

MMOBE THESIS 2013

“Analyzing the Spanish brewery industry using PESTEL and Porters’ FIVE FORCES model to examine the attractiveness of the industry in terms of rivalry and profits”



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Analyzing the Spanish brewery Industry using PESTEL and FIVE FORCES to examine the attractiveness of the industry in terms of rivalry and profits

Introduction

The global brewery industry is defined as a group of companies producing beer and operating on a national or global scale. According to Beer Institute (2011), Research, 2008 Annual Industry Update, The top 3 brewers are Anheuser-Busch InBev's (ABI), Miller and Heineken. These brewers now produce over 50% of world's beer consumption. Although 70% - 80% average beer market share hold in other developed countries. Canadian beer service predicted an average growth rate of 2.8% between 2009 and 2015.

According to Huanshu W., (12-02- 2009), "the global high-end beer market will reach 65.5 million kiloliters by 2013, an increase of 74.7 percent over 2006. In Asia-Pacific, beer production will reach 13.5 kiloliters, an increase of 125 percent". Furthermore Huanshu W., (12-02- 2009), notes that the China will be one of the main market for beer industry. (UK Essays)

In Spain, four companies brew most of the beer; Mahou-San Miguel, Heineken, Damm, and Hijos de Rivera S.A. Surprisingly in this global age, three of the brands mentioned are both Spanish owned. Between the 3 companies they have 81% of the Spanish Beer market. Coors, Danone, and Guinness pulled out of Spain in recent years during an unusual surge against multinational tides and much of the brewery industry swopped back to Spanish ownership. Mahou bought San Miguel from Danone to become the market leader in the beer industry, Heineken also bought Cruzcampo.

Literature Review

The aim of this research is to do a complete analysis of an industry using PESTEL and five forces to see how profitable and attractive the brewery sector in Spain is. Thus, the thesis will attempt to answer the following Questions:

How intensive is rivalry in the industry?

And how is the industry affected by its profitability

The thesis research methodology will be mainly Qualitative Analysis. Data used in the research came from books, articles, reports, previous research etc.

The Beer was first produced about 7,000 years ago, and today the economic impact beer has on the economy is immense. Beer has been a part of the European culture for centuries and consumption patterns differ within countries. Most papers on beer focus on the social problems caused by the abuse of beer. We will see the role of the European Commission and the World Health Organization in this industry as they have expressed concerns that commercial communications, and specifically advertising for alcoholic drinks, may encourage young people below the legal drinking age to drink, sometimes to excess.

The alcoholic drinks industry has been challenged to demonstrate that self-regulation can and does work effectively to protect young people, particularly in the light of the Council Recommendation on the Drinking of Alcohol by Children and Adolescents. Peer pressure and advertising that promotes the image that drinking alcohol is the social norm, may encourage alcohol consumption (Akerlof and Kranton 2000).

We will also talk on how the economy of Spain has affected the consumption of alcohol e.g., Economic theory predicts that an individual consumer's demand for beer is a function of the price of beer, the prices of substitutes and complements, the consumer's income, the product's characteristics, and the consumer's level of consumption capital (Tremblay and Tremblay 2005)

Further, there will be a brief discussion on future opportunities in the Spanish brewery industry, how globalization does not affect the beer industry in Spain as compared to other

countries and later discuss more on the competitive nature of the industry. Most of the analysis in this paper shows who the market leader is, how many companies control the industry, how the new trends in consumption have affected the big companies, what the industry is doing in order to give back to the society etc.

Few papers exist on the beer industry in Spain, and these papers examine the impact of beer on the society and the revenue it generates for the economy, further research could be done on how non-alcoholic beer and cider are reducing the market for beer and also using Strategic groups to analyze the industry. So far I have not found any academic paper that fully examines PESTEL and Porter's five forces in the Spanish brewery sector. Most of the information came from consulting companies carrying out market research for businesses who want to move or to operate in Spain.

Leading companies

Groupe Mahou-San Miguel

Grupo Mahou San Miguel is a company based and operating in Spain, engaged in manufacturing of alcoholic beverages. It is headquartered in Madrid. The company was formerly known as Mahou, S.A. and changed its name to Grupo Mahou-San Miguel, S.A. in January, 2005. The company's main product lines include the San Miguel beer brand and the Mahou beer line. Main products are: Mahou Clásica, San Miguel Especial, Mahou Cinco Estrellas, Laiker (Mahou's alcohol-free beer), and San Miguel 0 (non-alcoholic beer), and Mahou Negra.

