

Marketing Strategies of Foreign Breweries in Central and Eastern Europe

Marin Alexandrov Marinov, University of Gloucestershire, United Kingdom
Svetla Trifonova Marinova, University of Birmingham, United Kingdom

Introduction

Marketing strategy is recognized to play a central role in an enterprise as it creates value for a firm's chosen customers. Therefore, marketing strategy is designed to serve a firm in meeting consumer preferences and satisfying consumer needs and wants through a bundle of specific offerings. Thus, a company has to define itself by the consumer benefit provided and sustain the process of creating and capturing value over time. While authors argue about the position of marketing strategy in an organization, it can be suggested that marketing strategy bridges the gap between customer preferences, needs and perceptions and the value that companies deliver to consumers thus placing the customer in the foreground, in order to facilitate the marketer's efforts to satisfy the consumer's own needs and wants (Svensson, 2001). Hence, the marketing strategy can be defined as the issues that guide decisions impacting either directly or indirectly the market scope and the competitive advantage of a company. The market scope is characterized by the segments of consumers, customer needs, products produced and the marketing mix employed by a firm. Those are underpinned by a company's competitive advantage based on the assets, skills and resources a firm possesses and the positional advantages enabling the firm to achieve a superior performance.

International marketing strategy is crucial to company success because optimizing the interface between consumer preferences and marketing resources and capabilities in international markets can increase revenue and enlarge market share (Yip 2003). The strategic development of a firm in international markets is based on the recognition of existing consumer needs in markets other than the home one, and the skills and capabilities of the firm to deliver sustained value to the consumers in such markets. This is done through transferring products and services, packages of tangible and intangible assets or resources across national borders (Bradley 2002). Thus, consumer needs and wants, products produced and the skills and resources of a company to internationalize existing or modified offerings lie in the core of the international marketing strategy.

Companies internationalize proactively or reactively responding to internal and external pressures. In saturated markets, such as the beer brewing industry, the most important pressures originate in the home country (Karrenbrock, 1990). In addition, firms may exploit the opportunities of introducing or acquiring new products, spreading risk across country markets and segments, lowering production costs lured by large and fast growing foreign markets, growth aspirations of the firm and industry consolidation.

Companies serve international markets driven by different motives simultaneously taking advantage of a variety of opportunities. Company internal factors (e.g., Kay 1993) and the environmental characteristics have impacted the specifics of the international marketing strategies of businesses. The market entry mode and participation in the ownership structure of the foreign operations determine the level of involvement and degree of risk assumed in each particular marketplace. The international marketing strategy of a firm is

inherently based on the internal drivers for its internationalization that are defined as internationalization motives (Dunning and Rojec, 1994; Marinova, 2001). There is a significant amount of literature on the internationalization of enterprises providing theoretical explanations of investors' motives for expanding into international markets. It is suggested that multinational corporations (MNCs) inherently suffer from disadvantages compared with local competitors when operating in foreign markets, such as the greater familiarity of the local competitor with market conditions, consumer discrimination in favor of local providers, political risks and foreign exchange risks. Motives for internationalization include building a more intimate knowledge of a foreign market in order to ensure more effective operation. Thus, learning about the market in which a company wishes to do business and closing the "psychic distance" have been seen as major motives for internationalization.

It seems that the most relevant approach for understanding the specifics of the process of internationalization of companies in Central and Eastern Europe (CEE) is the contingency one (see for instance, Young *et al.*, 1989; Rundh, 1994) that relates company's market development in foreign markets and marketing strategy to its business strategy. Thus, the specific characteristics of the market environment in CEE and the moderate degree of heterogeneity among national markets set the requirement for the development of relevant marketing strategies for the national markets of the region (Czinkota, Gaisbauer and Springer, 1997; Koźmiński and Yip, 2000; Marinov and Marinova, 2001). Those marketing strategies are an inherent part of the business strategies of international and global companies competing for market share in the CEE countries and delivering value to CEE consumers. The marketing strategies need to reflect the consumer demand and preferences for new products and brands in the various national CEE markets, which absorb the impact of cultural embeddedness and openness to international brands.

The opening up of the CEE countries has created many strategic market opportunities that coupled with the patterns of the international market behavior of companies, trying to take advantage of growth market opportunities, have accounted for the intensive changes in the market structures of the economies of CEE. These new strategic opportunities have allowed firms to enter the local marketplace and quickly establish strong market positions.

The beer brewing industry in CEE has attracted much attention from Western brewing companies. It has been seen as providing a growth market potential that is not available in the mature stagnated West European beer markets. The economic growth, existing consumer preferences and increased beer production capacities in CEE have placed the region at the top of the world average annual growth forecasts in beer consumption until 2008. The favorable political and investment conditions, the financial deficit in the brewing companies in CEE and the potential for growth in beer consumption have attracted breweries such as Heineken, Interbrew, SABMiller, Carlsberg, BBAG (that has recently been acquired by Heineken), to launch aggressive marketing campaigns in the CEE countries and further on consolidate their operations in the region.

The objective of this paper is to analyze the marketing strategies of brewing companies in CEE on a comparative basis taking into account motives, general approaches, timing of market entry, modes of market entry, and marketing mix for different markets. It attempts to explain the reasons behind the implementation of such strategies.

Defining the Context

World Context: The World Beer Brewing Industry

As beer is one of the least global consumer goods of all, there are clear trends in the world beer brewing industry for establishing global companies with a similar role and market position to the one of Coca-Cola Co. For example, in 2002 South African Breweries acquired the second largest U.S. brewery Miller to create the beer brewing giant SABMiller and in 2004 Interbrew and Ambev merged to form Imbev. The beer brewing companies with highest aspirations to rise to the top follow a global brand strategy, also known as 'Heineken strategy', or buying, upgrading and enhancing the marketing of local and regional brands coupled with the introduction of own global brands in some markets, which is recognized as 'Interbrew strategy' (Schumacher, 2002). To become a truly global brewing giant the Dutch brewer Heineken has been establishing itself globally with the Heineken brand image consistent in more than 170 international markets worldwide (The Economist, 2001). Anheuser-Busch follows the Heineken strategy with its global brand Budweiser that accounts for more than 50 percent of its sales. The Danish brewer Carlsberg follows 'the world's local brewer' strategy of Interbrew, whereas SABMiller applies a complex mixture of the two strategies on market-to-market basis. A general trend in the recent development of the industry is the increased value of intangible assets such as brands, production capabilities, operating know-how, allowing breweries to access new markets, transfer market knowledge and spread the costs of enhancing brand image and expertise over more sales.

The consolidation of breweries worldwide is counterbalancing the consolidated distribution networks in the mature beer markets, which determine the beer sold in various outlets. A similar process is taking place in emerging markets where the distribution systems are largely fragmented but consolidated powerful international players are setting foot in the marketplace. There, the international brewing companies apply skimming pricing strategy for their global brands, while local brands are mostly pushed into the low and middle market segments.

This developmental trend has been supported by the general increase of beer consumption worldwide. In the period 1990-2000 the world beer output increased with more than 20 percent. The stagnation in the mature national beer markets, mostly in North America and Western Europe, was surpassed by the significant development of the beer industries in emerging markets where consumer demand was on the rise.

