

HEINEKEN CASE STUDY



Overview

1. Corporate Objective and goals
2. beer industry overview
3. Problems
4. 5 forces
5. SWOT analysis
6. Value chain analysis
7. Solutions

Heineken Overview

- one of the world's leading brands >130 years.
- Number 2 imported beer in U.S.
- Number 1 in Europe
- global network of distributors and 115 breweries in more than 65 countries
- Premier brands – Heineken, Amstel Light

Organization goals and objectives

- Aims for sustainable growth as a broad market leader and segment leadership
- Expand and optimize product portfolio
- embraced innovation as a key component of their strategy in the areas of production, marketing, communication and packaging.
- Goal is to grow the business in a sustainable and consistent manner, while constantly improving profitability

Priority to reach goal



1. to accelerate sustainable top-line growth.
2. to accelerate efficiency and cost reduction.
3. to speed up implementation: we commit to faster decision making and execution.
4. to focus on those markets where we believe we can win.

Problem

1. Losing Import beer market share

Fridge stuffer.



Leading IMPORTED Beer Brands

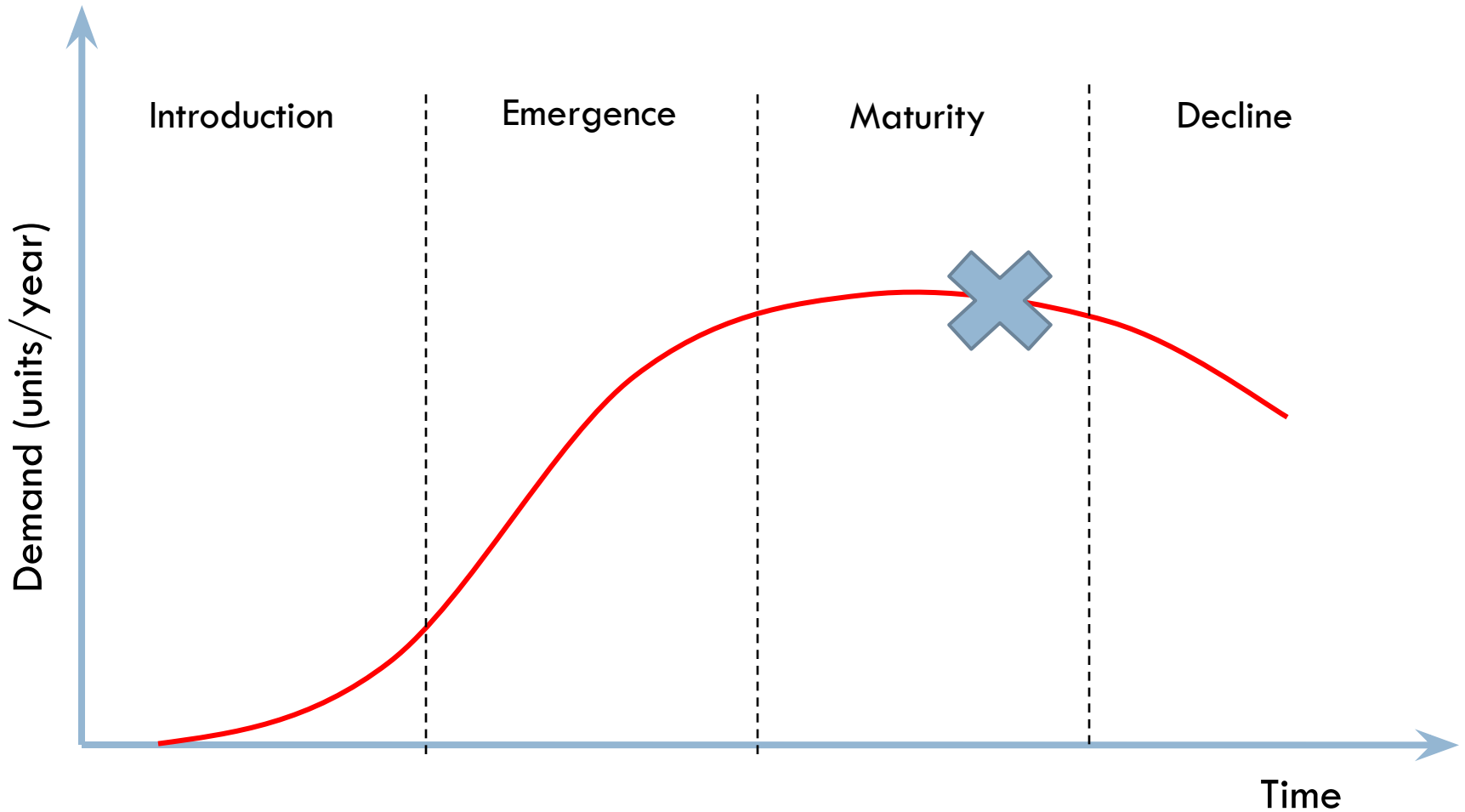
(000 2.25-Gallon Cases)