Heineken

Heineken is a large brewing company, with a wide international presence through a global network of distributors and breweries. The company owns, markets, and sells more than 250 varieties of beers. Additionally, the company markets several brands under joint ventures, which include Anchor, Cristal, Kingfisher and Tiger. The company's brands are sold in about 178 countries, while it has operations in 71 countries across Europe, Africa and the Middle East, the Americas, and the Asia Pacific region. The breweries are either owned by the company or are joint ventures. The company operates in five geographic

segments: Western Europe, Central and Eastern Europe, Africa and the Middle East, the Americas and Asia Pacific. Western Europe is Heineken's largest segment. In Western Europe, the company's key markets include the UK, France, Italy, the Netherlands, Belgium, Ireland, Portugal, and Spain. The company has operations in 10 countries and one export and duty-free business in Western Europe. In this region, Heineken owns and operates 25 breweries, five nonbrewing production sites and two malteries. In Central and Eastern Europe, the company licenses its breweries or imports beers from other breweries under the Heineken and Amstel brands. In this region, the company owns more than 60 breweries and has operating companies in 14 countries. Furthermore, Heineken operates through a portfolio of more than 180 brands in this region. In Africa and the Middle East segment, Heineken operates through owned breweries. The company manufactures Heineken and Amstel for local distribution and export, besides distributing several local brands like Fayrouz, Laziza and Harar. Additionally, the company produces and markets soft drinks in this market. In this region, Heineken's operations are spread across 20 countries through a network of 46 breweries, three soft drink plants, three malteries, two packaging plants, two wineries, one distillery and one extract plant. Within Africa and the Middle East, the company exports its products to more than 50 countries. In the Americas, the company acquired the beer operations of FEMSA in 2010, through which it gained access to a large market in Mexico and Brazil. The company also exports a significant volume of beer brands such as Sol, Dos Equis and Tecate. The company also produces soft drinks in certain markets in this region. Heineken operates in the Asia-Pacific region through Asia Pacific Breweries (APB), a Singapore-based beverage company. As on September 28, 2012, Heineken held a 55.6% stake in APB with plans to fully acquire it. The company also holds a 37.5% stake in United Breweries Limited (UBL), besides having a 50% stake in Millenium Alcobev (along with UBL) for Indian operations. APB has 23 breweries in 14 countries across Asia, while UBL owns 18 breweries in India. The company also imports the Heineken brand for sale in the Asia Pacific region.

S.A. DAMM

Damm Group is a Spanish brewery, engaged in sale and distribution of alcoholic beverages, primarily in Spain. The company bottles alcoholic beers, soft drinks and bottled water. S.A. Damm was founded in 1876 and is based in Barcelona, Spain. Some of its brands include: Estrella Damm, Voll Damm, Xibeca, Free Damm, Damm Lemon, Bock-Damm, AK Damm, Keler, Estrella de Levante, Estrella Del Sur, Skol, Victoria, Budweiser, Saaz Damm, Weiss Damm, and Radeberger. It also provides bottled water and related products under the Fuente Liviana and Agua Veri brand names. In addition, the company involves in the production, bottling, and distribution of juices, nectars, and soft drinks; and performing and marketing logistics activities through the internet.

Hijos de Rivera S.A.

Company from the Galicia region of Spain with its head quarters in Malaga, Hijos de Rivera is engaged in the production and distribution of beverages in Spain. The company brews alcoholic beer, as well as producing non-alcoholic beers and beverages.

PESTEL Tool to analyse and combine information

The macro-environment managers of any organization have to handle several factors affecting decision making. New laws, trade barriers, changes in taxation, changes in demographics and changes in government policy are examples of macro change. A PESTEL tool is made for managers to categorize these macro changes and on that way to help managers to do the right decisions. In another words, PESTEL is concentrating on the external environment of the company. (Gillespie 2007)

Gillespie, A. 2007, Foundations of Economics: Additional chapter on Business Strategy, Published by oxford university press USA, 2007.

PESTEL: A PESTEL analysis is a method for reviewing the macro environment (external forces that impact a company's ability to plan). It stands for:

- Political
- Economic
- Sociological
- Technological
- Environmental
- Legal

Political Factors:

From Gillespie's (2007) theory, Political from (PESTEL) includes the impact of political decisions for doing business, and the factors that have to be taken into consideration when operating in a specific market area, the support companies can get from the government, and the priorities to support businesses. Also the infrastructure of the economy, health, nation and level of education are counted under these political factors.