The brewing giants, Heineken, Interbrew, SABMiller, and Carlsberg have dedicated much attention and investment to mature and emerging markets. While their objectives in established highly competitive markets are to defend and possibly increase market share through strategic alliances and acquisitions, in high growth emerging markets their strategies are aggressive. They buy local companies and create new companies to absorb soaring demand in larger transitional markets such as Russia and Ukraine. The latter strategy depends on cultural values and tradition, consumer reaction to change, as well as corporate culture of the local companies. If these are unfavorable for the market expansion of foreign companies, they might suffer severe drawbacks. For instance, the international beer brewing companies penetrating the China market in the 1990s have

been mostly unsuccessful (Heracleus, 2001). In such cases the carefully managed interface between global strategy and the local knowledge of distributors becomes crucial for the successful entry of global brands that try to beat the local and global entrenched brand loyalty (Robinson, 1996).

Most recently the world beer market has continued to consolidate with an increasing pace. However, apart from the U.S.A. the concentration of production is still low in comparison to the other consumer good categories. Consolidation of the leading world brewers and the continued increase in volume consumption in the emerging markets, including those of Central and Eastern Europe, are the most prominent current trends in the development of the world beer industry (Kaplan 2003). With most ambitious plans for further consolidation are SABMiller, Heineken, and Interbrew. Industry analysts predict that consolidation in the future will be most significant in Germany, Russia, China, and the United Kingdom. It is expected that Anheuser-Busch will start massive penetration in China. Consolidation on a great scale in the Asian region lies ahead led by the Japanese brewing giant, Kirin Brewery. The world brewing market is so volatile that it is impossible to predict which brewers will be among the top world players in the next years. The substantially fragmented world beer industry, especially in certain regions (for instance Europe) and countries e.g., Germany and Russia, is expected to be in the forefront of the consolidation wars in the near future.

Apart from the fragmentation of the industry, the significance of the most famous beer brands is negligible in the world marketplace. The world strongest beer brand Budweiser of Anheuser-Busch has solely 3.6 percent of the world beer market, while the share of the Heineken brand is just 1.6 percent.

According to Karel Vuusteen, CEO of Heineken, the world beer brewing industry has long established traditions in production and distribution, whereas marketing of beer is not so developed and less traditional (The Economist, 2001). There is a clear recent trend that big brewers buy up distributors. As the former CEO of Interbrew, John Thigs, points out this is done to ensure better market positioning through vertical integration into distribution of large brewing companies (Wall Street Journal Europe, 2000). This trend forces brewers with high internationalization aspirations, especially in mature markets, to develop and implement a strategy based on strategic alliances with strong international players.

Total beer consumption in Europe in 2002 increased by less than 3 percent compared with its volume of sales in 2001. Nevertheless, the premium and super premium segments grew by more than 10 percent each. However, some national CEE markets have experienced explosive expansion. In these markets it is not the growth in the premium and super premium segments that are causing the market boom. Rather, it is the volume in the commodity and mainstream segment that is most significant. This means that the overall analysis of the European market cannot reveal the specifics in the beer market development in CEE. Virtual lack of export levels are indicated in the countries of CEE where only the Czech Republic has preserved its export volumes from the pre-1989 period.

The European beer market still remains fragmented. There are only two top players, Heineken and Interbrew each having more than 10 percent of the total European beer sales in value. Heineken has consolidated its operations in Russia and purchased the

Austrian brewer BBAG in 2003 to ensure pole position. Interbrew continues to apply its strategy of acquiring local breweries and brands. Carlsberg, Scottish & Newcastle and SABMiller have challenged their leading positions in CEE pursuing aggressive expansion strategies in the region in recent years.

Regional Context: The Beer Brewing Industry in CEE

Before the beginning of the transition period Bulgaria, ex-Czechoslovakia and Hungary were the only countries from CEE that were members of the European Brewing Union. They had well-established traditions in the brewing industry and their breweries had modern technology and know-how. With the exception of the Czech and Slovakian beer brands and to a certain extent the Bulgarian ones, local beer products in CEE were generic. They served exclusively the local national markets, and were associated with the name of the producing company. While Bulgaria and ex-Czechoslovakia were export oriented, Hungary, Romania, Poland, and Russia were with predominant beer imports (see Table 1).

Table 1. Beer Production, Imports, Exports and Consumption in CEE in 1991
(In thousand of liters)

Country	Beer Production	Beer Imports	Beer Exports	Total Consumption
Bulgaria	4,879	6	208	4,677
Ex-Czechoslovakia	22,276	8	1,852	20,432
Hungary	9,570	1,600	2	11,168
Poland	13,633	177	6	13,804
Romania	9,757	258	0	10,015
Russia (ex-USSR)	32,692	155	16	32,832

Source: UK Brewers Society, 1992.

In terms of type of product, it is mostly the lager beer that dominates all national markets in CEE. This is also the world’s most preferred type of beer (Brewers of Europe, 2002) but it is in contrast to some Western European beer markets as the British one where the top-fermented ales control nearly half of the market (Steele, 1992).

Before 1989 competition was a foreign concept in the CEE beer markets. Local brewers were assigned geographical regions in their countries and were guaranteed an absolute monopoly on beer production and distribution. Presently, local brewers have no protectionism from domestic and foreign competition. To withstand the strong foreign competition some large domestic brewing companies have been consolidating their positions with other local players (e.g., Laško Brewery in Slovenia).

Beer brewing industry in CEE has attracted a lot of foreign investment. In the first part of the 1990s the focus was on the beer markets of Hungary, Poland and ex-Czechoslovakia as they were perceived as less risky. The major goals of foreign acquisitions have been to improve product quality, develop brand recognition, increase production, and take as much market share as possible in domestic and adjacent markets. Initially the two major rivals in CEE were Interbrew and Heineken. They engaged in head-on competition for market share and gaining first mover advantage. For example, within a decade they have

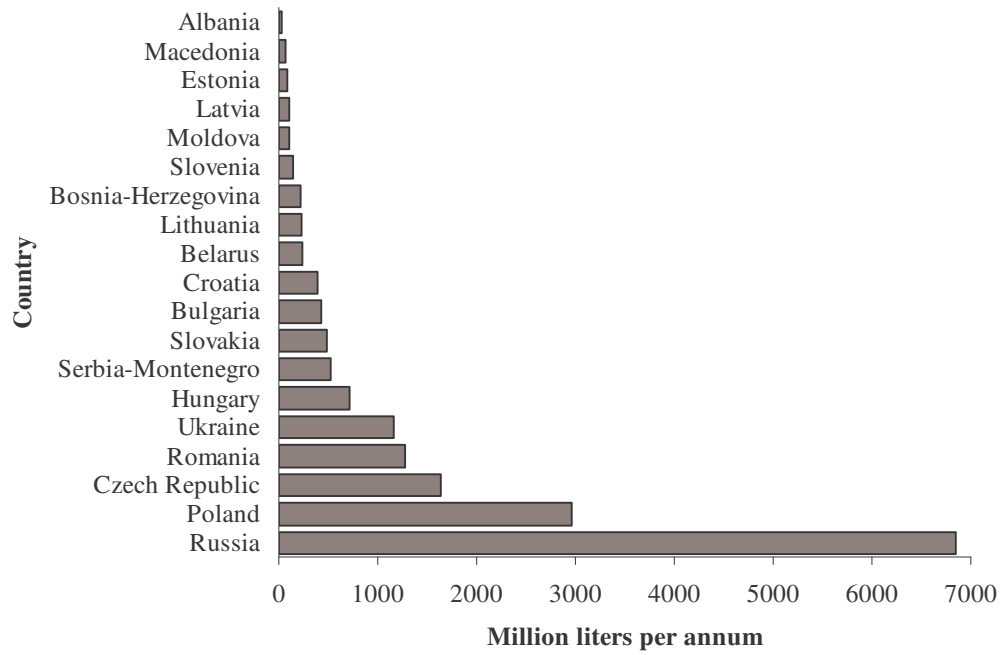
managed to reconfigure entirely the structure of the Bulgarian beer market. Presently, the two brewers jointly control more than 70 percent of the market. The pace of foreign entry in the CEE brewing markets differed from country-to-country. While Hungary allowed four of its seven breweries to be privatized through foreign acquisitions in fifteen months only, Poland adopted a very cautious approach to allowing foreign investors in its breweries. The Czech Republic was most unwilling to sell its breweries to foreign investors because of its exclusive brewing tradition that was an intangible part of the Czech industrial history and had established well-known international brands.