Brand	Supplier	2003	2004	% Change
Corona Extra	Barton Beers/Gambrinus	96,105	97,930	1.9%
Heineken	Heineken USA	62,500	63,125	1.0%
Labatt Blue	InBev USA	15,075	14,192	-5.9%
Tecate	InBev USA*	13,464	14,600	8.4%
Guinness Stout	Diageo-Guinness	10,987	11,390	3.7%
Modelo Especial	Barton/Gambrinus	9,268	10,951	18.2%
Amstel Light	Heineken USA	9,980	10,400	4.2%
Corona Light	Barton Beers/Gambrinus	8,142	8,705	6.9%
Beck's	InBev USA	7,500	7,900	5.3%
Foster's	Miller Brewing	8,500	7,300	-14.1%
Total Leading Imported Brands		241,521	246,493	2.1%
Others		85,479	86,407	1.1%
Total Imported Beer		327,000	332,900	1.8%

DÉPAYSEZ
L'ORDINAIRE



Problem: The maturing competitive Beer Industry



Beer Industry Overview

Leading DOMESTIC Beer Brands				
(000 2.25-Gallon Cases)				
Brand	Brewer	2003	2004	% Change
Bud Light	Anheuser-Busch	517,000	536,000	3.7%
Budweiser	Anheuser-Busch	404,000	386,000	-4.5%
Miller Lite	Miller Brewing	217,000	241,000	11.1%
Coors Light	Molson Coors Brewing	228,950	224,370	-2.0%
Natural Light	Anheuser-Busch	115,000	115,800	0.7%
Busch	Anheuser-Busch	96,000	93,000	-3.1%
Busch Light	Anheuser-Busch	80,500	81,500	1.2%
Miller High Life	Miller Brewing	72,500	71,000	-2.1%
Michelob Ultra	Anheuser-Busch	41,500	58,000	39.8%
Miller Genuine Draft	Miller Brewing	59,400	54,000	-9.1%
Total Leading Domestic Brands		1,831,850	1,860,670	1.6%
Others		658,550	644,830	-2.1%
Total Domestic Beer		2,490,400	2,505,500	0.6%
Total Beer		2,817,400	2,838,400	0.7%