A good practical example of the political factors affecting the profitability of doing business could be the governments' attitude towards Responsible Drinking. In Spain, due to austerity measures the Beer industry has taken the advantage of the situation and put a lot of pressure on the government to advertise in Sports arenas and sporting events. The

government has given into their demands. Sports events offer public health authorities a perfect arena to promote physical activity and healthy lifestyles. *“Removing regulations that protect public health it is clearly a mistake in times of austerity”* said Mariann Skar, Secretary General of Eurocare. *“Good health is a precondition for economic growth”*. *“It is sad to see the industry taking advantage of the present economic downturn to put pressure on governments to remove regulations that protect public health and minors. This is a clear of example of a measure the beer industry will profit from while society will pay for it through increased government expenditure on alcohol related health care and dealing with crime and disorder”*. (EuroCare: European alcohol policy alliance)

Another very important issue is stability. Companies’ needs to see what kind of effect some particular political events may have to their business; occurring demonstration in an unstable developing country can be much more dangerous than mass demonstration in a stable one.

Economic Factors:

In a potential market like Spain; Interest rates, taxation changes, economic growth, inflation and exchange rates are indicated in economic factors. There are a number of organizations gathering and sharing information on economic factors around the world. They include; bureau of statistics in the home country, embassies, banks, national organizations and operators such as World Trade Organization (WTO) and World Bank are good sources of information when measuring economic factors of the target country. If you want information on Beer in Spain, Cerveceros de España is the place to look. Founded in 1922, Cerveceros de España (The Brewers of Spain) is the association that represents the group of beer manufacturers in our country. Today, its partners include Heineken España, Mahou-San Miguel, Damm, Compañía Cervecera de Canarias, Hijos de Rivera and La Zaragozana, who produce almost all beer in the national territory:

Social Factor:

Age structure and unemployment situation of the population has a huge impact on the markets. For example, at the moment, Spain is experiencing high rates of unemployment

especially amongst the youth due to the economic downturn in 2008, the population of the country is aging, birth rates have decreased, and there is a growing income inequality as the rich get richer and the poor poorer. (Datamonitor)

Also, cultural differences can pop up anytime: it is hard to get service in Spain while siesta is going on, or selling ice to Eskimos who practically live in ice. Cultural differences between nations have a big role in business actions. By knowing the local manners and habits, the possibilities to succeed raise exponentially. Cultural differences need to be taken in to consideration carefully, but at the same time too much stereotyping can be dangerous. Somewhere in the middle would do.

Technological factors:

What kinds of technologies are available in the markets? Is the technological infrastructure in a high enough level for a company to operate in new markets? Does the company have enough technological know-how to operate in new markets? These are standard questions but for the beer industry, Brewing beer is a standardized process therefore brewing technology is not highly sophisticated. Never the less some companies use new inventions to change their image, position, and differentiate from competition.

Technology is changing very fast, and the destination country needs to be ready for that change. It is important that the country's government supports and repairs for the future. Spain ranks 16th on the European innovation index in a list of 27 nations, meaning that technology has been a problem in Spain. the problem has mainly been low investment in Research and Development(R&D), and the participation of the private sector.

Environmental Factors:

Weather and climate change are very important factors when planning to do business in a new territory. Changes in these conditions may change the nature, and in some cases, totally prevent possibilities to do business. On the other hand, it is possible that changes in environmental factors open totally new doors for new innovations. Environmental sustainability is a big issue for consumers and companies in these days, and has to be taken

into consideration when planning businesses. European Union (EU) laws are strict, but implementation has been a problem in Spain. CO2 emissions have increased and there is a lack of financial measures to improve the environment. (Euromonitor)

There are different opinions about what is sustainable and what is not, and this depends on the market. It is also good to have an idea what the public and governmental attitudes are towards green innovations in the target market are.

Legal Factors:

Legal factors deals with the legal environment where a company is functional or wants to setup. An example of legal factors could be the labor law, including minimum wages and number of allowed working hours. Legal changes can affect the profitability of the company.

The Spanish legal system is federal in nature; however, for jurisdictional purposes, Spanish territory is divided into municipalities, judicial districts, provinces and Autonomous Communities (ACs). The ACs has wide ranging legislative and executive powers. The system has not freed its self from the government, as the government continues to play a critical role in the economy by interfering in the labor market and restricting access in some sectors.