In the recent years the political and economic conditions in CEE have been with a positive trend. The Economist Intelligence Unit forecasts that average growth of regional GDP in CEE in 2003 is 3.2 percent, in 2004 4.1 percent, and in 2005 will be around 5.0 percent. Since 1998 all national economies in the CEE region have indicated positive market growth. In the period 1990-2000 the regional GDP grew at a rate nearly five times faster than the average regional consumer income and consumer expenditure. While Slovene, Czech and Hungarian consumers benefit from high incomes in the region; Albanian, Russian and Ukrainian buyers have low average incomes.

The value of sales in the CEE beer market has been constantly rising since the early 1990s. Beer sales in 1997 reached the value of US\$7.8 billion, an increase of 42 percent compared with the value of sales in 1993 corresponding to less than 10 percent increase in the volume of sales. The increase in the value of sales in 2002 by 29 percent compared with their value in 1997 was mainly due to the substantial increase in beer consumption per capita in the large beer markets of Poland and Russia.

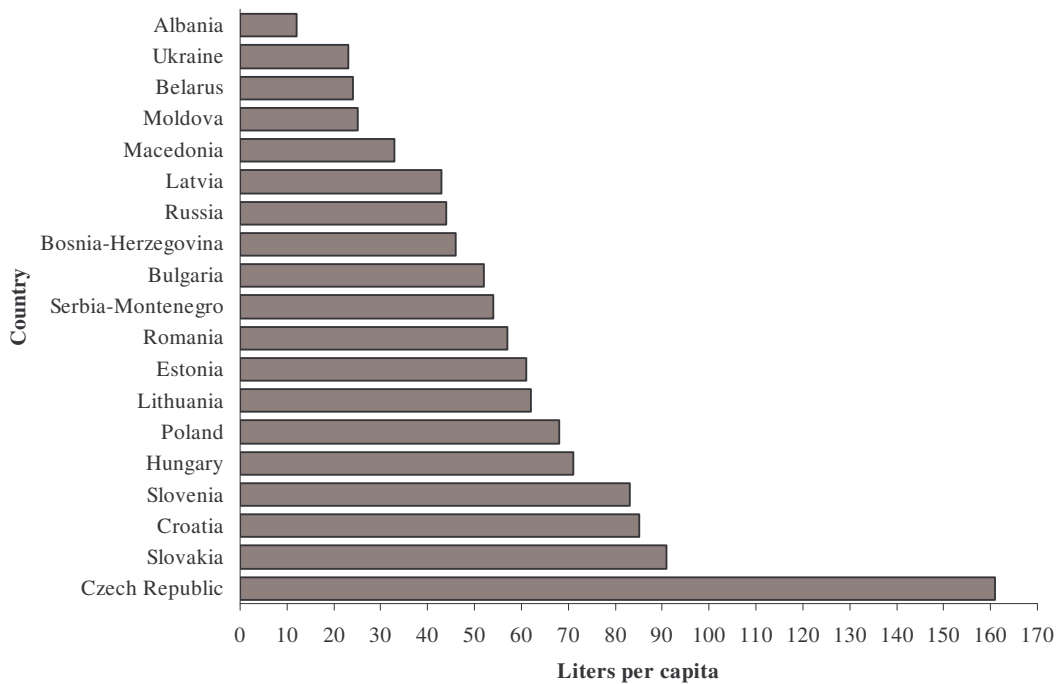
The total and per capita beer consumption in the CEE countries for 2002 is shown in Figure 1 and Figure 2 respectively. It is apparent that the Czech beer market dominates with incomparable yearly consumption per capita of 162 liters. The Slovakian and Croatian markets are small but with high consumption per capita. The biggest growth potential is in the Polish, Romanian, Russian and Ukrainian markets. This is explained by the size of population in all four markets, the high growth rates in Poland and Russia and the increasing consumption per capita. The Ukrainian market is one of the biggest in terms of population but presently with low level of consumption per capita.

Figure 1 Total Consumption of Beer in CEE Countries in 2002



Source: Brau Beviale, Data Monitor

Figure 2 Per Capita Consumption of Beer in CEE Countries in 2002

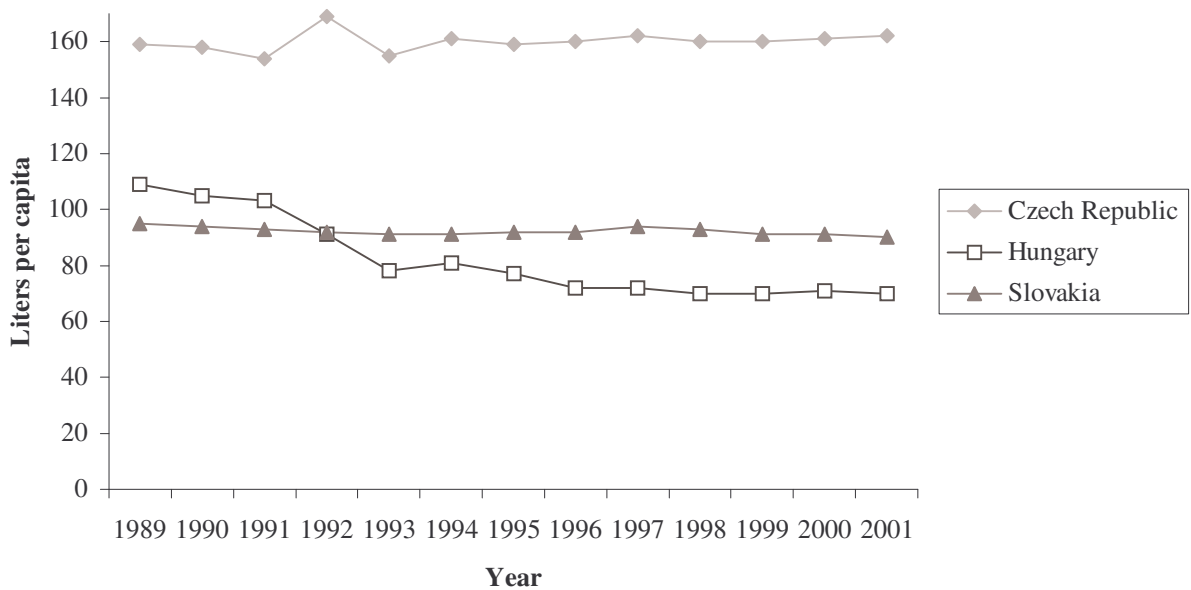


Source: Brau Beviale, Data Monitor

On the whole, beer has low price across the region, which is a considerable drive for the recent increase in consumption per capita in the growing markets. This fact has made beer a preferred drink by the mass market forming the commodity segment where products are affordable to low income consumers. There has been an increase in the consumption of mainstream and premium quality branded beers due to the substantial increase of the average purchasing power of consumers in some CEE countries such as Poland, Hungary, the Czech Republic and Slovenia. The formation of a small in size but affluent rich group of consumers in all CEE countries has boosted the growth in the premium and super premium beer segments.