Beer Industry Overview

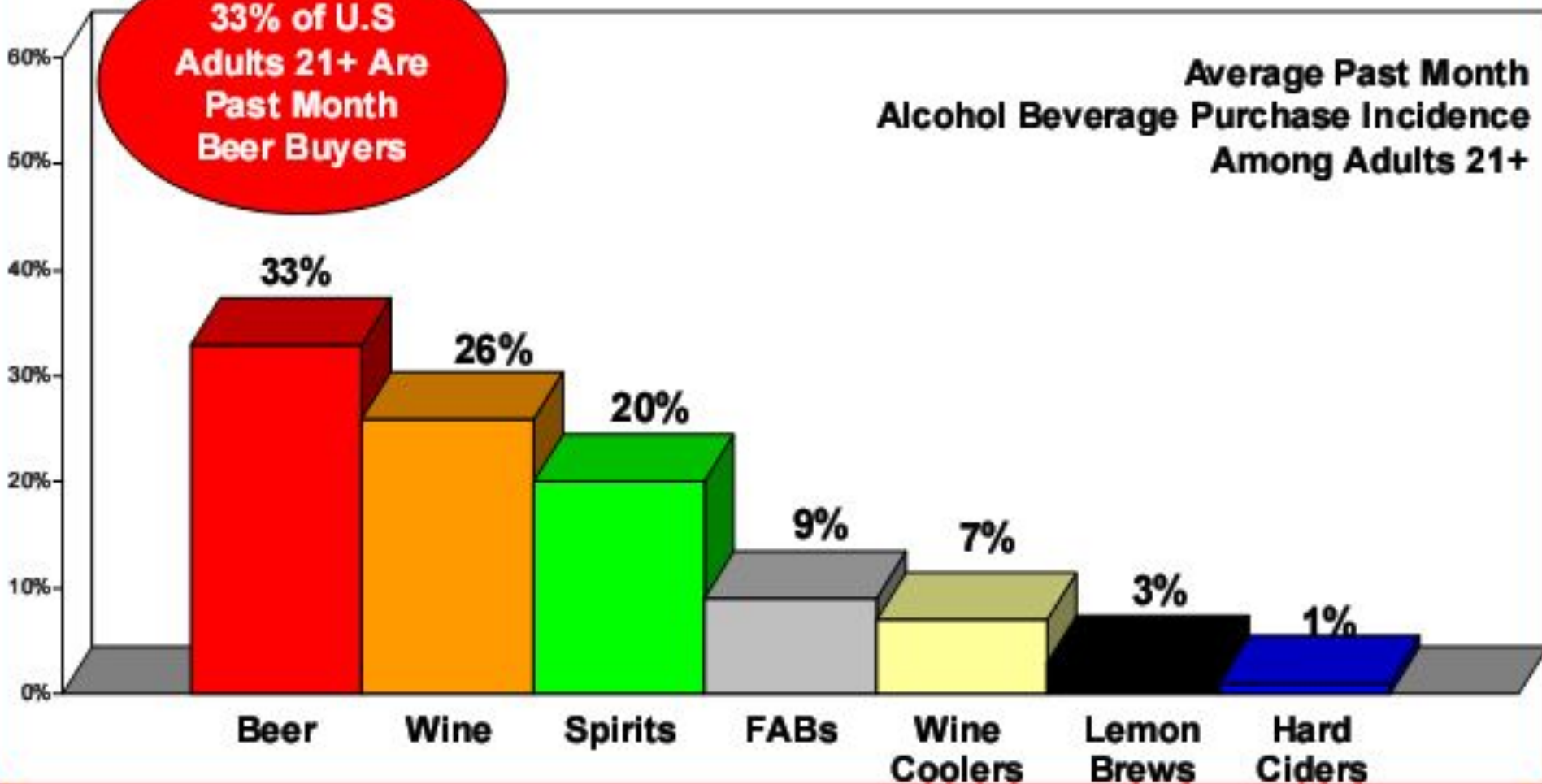


- 37% of U.S. adults are beer drinkers
- Beer is the most widely purchased alcohol beverage
- Beer industry is projected to grow steadily