There can be big differences between legal regimes of countries. These variations can appear when making contracts, protecting intellectual property or measuring the attitude towards corruption. Also the role and the trustworthiness of police forces affect straight the safety of employees. In some case the safety issues can make it impossible to do business in otherwise promising market area. (Johnson, Scholes and Whittington, 2008, p 307)

Market analysis

The Spanish beer market experienced sustained decline, only posting positive growth in 2011. The market is forecast to grow modestly in the future. The Spanish beer market had total revenues of \$17,839.1m in 2011, representing a compound annual rate of change (CARC) of -3.1% between 2007 and 2011. In comparison, the French market increased with a compound annual growth rate (CAGR) of 0.7%, and the German market declined with a CARC of -0.4%, over the same period, to reach respective values of \$9,878.5m and \$35,253.5m in 2011. Market consumption volumes declined with a CARC of -0.7% from 2007-2011, to reach a total of 3,461.5 million liters in 2011. The market's volume is expected to rise to 3,560.3 million liters by the end of 2016, representing a CAGR of 0.6% for the 2011-2016 periods. Premium lager was the markets most lucrative in the Spanish beer market in 2011, with total sales of \$8,096.7 million, equivalent to 45.4% of the market's overall value. In comparison, sales of standard lager had a value of \$7,085.3 million in 2011, equating to 39.7% of the market total.

The performance of the market is forecast to accelerate, with an anticipated CAGR of 2.5% for the five-year period 2011- 2016, which is expected to drive the market to a value of \$20,146.5m by the end of 2016. Comparatively, the French and German markets will grow with CAGRs of 1.1% and 0.7% respectively, over the same period, to reach respective values of \$10,453.0m and \$36,449.9m in 2016. (Marketline industry profile)

MARKET SEGMENTATION

Geography segmentation

Spain is well known for its wine and will always be known for that but in recent years, it has emerged as a big market for the beer industry, being the third largest European beer market. Germany accounts for 17.9% of the European market, United Kingdom accounts for 15.1% and Spain 9.1% and France 5.0%

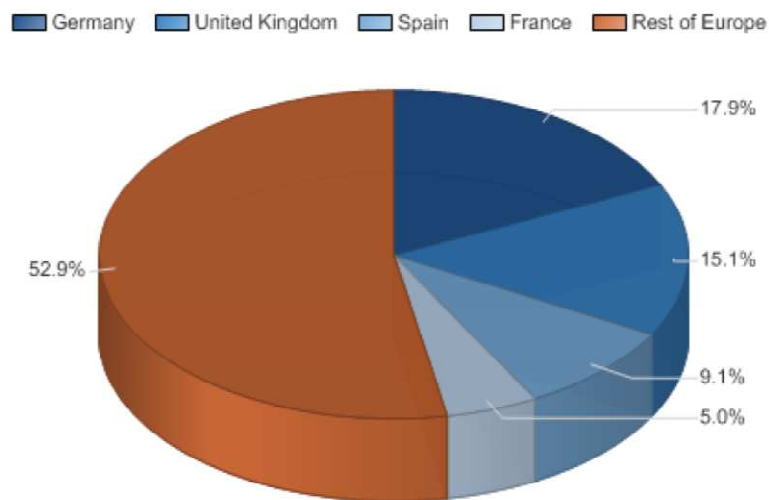
Table 3: Spain beer market geography segmentation: \$ million, 2011

Geography	2011	%
Germany	35,253.5	17.9
United Kingdom	29,669.9	15.1
Spain	17,839.1	9.1
France	9,878.5	5.0
Rest of Europe	103,958.2	52.9
Total	196,599.2	100%

SOURCE: MARKETLINE

MARKETLINE

Figure 3: Spain beer market geography segmentation: % share, by value, 2011



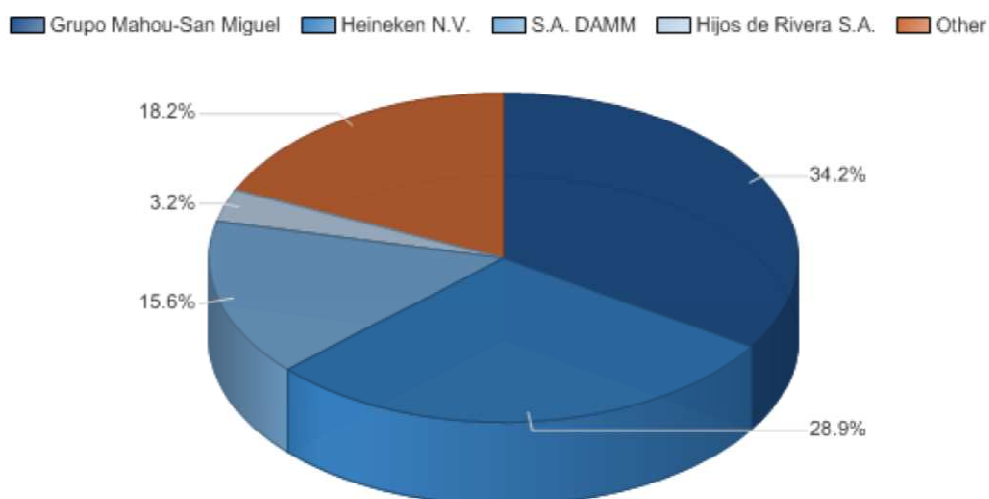
Market share

Grupo Mahou-San Miguel is the leading player in the Spanish beer market, generating a 34.2% share of the market's volume. Heineken N.V. accounts for a further 28.9% of the market and S.A Damm 15.6%