In countries such as Hungary beer consumption per capita has been constantly declining since 1989 due to a variety of substitute alcoholic drinks that have taken over. Wine is the key substitute product for beer in this market. In the Czech Republic and Slovakia beer has performed strongly but the volume of the markets has been relatively stable and growth is stagnated (See Figure 4). These three markets are very similar to the mature West European beer markets in terms of growth rates and opportunities. They are saturated with high consumption per capita. The Czech beer market is mature, with low prices, stable total consumption, well-established beer brands with international recognition and severe competition for retail domination. It is strongly dominated by SABMiller.

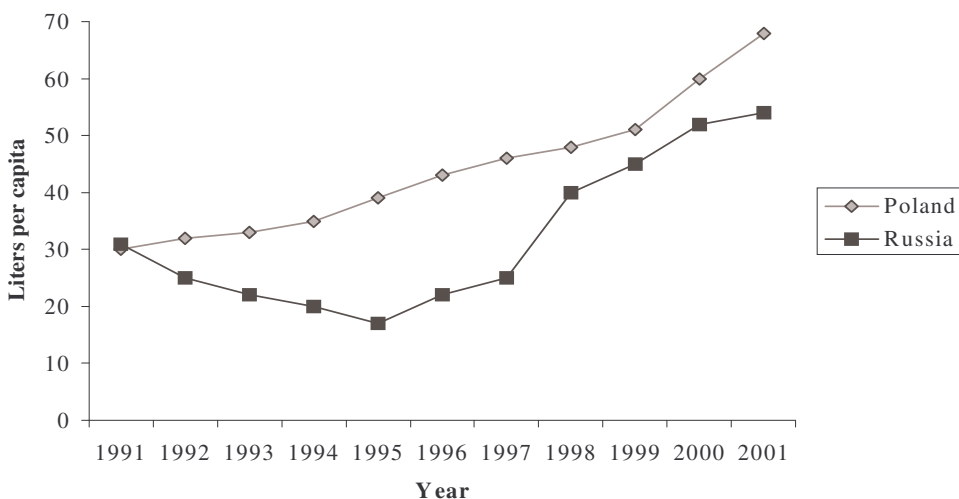
Figure 4 Per Capita Consumption of Beer in the Czech Republic, Hungary and Slovakia



Sources: Czech Association of Breweries and Malt Houses, Data Monitor, National Beer Association in Hungary, Slovakian National Information Office.

The Russian and Polish beer markets are big in size and with high annual growth rate. Beer brewing industry in Russia is one of the sectors of the national economy with fastest expansion rates. The market potentials of the two beer markets are high. Consumption per capita has been constantly increasing with more consumers adopting beer as a substitute for high alcohol content drinks and local types of beer-like products. These two markets exhibit high potentials on the basis of market size, new users, new usage situations, and rising consumption per capita (see Figure 5).

Figure 5 Per Capita Consumption of Beer in Poland and Russia

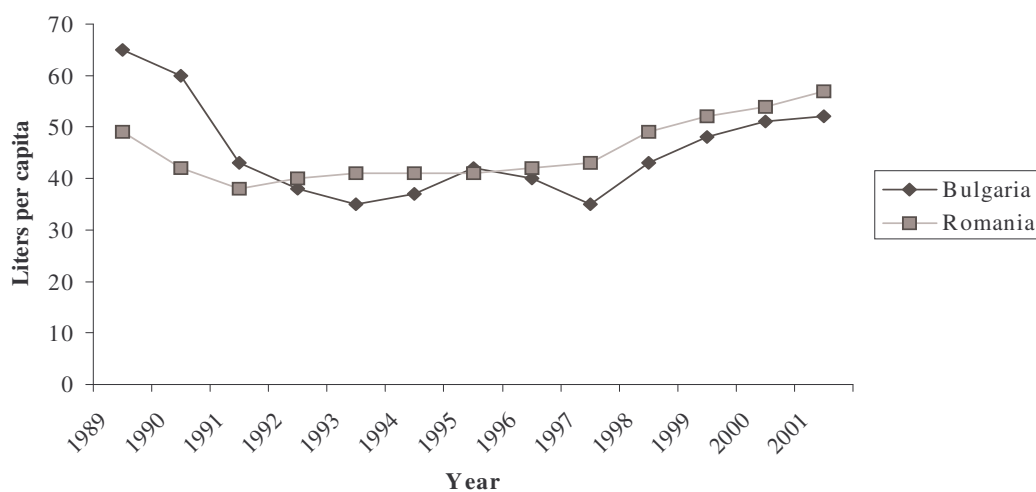


Sources: Data Monitor, Drinks Database, Brau Beviiale

The Romanian and Bulgarian beer markets have had different development trends compared to the saturated or high-growth beer markets in CEE (see Figure 6). The

consumption of beer in Bulgaria was traditionally stable and relatively high (about 70 liters per capita in 1989). It was characterized with an apparent seasonal curve with sales soaring during the summer. Wine has always been the major substitute product, especially in the winter months. The consumption per capita in the transition period reflected the economic development of the country and the consequent changes in the real purchasing power of the population with two serious dips. Since 1998 the per capita beer consumption has been on the rise. The Bulgarian beer market is a growing one but it has not yet reached the level of total consumption of the pre-transitional period. The Romanian market has been somewhat similar to the Bulgarian one with economic volatility that has impacted beer consumption. However, the size of the market is much bigger and the growth potential is significantly higher compared to the Bulgarian beer market.

Figure 6 Consumption of Beer in Bulgaria and Romania



Sources: Data Monitor, Raiffeisen Bank, National beer Associations in Bulgaria and Romania

Consumer Behavior Patterns in Beer Consumption in CEE

Beer has been mostly perceived as male product in all CEE markets. Beer consumers in all CEE markets tend to be price sensitive but very much quality oriented. Product and brand image is an important feature in the mind and perceptions of the consumers. It can be argued that the majority of consumers in the beer markets of CEE can easily distinguish between different national and regional country beer brands. However, their choice of beer is greatly influenced by company name, which is associated with product quality or regional identity and traditional preferences. These consumers simply purchase on the merit of the reputation of the producer. Local beers are perceived to be more easily understood and more meaningful to consumers who in most cases can easily associate the beer brand with a local sounding name. The names of foreign beers are often disassociated from the local consumers. In addition, a lot of consumers are loyal to domestic company brands and products because international beer brands goodwill is created by heavy advertising budget that is much greater than investment costs. This is often perceived as resulting in low R&D benefit for the local economy, thus hindering the development of local competitive capacity.