Beer is the Most Widely Purchased Alcohol Beverage

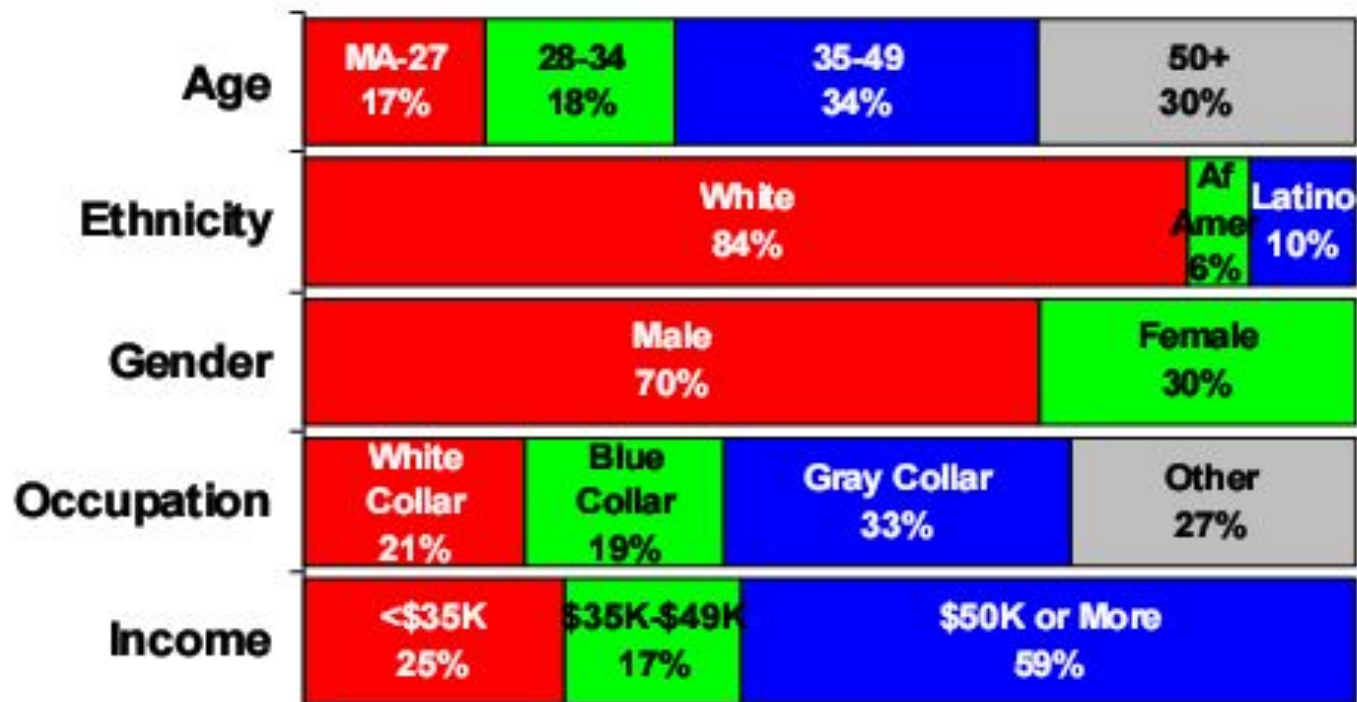
33% of U.S. Adults 21+ Are Past Month Beer Buyers

Average Past Month Alcohol Beverage Purchase Incidence Among Adults 21+



Beer Is Enjoyed by All Types of Consumers

% of Total Beer Consumers in Each Demographic Segment



Beer Consumers are fairly well distributed across major demographic segments.

Competition

- Basically it's "eat or be eaten"
- Every company is just trying to strengthen their global position any way possible
- Biggest rivals include InBev and Grupo Modelo

Mergers and Acquisitions

- South African PLC combined with Miller
- InterBrew and AmBev merged in 2004, and now acquired Anheuser-Busch
- Coors acquired Molson
- Anheuser-Busch in partnerships with Grupo Modelo and Tsingtao

Business Strategy of the Industry

- Grow externally to strengthen the position of the company in developed markets as well as maximizing potential for profit in high-growth markets
- Basically do whatever is necessary to get your company represented around the world
- Heineken was the pioneer of this strategy, becoming the first brewer to cut deals to distribute worldwide

Industry Outlook

- Bigger brewers acquiring smaller brewers all over the world
- “The era of global brands is coming.” – Alan Clark, SABMiller
- Market for premium beer will expand 84% by 2012

Value Chain Analysis

(Primary Activities)



Inbound logistics

Heineken is distributed globally, stored in warehouses strategically placed throughout to minimize shipping costs to stores.