Table 4: Spain beer market share: % share, by volume, 2011

Company	% Share
Grupo Mahou-San Miguel	34.2%
Heineken N.V.	28.9%
S.A. DAMM	15.6%
Hijos de Rivera S.A.	3.2%
Other	18.2%
Total	100%

Figure 4: Spain beer market share: % share, by volume, 2011



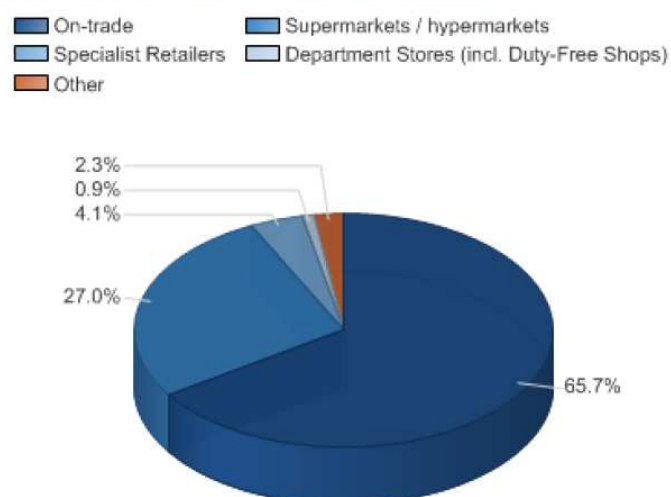
Market distribution

On-trade is the leading distribution channel in the Spanish beer market, accounting for a 65.7% share of the total market's volume. Supermarkets/hypermarkets accounts for a 27% of the market.

Table 5: Spain beer market distribution: % share, by volume, 2011

Channel	% Share
On-trade	65.7%
Supermarkets / hypermarkets	27.0%
Specialist Retailers	4.1%
Department Stores (incl. Duty-Free Shops)	0.9%
Other	2.3%
Total	100%

Figure 5: Spain beer market distribution: % share, by volume, 2011



Market Data

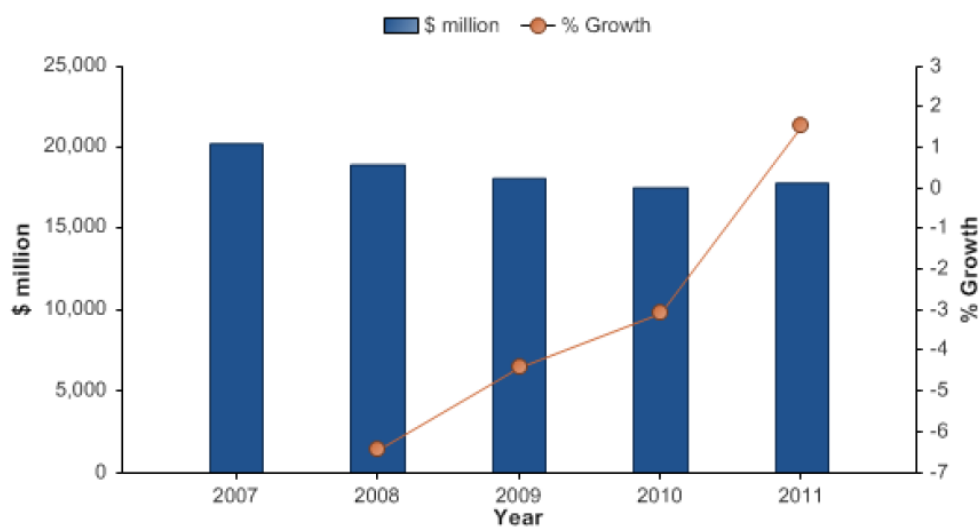
Market value

The Spanish beer market grew by 1.5% in 2011 to reach a value of \$17,839.1 million. The compound annual rate of change of the market in the period 2007–11 was -3.1%.