According to a survey conducted in Slovakia in 2002, beer is consumed by 73 percent of the Slovakian population. Despite the globalization trends, local beer brands succeed in maintaining a strong market position since Slovakian consumers not only know these brands better, but as revealed through consumer preferences, they put local brands in their buying baskets more often. In terms of spontaneous awareness, the domestic brand Zlatý Bažant, occupies leading position with 73.4 percent brand recognition, followed by two other local brands Corgoň and Šariš, ranking number two and three with 56.7 percent and 54.2 percent respectively.

The Czech consumers are very traditional with high preferences for national beer brands. Beer appears to be male dominated with 86 percent of all volume sold being consumed by men and 14 percent by women. The largest consumption of beer is in the age group 45 – 54 years. Younger people tend to divide their preferences between soft drinks and beer. Beer consumers living in urban areas show positive attitude to foreign beer brands. Although they do not account for the bulk of beer consumption, their age, high income and innovative consumer behavior offer a large consumer potential for growth in consumption of foreign beer brands. Super premium and premium priced beers are mainly targeted at this consumer group. Local brand loyalty is constantly increasing as well as the quality of domestic goods is improving.

The traditionally positive attitudes of Russian consumers to domestic brands in general are driven by two major factors price and perceived image. In terms of price domestic locally produced beer products and brands are substantially cheaper than their foreign counterparts. The rising purchasing power of the population in the big urban areas, such as Moscow and St. Petersburg, coupled with aggressive beer marketing campaigns have radically changed the usage situations, regularity of beer consumption and customer perception of places for beer consumption. Russian consumers are with high national awareness, which leads to a strong preference for domestic beer brands. They strongly believe that domestic beer is healthier. The most important factor for purchasing beer by Russians is the brand closely followed by the price. Advertising has almost no effect on the consumer decision to purchase beer. This fact allows the large brewers to benefit from better positioning of their brands and enhanced brand image, keeping prices low and engaging in more efficient distribution.

Competition in the CEE Beer Markets

The ownership of breweries in CEE is concentrated and most of the largest breweries are foreign (see Table 2).

Table 2 Market share of major beer producers in Central and Eastern Europe in 2001

Country	Major Brewing Companies and Their Market Share	Aggregate Market Share
Albania	Birra Peroni (Italy), acquired by SABMiller in 2003 - 40%	40%
Bosnia-Herzegovina	Sarajevska Pivara (Bosnia-Herzegovina) - 28% Interbrew (Belgium) - 15%	43%
Bulgaria	Interbrew (Belgium) - 32% Heineken (The Netherlands) - 28% Ferroal (Bulgaria), acquired by Carlsberg (Denmark) in	80%

	2002 - 20%	
Croatia	Interbrew (Belgium) - 40% Karlovacka (Croatia), acquired by Heineken in 2003 - 27% Carlsberg (Denmark) - 10%	77%
Czech Republic	SABMiller (South Africa – USA) - 44% Interbrew (Belgium) - 13% Budvar (Czech Republic) - 7% Brau Union (Austria) acquired by Heineken in 2003 - 4%	68%
Estonia	Carlsberg/BBH (Denmark – United Kingdom) 56%	56%
Hungary	SABMiller (South Africa–USA) - 33% Interbrew (Belgium) - 26% Brau Union (Austria) acquired by Heineken in 2003 - 25% Heineken (The Netherlands) - 8%	92%
Latvia	Carlsberg/BBH (Denmark–United Kingdom) - 48%	48%
Lithuania	Carlsberg/BBH (Denmark–United Kingdom) - 75%	75%
Macedonia	Heineken (The Netherlands) - 80%	80%
Moldova	Vitanta-Intravest (Moldova-Ukraine), acquired by Efes Beverage Group (Turkey) in 2002 - 76%	76%
Montenegro	Interbrew (Belgium) - 100%	100%
Poland	Heineken (The Netherlands) - 30% SABMiller (South Africa–USA) - 28% Carlsberg (Denmark) - 7% Brau Union (Austria) acquired by Heineken in 2003 - 6%	71%
Romania	Brau Union (Austria) acquired by Heineken in 2003 - 36% Interbrew (Belgium) - 18% SABMiller (South Africa – USA) - 14%	68%
Russia	Baltika–BBH (Denmark – United Kingdom) - 40% Sun Interbrew (India-Belgium) - 21%	61%
Serbia	Apatinska (Serbia) acquired by Interbrew in 2003 - 38% Celarevo (Serbia) acquired by Carlsberg in 2003 - 18% Pancevo (Serbia) acquired by Efes Beverage Group (Turkey) in 2003 - 12%	68%
Slovakia	Heineken (The Netherlands) - 37% SABMiller (South Africa – USA) - 19% Topvar (Slovakia) - 14%	70%
Slovenia	Pivovarna Laško (Slovenia) - 53%	53%
Ukraine	Sun Interbrew (India – Belgium) - 36% Obolon (Ukraine) - 23% Carlsberg/BBH (Denmark–United Kingdom) - 15%	74%

Sources: The Emerging Markets Brewery Fund Company Book, 2002; Russian Brewer Union; National Statistics Institutes.

The data in the table above show that the national beer markets in CEE are controlled by large beer holdings, the majority of which are foreign. Big brewing international giants control most of the Russian beer market. The ones that have strongest positions in the country are Carlsberg S.A. and Scottish & Newcastle that own BBH (Baltic Beverages Holding); Indian-Belgian Concern, Sun Interbrew; SABMiller and Heineken. Two domestic companies, Ochakovo and Edelweiss Group, do their best to play on par with their foreign rivals. Ochakovo and Krasny Vostok are the major Russian competitors controlling large parts of the Moscow and Kazan regional markets. Heineken controls about 5 percent of the Russian beer market.

The largest mainstream segment is dominated by four brewers, two of which are under Russian ownership (see Table 3). They all control 58 percent of the mainstream segment and more than 40 percent of the Russian market.

Table 3 Main Brewers and Brands in the Russian Mainstream Segment in 2002

Company	Major Brands	Segment Share
Baltika	Baltika	18
Ochakovo	Ochakovo	17
Interbrew	Klinskoye, Tolstyak	12
Stepan Razin	Stepan Razin	11

Source: SABMiller Information Service.

Market Segments

Market segmentation in the brewing industry in CEE is a relatively new phenomenon. Although major beer makers in the region claim that they segment local markets with the purpose of satisfying consumer needs more precisely, the dominant market segmentation approach in the brewing industry is built on the basis of price and product differentiation. The three most common segments are the commodity, mainstream and premium. In certain markets a super premium segment has emerged. As far as national brands are concerned brewing companies have been trying to widen the applicability of vertical homogeneity. Major local regional brands within national markets have been entrenched in the CEE national markets on the basis of heterogeneous demand. The principle behind the introduction of premium foreign brands, such as Heineken, Stella Artois, etc., is the one of horizontal homogeneity across the majority of CEE markets. That allows foreign investors in the CEE brewing industry to have a very diverse portfolio of local regional and national brands within each national CEE market, and standardized elements of their brand portfolio, which satisfy the needs of segments that are horizontally homogeneous in the region. Thus, big international brewing companies have successfully managed to reshape, develop and dominate the premium beer segment as a part of their market development strategy in CEE.