Operations

Heineken was limited to grabbing smaller brewers but in 2003, it acquired BBAG for \$2.1 billion dollars making it the biggest beer maker in several countries across Eastern Europe.



Outbound logistics

Heineken has brewers throughout the world so that it can ship its finished products to local areas to minimize shipping costs.



Marketing and sales

Heineken is the 5th most recognized brand of beer in the world. By acquiring smaller brewers in the world they spread their label even more.



Service

Heineken has recently ventured out in the fields of nonalcoholic malts and fruit flavored drinks as an avenue into other customer areas.



Value Chain Analysis

(Secondary Activities)

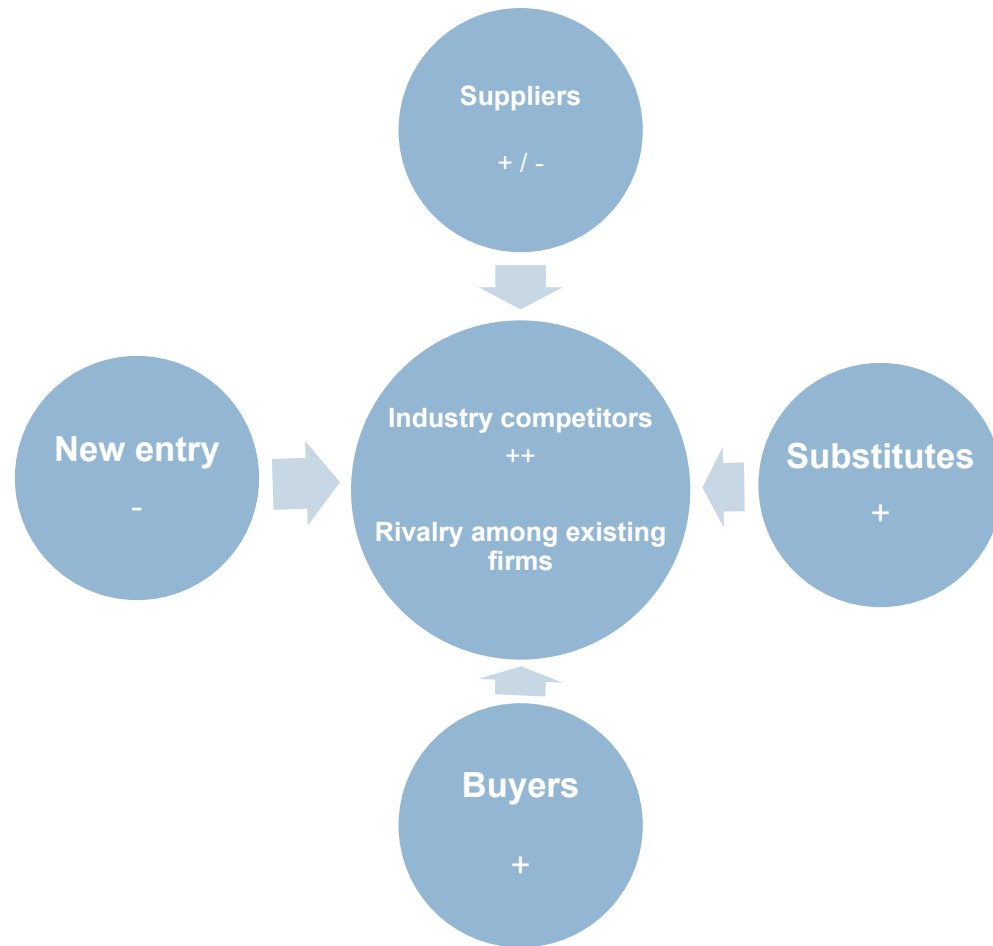
General Administration

Human Resource Management

Technology Development

• Heineken uses their technology
• The new detailed document
s of shipping, in their warehouses to
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Light,

Porter's 5 Forces of competition



Porter's 5 Forces of competition

Threats of substitutes	Threats of new entry
<ul style="list-style-type: none">✓ very little technical composition of beers✓ Growing appreciation for wine	<ul style="list-style-type: none">✓ \$250 million needed to build 4 million barrel brewery✓ Entry is risky since not many alternative uses for breweries✓ No new entrant in beer industry has cracked the top 3 sellers since WWII.