Table 1: Spain beer market value: \$ million, 2007–11

Year	\$ million	€ million	% Growth
2007	20,264.4	14,566.1	
2008	18,959.7	13,628.2	(6.4%)
2009	18,124.3	13,027.8	(4.4%)
2010	17,567.2	12,627.3	(3.1%)
2011	17,839.1	12,822.7	1.5%
CAGR: 2007–11			(3.1%)

Figure 1: Spain beer market value: \$ million, 2007–11



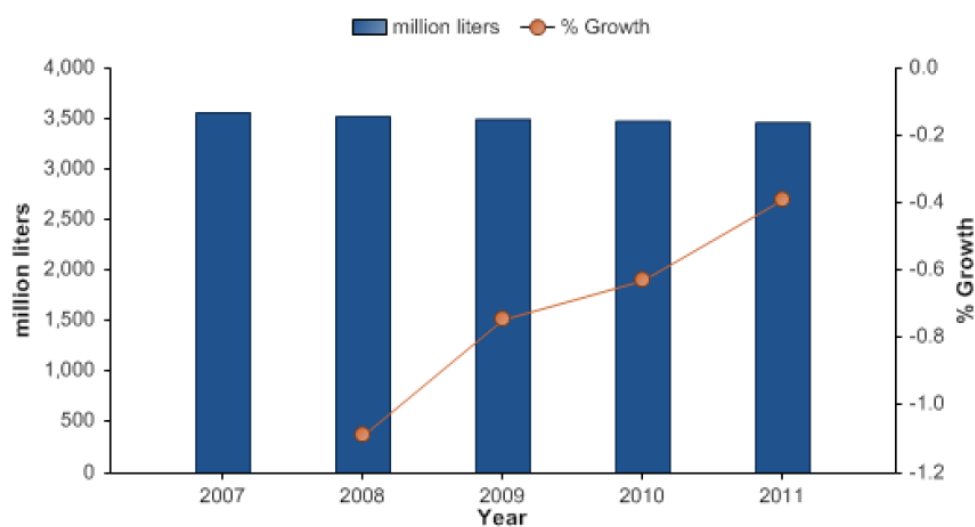
Market volume

The Spanish beer market shrank by 0.4% in 2011 to reach a volume of 3,461.5 million liters. The compound annual rate of change of the market in the period 2007–11 was -0.7%.

Table 2: Spain beer market volume: million liters, 2007–11

Year	million liters	% Growth
2007	3,562.1	
2008	3,523.4	(1.1%)
2009	3,497.1	(0.7%)
2010	3,475.1	(0.6%)
2011	3,461.5	(0.4%)
CAGR: 2007–11		(0.7%)

Figure 2: Spain beer market volume: million liters, 2007–11



MARKET OUTLOOK

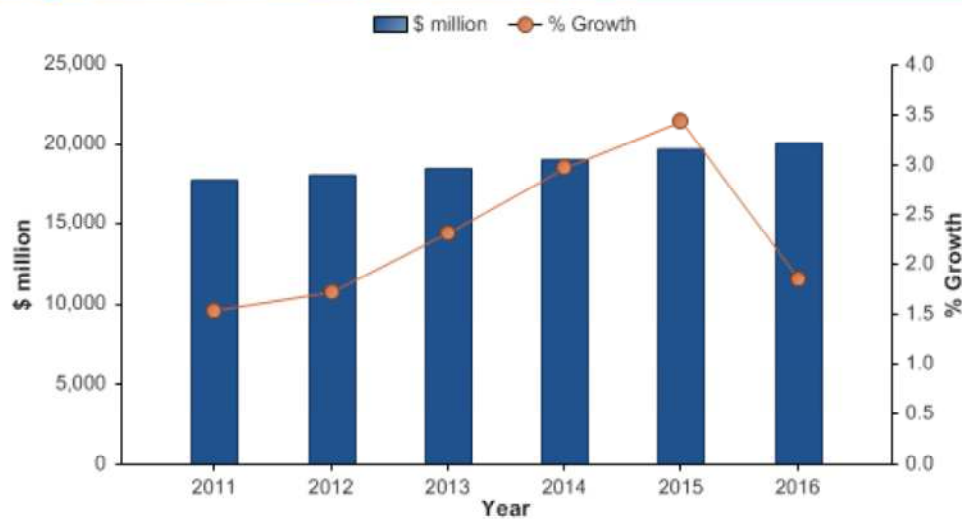
Market value forecast

In 2016, the Spanish beer market is forecast to have a value of \$20,146.5 million, an increase of 12.9% since 2011. The compound annual growth rate of the market in the period 2011–16 is predicted to be 2.5%.