In Hungary the mainstream segment is clearly established with one drive brand for each of the three international players all of them having 55 percent market share. The premium segment is with too many strongly advertised brands and falling premium. The commodity segment is the smallest and constantly declining. Beer in this segment is sold on price alone. The largest segment in the Slovakian beer market is the commodity segment accounting for more than 53 percent of the market, followed by the mainstream segment – 39 percent, and the premium one with less than 8 percent of the market. The size of these segments has been relatively stable in the last five years. The largest segment in the Romanian beer market is the commodity one, standing at 57 percent and it is constantly growing. It is followed by the mainstream segment with 30 percent share of the market that is gradually shrinking. The smallest is the premium segment with just 13 percent of the market and it has been relatively stable. The commodity segment in Bulgaria is the largest one with 62 percent share. The mainstream segment represents 30 percent of the market. Consumption in this segment has been growing stealing market share from the commodity segment. The premium segment in the Bulgarian beer market is about 8 percent of the total market. It has been gaining share from the commodity

segment. This segment has been occupied by the foreign investor brands. In Russia the premium and super premium segments account for 15 percent of the market, the mainstream segment has 63 percent market share and the commodity segment is with 22 percent of the market. Growth of all segments is due to the expansion of the market and the gaining of new users. The Czech beer market is with super premium and premium segments of 5 percent market share each. The mainstream segment accounts for 77 percent and the commodity segment occupies 13 percent of the market.

Market Entry Strategy

The market entry strategies contain decisions on: the target market, objectives and goals to be achieved in the target market, the choice of market entry mode to penetrate the market, the marketing plan to penetrate and serve the target market, the control system to evaluate the performance in the target market (Root, 1994).

Foreign brewers in pursued various modes of market entry in CEE, strongly dominated by the acquisition mode:

Acquisition (e.g., Hungary – SABMiller, Interbrew, Heineken) – market mature, in decline, small number of breweries, overcapacity. Immediately after the transition to market-led started the Hungarian market was perceived by the foreign investors as one of the most developed in CEE and also with low level of risk. The beer production was concentrated in several brewing companies. The market was penetrated initially by Interbrew through acquisition in 1991, followed by other investors that purchased one Hungarian brewery. As the beer market is mature suffering from high taxation there is a constant decline in the consumption of beer per capita in the last twelve years. The investing foreign companies have seen potentials in product quality improvement.

Acquisition and import (e.g. Albania – Birra Peroni [acquisition]; Heineken [import] – small undersupplied market, fragmented, limit growth potential, perceived as risky. Albania was perceived as a risky country. Apart from numerous small investments from neighboring Greece and Italy the country market has mostly been served by export. The beer market is very small because of the low per capita consumption and the small population. The beer brewing industry in Albania is relatively new and the production capacities are below the demand in the country. That is why Albanian beer market was initially served by imports. On a later stage the largest Italian brewer, Birra Perroni, bought the biggest Albanian brewery in Tirana. When Birra Peroni was acquired by SABMiller in 2003 the investor became new owner of the Albanian brewery.

Import, partnership and acquisition (e.g. Bosnia and Herzegovina – Interbrew [acquisition]; Heineken [import]; Laško [partnership] – market undersupplied, fragmented, perceived as risky. The beer market of Bosnia and Herzegovina is relatively small but with growth potential. The beer industry in the country does not have sufficient potentials to serve the market. As the country has been with high level of risk in the recent past the major way in which the market was supplied was import of beer. Later companies such as Slovenian Laško decided to supplement their import operations with the creation of partnerships with local breweries. Recently, Interbrew has purchased a small brewery in the country.

Acquisition and consolidation (e.g., Bulgaria – Interbrew; the Czech Republic – SABMiller, Interbrew) – markets with more potential in quality rather than quantity, stable or with slow growth, somewhat fragmented. The beer markets of the Czech Republic and Bulgaria were traditional and with well-established exports. Although the Czech beer market was attractive with its established brands and traditions there was high level of resentment for the acquisition of Czech breweries by foreign investors. The beer industry structure in the Czech Republic and Bulgaria pre-acquisitions was somewhat fragmented, hence there was high motivation for consolidation post-acquisition. Thus, Interbrew consolidated its shares in four Bulgarian breweries, identical approach was undertaken by SABMiller in the Czech Republic. While the potential in the Czech Republic is in quality there is both limited quantity potential in Bulgaria couple with quality potential. The beer brewing industries in the two countries are with substantial overcapacities.

Acquisition and greenfield investment (e.g., Russia – BBH; Ukraine – Sun Interbrew) – large markets with big growth potential, undersupplied by local production, fragmented markets. Initially, perceived as risky the markets of Russia and Ukraine were entered through the creation of joint ventures by Sun Breweries India in the first half of the 1990s. The potentials for increased production in both the Russian and Ukrainian markets are high. Increase in demand is expected with the growth of the disposable income and changes in drinking habits. Recent trends in Russia show that consumers are decreasing the consumption of vodka, cognac and other high alcohol liquor, in favor of beer. However, for the whole of Europe consumers have major preferences for beer over high alcohol drinks, in Russia and Ukraine spirits still strongly prevail despite of the substantial gains that beer has had especially in Russia. As the markets of the two countries have undersupplied the investors in these countries not only acquire existing breweries but also increase the production facilities of the existing ones and build new breweries as well. While in the period 1995-1998 Russia imported more than 40 percent of its domestic beer sales in 2002 the country became of the first time net exporter of beer mainly due to the export activities of Baltika owned by BBH. Because of the high level of fragmentation of the Russian and Ukrainian beer brewing industry future consolidation is expected.

The acquisitions of brewing companies in CEE were driven by market seeking motives, access to local markets. They are horizontal and concentric because the acquired companies are in the same market but in the majority of cases applied a lower level technology than the investing companies.

Market Positioning Strategy

The brewing industry and beer market in Bulgaria is strongly dominated by two of the international brewing giants, Interbrew and Heineken, engaged in a fight for the leadership position of the market. The two investing companies are attacking all market segments in the country.

SABMiller is dominating the Czech beer market with a broad portfolio of brands that cover all market segments. This strategy allows SABMiller to become leader in all segments of the Czech beer market. In Slovakia where the investor ranks second in

market share after Heineken, the focus is on the premium and super premium products and market segments where SABMiller has fully dominant position.

In Russia foreign and domestic companies producing domestic or perceived as domestic beer brands have successfully positioned themselves in the premium and super premium segments, e.g. Baltika company with brands such as Baltika, Arsenalnoye; Sun Interbrew – Klinskoye, Tolstiak; Ochakovo – Ochakovo, Stolichnoye; Heineken – Bochkaryev, Oblomov; SABMiller – Zolotaya Bochka; etc. Same characteristics of the market positioning strategy have been observed in Ukraine as well.