Porter's Five Forces of competition

(cont'd)

Bargaining Power of Buyers

- ✓ No loyalty to any particular brand
- ✓ Demand "beer" is inelastic: $E = -0.7$
- ✓ Demand "Budweiser" is elastic: $E = -5.0$

Bargaining Power of Suppliers

- ✓ fewer brewers and Larger plants
- ✓ 170 Horizontal mergers between 1950-1983
- ✓ Rising cost of key commodities like grain, glass and aluminum
- ✓ Many Buying supplier of inputs (wheat field)

Porter's Five Forces of competition (cont'd)

Rivalry between established competitors

- ✓ 1947: Top 5 firms - 19% of market in the U.S.
- ✓ 2001: Top 5 generate 87% of the market in the U.S.
- ✓ Highly competitive industry, many brewers leave the industry losing \$
- ✓ Lost of advertising for product differentiation

SWOT Analysis

Strength

- ✓ Brands in over 13 markets
 - ✓ Very Differentiated
- ✓ Global brand/pioneer of international strategy
 - ✓ Has made many acquisitions with national breweries
- ✓ Bottle Recognition and different dispensing instruments
 - ✓ Green Bottle
 - ✓ Mini keg

SWOT Analysis

Weakness

- ✓ Conservative/"Play it safe" culture
 - ✓ Struggle to obtain large breweries
- ✓ Not drunk by younger beer drinkers
 - ✓ Although consumption age has dropped from 40 to 30
- ✓ Price when compared to U.S. domestic beers
 - ✓ \$10 per six pack—Heineken
 - ✓ \$7 per six pack--Domestic

SWOT Analysis

Threats

- ✓ Increase in Drunk-driving laws
- ✓ Competitors increasing market share
 - ✓ U.S. Industry
- ✓ Mergers and acquisitions of other breweries
 - ✓ Other Breweries are becoming much larger than Heineken's Brewery
- ✓ "In danger of becoming a tired, reliable, but unexciting brand"
 - ✓ John A. Quelch

SWOT Analysis

Opportunity

- ✓ Low calorie beer
 - ✓ Society is pushing for a “healthy” beer
- ✓ Russia/Asia
 - ✓ Population increasing dramatically
 - ✓ Have greater market share
- ✓ Hispanic consumer’s are growing rapidly
 - ✓ U.S. Industry

U.S. Population Growth

Key Demographic Groups Are Driving
U.S Population Growth

10-Year
Growth Estimate

21-27 Year Old

+7%

Latino

+30%

African-American

+18%

50+ Population

+27%



Financial Information

	2005	2006	2007
ROE	21.1%	27.0%	15.5%
EPS	1.71	1.90	2.29
Interest Ratio	14.8	19.7	22.7
Liquid Ratio	.90	1.09	.95

Solutions

- Need to grow in the U.S. industry
 - Increase advertising on Tecate and Dos Equis
 - Keep advertising to young beer drinks & Hispanic population
 - Tap into beers with fewer calories and lower carbohydrates (>50% of beer market)
- Sustain global competition
 - Keep buying more national breweries globally
 - Increase awareness of all national breweries
 - Can't obtain

Recommendations

- Increase Advertising
 - Advertising toward young people
 - Spanish-language advertising
 - National brands
 - Increase presence in convenient store
- Vertically Integrate
 - Make own Ingredients
 - Look into recycled glass
 - Supply chain efficiency

Recommendations (cont.)

- Diversification
 - Acquisition or Merger
 - Joint Venture
- Push to develop low-carb/low-calorie beer
- Develop more dispensers/accessories
 - Beer tender, mini keg



Welcome!

欢迎!

¡Bienvenido!

Programmer Jin



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