Table 6: Spain beer market value forecast: \$ million, 2011–16

Year	\$ million	€ million	% Growth
2011	17,839.1	12,822.7	1.5%
2012	18,147.4	13,044.4	1.7%
2013	18,568.2	13,346.8	2.3%
2014	19,120.8	13,744.1	3.0%
2015	19,778.5	14,216.8	3.4%
2016	20,146.5	14,481.3	1.9%
CAGR: 2011–16			2.5%

Figure 6: Spain beer market value forecast: \$ million, 2011–16



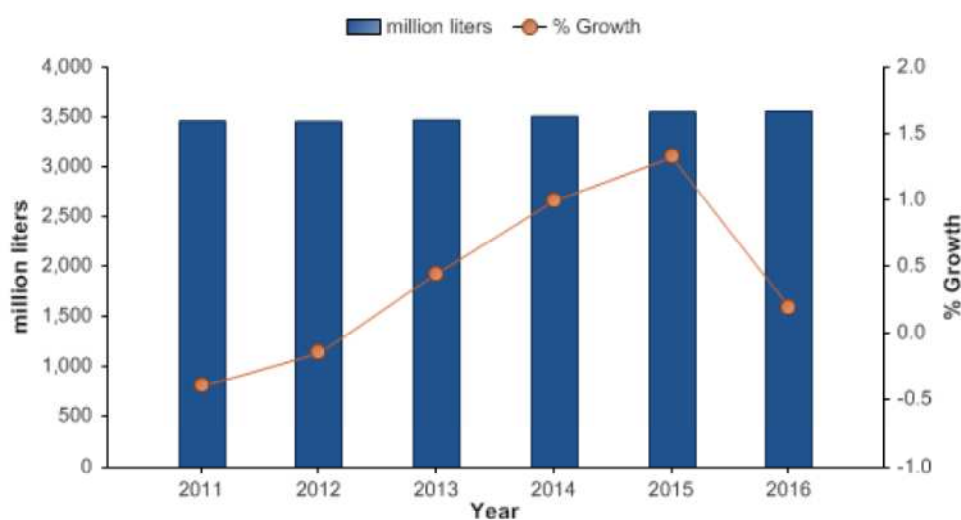
Market volume forecast

In 2016, the Spanish beer market is forecast to have a volume of 3,560.3 million liters, an increase of 2.9% since 2011. The compound annual growth rate of the market in the period 2011–16 is predicted to be 0.6%.

Table 7: Spain beer market volume forecast: million liters, 2011–16

Year	million liters	% Growth
2011	3,461.5	(0.4%)
2012	3,456.7	(0.1%)
2013	3,472.3	0.5%
2014	3,506.9	1.0%
2015	3,553.3	1.3%
2016	3,560.3	0.2%
CAGR: 2011–16		0.6%

Figure 7: Spain beer market volume forecast: million liters, 2011–16



PESTEL ANALYSIS

Political Situation in Spain:

Spain presents a successful example of transition from monarchy to dictatorship, and finally to democracy. The country has witnessed both conservative and liberal regimes, and the policies framed by such regimes have maintained continuity in economic and social reforms. However, there have been differences in foreign, defense and immigration policies. The reformist policies have slowed down to some extent since the PSOE (Partido Socialista Obrero Español) came to power in 2004. In the 2008 elections, the party was not able to win enough support for an absolute majority, falling short by seven seats. Therefore, it has to depend on other regional parties, or smaller parties, to pass through important legislation. Thus the government is dependent on the support of Catalan or Basque regional parties to pass important legislations. This restricts the government's ability to carry out the significant reforms that will be essential to negate the process of economic recession. There is also an element of uncertainty with respect to the legislations to be carried out as the prime minister will need support from other smaller parties. The final form of policies will depend on the political party the prime minister seeks support from.

Spain as a member of the European Union (E.U) has strengthened its ties the E.U and receives huge sums of money in the form of economic aid.

Spain has an effective form of Democratic system and governance. On the World Governance Indicators 2009, Spain has a strong percentile rank of 86.5 on voice and accountability in 2009, which measures the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. This indicates the effectiveness of the republican constitution.

The Spanish government is caught in the midst of recession, which leads one to believe that the process of reform will be slowed down. In the early part of the nineties, Spain was one of the top economies in the European region, which gave the government enough scope to maneuver with economic and social policies. However, since the beginning of 2009 the

government has faced economic recession, rising inflation and unemployment, and its surplus budget is expected to turn into a widened deficit in the future. Besides, the government is dependent on the support of other parties as it does not have a majority. These conditions may prompt the government to refrain from taking any harsh measures for fear of political instability.

