and increase offshore investment.

Invest in microbreweries in China.