Products and Brands

Commodity beers are perceived to be undifferentiated types of beer that are sold by grade, not brands. As such there is no uniqueness, other than grade differential, that can distinguish the offerings of one brewery from another. Brand building investment is very low as brand promotion is thought to be ineffective and only adds expenses to operation costs. However, these commodity beers allow flexibility in terms of quality and quantity control, resulting in lower production costs along with lower marketing costs. The basic problem with commodity beers is that consumer demand is strictly a function of price. Therefore, competition in this segment is entirely based on price and all beers competing for consumers' purchase are vulnerable to price cuts and price swing. Breweries in CEE have tried very hard to transform the commodity beers into 'value-added commodity' that includes the brand itself as well as product attributes based mostly on psychological attributes that address local consumer association and loyalty to particular domestic producers. This segment is exclusively reserved for local beer brands produced by domestic breweries that are competing independently or have become a part of a big international brewery.

Branding in the mainstream segment has made product differentiation and therefore, price differentiation in the beer brewing industry possible. This effectively has provided breweries with some degree of insulation from price competition. This approach is based on quality consistency, product differentiation and the degree of importance consumers in CEE place on differentiated beer taste. When the foreign breweries came to the Bulgarian market they pushed the local premium brand into mainstream and commodity segments (Zagorka Gold and Astika) and in this way have deterred local companies from using any opportunity to re-position themselves into the premium segment.

Branding in the premium segment of the beer markets in CEE is strongly driven by the key international breweries that have invested in the region. It has been associated almost exclusively with established investor own, international and global brands, such as Heineken, Stella Artois, Amstel, Carlsberg, Tuborg, Dreher, Rolling Rock, Gösler and Kaiser. These brands were introduced in CEE beer markets with heavy advertising campaigns that were a part of the overall promotion strategy of international breweries that entered those markets mostly acquiring existing CEE brewing companies and brand. The market development strategy followed with these brands in the premium segment effectively leads to lower advertising costs after the brand names have become established in the CEE national markets. In Russia many international brands are produced under license by mostly foreign but also some domestic brewers. Companies use these brands in an attempt to position themselves in the premium and super premium

segments. Such brands are Lowenbrau, Bear Beer both produced by Heineken; Staropramen, Hölsten, Velkopopovický Kozel produced by SABMiller); Sinebrychhoff brewed by Stepan Razin. In a number of CEE beer markets local beer brands that previously occupied the premium segment of the market have been squeezed in the middle mainstream segment where they compete on the basis of volume and quality rather than premium quality and price. For example, the premium Bulgarian brands Astika and Zagorka Gold, accounting for the bulk of beer exports pre-transition, have been replaced by foreign brands such as Heineken, Amstel, Stella Artois and Becks in the national market and their exports have been wiped out. However, due to the nationalistic feelings of Russian consumers, the strong traditions of the Czech and Slovak beer culture and the attempts of Slovene owned breweries to compete on par with foreign brewers, national brands have been enhanced and positioned in the premium segment of these markets. In addition, some of those brands, e.g., Baltika, Budvar, Pilsner Urquell, Staropramen have established strong international positions.

In the case of national and regional country beer brands companies have been eager to strengthen their image of quality. Such brands imply quality, price and innovation that refer to all product offerings by the same producer. Vrontis (1998) suggests that in the case of the brewing industry, it is difficult to identify whether the consumer loyalty lies with the corporate brand (company name) or with any specific product brands due to the limited distinction in the mind of the consumers between corporate brands and product brands.

There are two clear trends in brand development in Russia. The first one is that loyalty to local or perceived as local brands is increasing. The second is the recent trend for improving the quality of domestic beers. As a result, strong local brewers win the 'good quality for money' perception battle. Small local players lose ground because of the limited resources they can dedicate to renovation, product upgrading, advertising and market research. A very specific feature of the Russian beer market is that international companies have become aware of the nationalistic feelings of the consumers and their national pride. Consequently, international brewers have launched brands with local names that sound Russian, have a vivid Russian image and can be positioned as Russian high quality brands. In this way foreign investors are able to compete with local producers using localized approaches. The beer brands in this market can be divided into foreign, national and perceived as national brands. For example, BBH's brand Baltika, Interbrew's Klinskoye, Heineken's Bochkaryov, SABMiller's Zolotaya Bochka are all acquired former Russian company brands that are currently perceived as national. Another example of a perceived local brand is the newly launched Tri Bogatyrya (Three Knights). SABMiller introduced it in 2002 as a mainstream beer brand in an attempt to gain market share in this segment. After having had problems with operation in the Russian beer market, Sun Interbrew introduced a new brand with a Russian image, Volzhanin, to attack the Volga regional beer market. The brands Ochakovskoye, produced by the Russian owned Ochakovo Brewery and Krasnyi Vostok of the Russian Edelweiss Group are national brands with high brand recognition and significant market share associated with customer loyalty. Foreign owned brands such as Baltika, Klinskoye and Tolstyak, with large volumes in the mainstream market segment; as well as Zolotaya Bochka in the premium segment are used by foreign owned breweries in Russia to increase their chances of success in dominating the market.

In Romania the product mix includes regional and national brands. Brau-Union's best-known Romanian brands, Silva and Goldenbräu, are now ideally complemented by the BHL Group's dynamic growth brands Ciuc and Gambrinus. Our Austrian brand Kaiser is also strategically important, as we intend to develop it into Romania's leading licensed brand, just as we have already done in Hungary. In that context, our broad distribution network and especially our strong position in Bucharest are key. Similarly, we plan to significantly increase the sales volume for Schloßgold, our Austrian, non-alcoholic beer brand.

Pricing

Brewing companies in CEE use pricing as a tool to differentiate their premium brands from the other products. Competition in CEE brewing industry has become severe that is why prices do not fluctuate significantly among competitors. However substantial differences have been found in the average price of beer in various national markets as well as among market segments in one national market. Throughout CEE, the Heineken and Stella Artois brands are sold at high prices. This approach allows Heineken and Interbrew to maintain high image of these brands and position them in all CEE markets as premium beers.

The relatively low average price of beer in the Czech Republic represents an opportunity to generate profits on volume rather than price.

Promotion

The promotional strategy of Carlsberg in CEE is developed around the creation of one brand image throughout the region. This strategy is based on the application of a unified approach. As in its global promotional strategy, Carlsberg uses in the CEE also the logo 'Probably the best lager in the world' using various media television, radio, posters, editorial, and promotions.

Heineken has developed a common promotional strategy throughout the region including substantial sponsorship and television advertising.

The promotion activities in the Russian market have become aggressive. Perception of advertising in Russia: advertising strategy is of significance, consumers are weary of strict product oriented advertising. They find such ads boring and ordinary, consumer preferences have changed in favour of being interesting, involving, humorous. Consumer preferences have changed some traditional approaches, showing product features through a beautiful nature scene (beer Gösser); advertising through advertising series and billboard advertisements (beer Bochkaryov); humorous, bright, beautiful, combining image and product qualities (beer Tolstiyak and beer Bochkaryov).

Distribution strategy

Across the CEE region Carlsberg distributes its products through a great variety of outlets. The company uses its television advertising, applying the image that Carlsberg beer is available anywhere in the world, presenting a Carlsberg lorry, supports the importance attached to distribution.

After each acquisition in CEE, Heineken makes the most from the existing brewery's distribution network developing and upgrading it when necessary. This strategic approach is accounting to a great extent for Heineken's high level of market penetration in the domestic beer markets of CEE.

Conclusion

The CEE beer brewing market is heterogeneous. There are countries with stable high per capita beer consumption, e.g. the Czech and Slovak markets. However they are small and saturated. Other markets such as the Bulgarian and Romanian have undergone significant volatility. The markets with high potentials markets that have generally increased their beer consumption are the Polish, Russian and recently the Ukrainian. From foreign investors point of view the beer markets will stable yet high beer consumption are regarded as stable offering limited investment opportunities. In the case of the Hungarian market where consumption of beer has been on decline the ownership structure of the industry has stayed unchanged since early 1990s. The markets with high level of volatility and unpredictability have been targeted late and with a lot of caution that reflects the dispersed ownership of brewing companies in these markets. The large and high growth markets of Poland, Russia and Ukraine have continuously attracted large investments and are subjected to serious rivalry and frequent change of ownership structures of individual brewing companies. Significant foreign greenfield investments have been made in the brewing industries of these countries.

The CEE region have attracted significant attention from the some of the world leading breweries such as Interbrew (Inbev since 2005), SAB (SABMiller since 2002), Heineken, and Carlsberg that now jointly or individually dominate the beer markets of most CEE countries. This has created significant barriers for the penetration of smaller foreign brewers in the region.

In terms of timing of market entry the more stable markets of Hungary and the Baltic countries were penetrated first to be shortly followed by the other CEE markets. The major mode of market entry has been acquisition although some greenfield investments have also been made mostly in Russia and Ukraine and to a limited extent in Poland because of the undersupplied by local production domestic markets.

The investing companies have upgraded local beers and also introduced their global and regional brands. However brand loyalty across the region is low and the task of brewing companies in upgrading it is very challenging. In some market there is higher level of brand loyalty to local and/or locally produced beers (e.g., Bulgaria, Croatia, the Czech Republic, Slovakia and Russia). This has resulted in the introduction of brands by foreign companies that have local names and appeal to the nationalistic beer drinkers.

As the CEE market is very price sensitive beer prices are relatively low, especially in countries with traditionally has level of beer consumption per capita (e.g., the Czech Republic). This is the case for type of beer offered in the marketplace, namely commodity, mainstream, and prime beer brands.

In the large with high potential markets such as the Russian beer promotion is aggressive to ensure quick increase of market share of investing companies. The content of advertisements has been largely adapted to the local specifics.

Distribution is mostly done by the large beer companies serving the CEE market.

Although facing challenges the large foreign beer brewing companies the beer market in CEE has been easily conquered. This has led to significant changes in the beer market across the region. The stronger and more experienced foreign brewing companies made significant changes in the marketing strategies of the brewing companies in CEE. With the dominant presence of brewing giants such as Imbev and SABMiller the product policy of previously domestically owned companies was radically changed through product upgrading and diversification. Massive advertising campaigns have been launched that were previously unheard of. The distribution that was done by state owned companies in the past is now privately organized and owned by the large foreign players in the region.

The CEE region can be regarded as an emerging market. The brewing industry there was generally underdeveloped before the start of transition to market in 1989. The environmental features have been largely favorable and this fact facilitated the foreign penetration of the industry. By contrast Chinese environment proved to be very challenging and opposed foreign penetration of the Chinese brewing industry which is still largely dominated by local products and locally owned brewers (Heracleus, 2001).

References:

- Berndt, W. (1996) 'A Clean State: Lessons about Branding from the World' *Newest Markets*, *Vital Speeches of the Day*, vol. 63, no. 5, pp. 139-142.
- Bradley, F. (2002) *International Marketing Strategy*, Fourth Edition, Financial Times, Prentice Hall.
- Caterora, P. (1990) *International Marketing*, Irwin, New York.
- Czinkota, M., H. Gaisbauer and R. Springer (1997) 'A Perspective on Marketing in Central and Eastern Europe', *The International Executive*, vol. 39, no. 6, pp. 831-848.
- Day, G. and R. Wensley (1988) 'Assessing Advantage: A Framework for Diagnosing Competitive Superiority', *Journal of Marketing*, vol. 52, pp. 1-20.
- Dunning J. and M. Rojec (1994) *Foreign Privatisation in Central and Eastern Europe*, (Technical Paper Series No 2), Ljubljana: The Central and Eastern European Privatisation Network (CEEPN).
- Heracleus L. (2001) 'When Local Beat Global: The Chinese Beer Industry', *Business Strategy Review*, vol. 12, no. 3, pp. 37-45.
- Kaplan, A. (2003) 'Global Beer: Tapping into Growth', *Beverage World*, February 15, pp. 24-29.
- Karrenbrock, J. (1990) 'The Internationalization of the Beer Brewing Industry', *Report of the Federal Reserve Bank of St. Louis*, November/December, pp. 3-19.
- Kay, J. (1993) *Foundations of Corporate Success*, Oxford University Press, Oxford.
- Koźmiński, A. and G. Yip (2000) *Strategies for Central and Eastern Europe*, Macmillan Business, London, New York.

- Marinov, M. A. and S. T. Marinova (1999) 'Foreign Investor Strategy Development in the Context of Central and Eastern Europe' *Thunderbird International Business Review*, vol. 41, no. 1, pp. 107-130.
- Marinov, M.A. and S. T. Marinova (2001) 'Foreign Direct Investment in the Emerging Markets of Central and Eastern Europe: Motives and Marketing Strategies', *Advances in International Marketing*, Issue on Globalization, The Multinational Firm, and Emerging Economies, vol. 10, pp. 21-52.
- Marinova, S. (2001) *Relationships between the Legally Entitled Parties in the Foreign Direct Investment Privatisation Process in Bulgaria*, PhD Dissertation, Series 4.2001, Copenhagen Business School, Faculty of Economics and Business Administration.
- Narver, J. and S. Slater (1990) 'The Effect of a Market Orientation on Business Profitability', *Journal of Marketing*, October, pp. 20-34.
- Nowak, J. (1996) 'Marketing Strategies for Central and Eastern Europe', *Journal of Euro-Marketing*, vol. 5, no. 2, pp. 101-125.
- Robinson, C. (1996) 'Asian Culture: The Marketing Consequences', *Journal of the Marketing Research Society*, vol. 38, no. 1, pp. 58-59.
- Rundh, B. (1994) *The Process of Internationalization: A Study of the Swedish Manufacturing Industry*, Research Report, Number 94, Department of Business Administration and Economics, University of Karlstad, Karlstad, Sweden.
- Schumacher, H. (2002) 'The Global Beer Industry 2001 Review: Toto, We Are Not in Kansas Anymore', *Modern Beverage Age*, vol. 36, no. 5, pp. 7-9.
- Steele, M. (1992) 'The European Brewing Industry 1992 (Case Study)', in J. Johnson and K. Scholes (eds.) *Exploring Corporate Strategy*, Third Edition, Prentice Hall, London.
- Svensson, G. (2001) 'Re-evaluating the Marketing Concept', *European Business Review*, Vol.13, no. 2, pp. 95-100.
- The Economist* (2001) 20 January, p. 65.
- Vrontis D. (1998) 'Strategic Assessment: The Importance of Branding in the European Beer Market', *British Food Journal*, vol. 100, no. 2; pp. 76-84.
- Yip, G. (2003) *Total Global Strategy II*, Prentice Hall.
- Young, S., J. Hamill, C. Weaver and J. R. Davies_(1989) *International Market Entry and Development*, Prentice Hall, Englewood Cliffs, NJ.