Economic situation:

Spain's economy showed steady progress during the 1990s, driven primarily by mass tourism and European subsidies. In fact, since the mid-1990s, Spain outperformed the rest of the Eurozone, particularly the larger countries. The average economic growth between 1997 and 2000 was above 4%, but declined to 2.7%–3% during 2002–03. Although, the average economic growth increased to 3.54% during 2004–06, it came down to 0.4% during 2007–09. The economic crisis deepened following weak domestic demand and rising inflation. However, since the second half of 2008 with declining prices, the country went into deflation (-3% in 2009). The government's budget also ran into a deficit in 2008 and 2009. Exports have also come under pressure because of deteriorating economic conditions in major markets.

According to (UNCTAD) **United Nations Conference on Trade and Development**, Spain is the 7th most attractive country in the world for investment. Despite the economic slowdown in the EU region, Spain continued to absorb foreign direct inflows into the country. The country's FDI increased from a level of \$28 billion in 2001 to more than \$65 billion in 2008. The Netherlands was responsible for 20% of FDI inflow into Spain in 2007–08. The UK and the US were responsible for 6.65% and 4.95% of investment, respectively, during the same year.

The economic slowdown has led to a downturn in industrial activities and the level of unemployment has continued to rise. From a high of 20% in 1990, the unemployment level had fallen to 9% in 2006, but increased again to 18% in 2009–10. Unless structural measures are undertaken to improve the labor market, there is a possibility of an increase in unemployment. Due to economic recession and loss of jobs, the consumer spending has

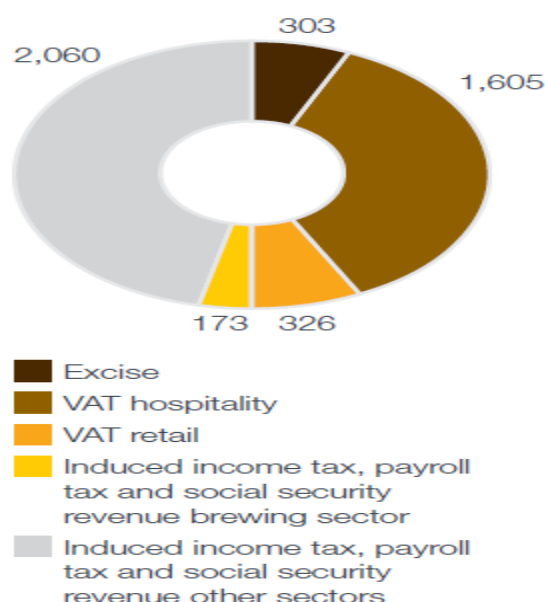
come down in the country. Furthermore, consumers are unable to maintain previous levels of spending, given that they can no longer finance as many purchases through loans.

The crisis has made access to credit tighter, which is a serious concern for an economy with excessive dependence on loans. The latest report published by the OECD announced that it will take Spain at least fifteen years to return to the unemployment rates which were in effect prior to the onset of the economic crisis. This is set to combine with the low growth rates which are expected to be recorded over the forecast period to erode average disposable income levels in Spain, a situation which will contribute to the 1% total constant value decline expected in beer over the forecast period. Due to the economic crisis, beer consumption has decreased dramatically, according to the Ministry of Environment, Rural and Fishery Development figures. For the first time, beer consumption has decreased not only in the on-trade, but also in the off-trade. Beer consumption in Spain has been decreasing since 2007.

The 2010 revenue from excise, VAT and income-related contributions due to beer production and sales was estimated to be 4.4 billion euro in Spain.

VAT revenue was estimated to be 1.9 billion euro, the majority being generated in the hospitality sector. Total excise revenue from beer was 303 million euro. Income-related revenue due to beer production and sales was approximately 2.2 billion euro, comprising 714 million euro income tax, 280 million euro social security contributions paid by employees and 1.2 billion euro social security taxes and payroll taxes paid by employers.

Graph below shows Government revenues due to the production and sale of beer: 4.4 billion euro



Economic impact	2010	Compared to 2008
Total jobs due to beer	221,128 jobs	-1.7%
Total value added due to beer	5.9 billion euro	0%
Total government revenues due to beer	4.4 billion euro	+7.2%

Source: Ernst & Young calculations.

Social Situation:

Alcoholic beverages have played an important part as a source of nutrition and in the social and dietary life of the Spaniards. It is estimated that 75 per cent of beer, 80 per cent of distilled spirits and 47 per cent of wine are consumed outside the home. The pattern of mixing drinking with food, work and social habits is still very common, but it is thought that drinking habits are moving closer to those in Central European countries.

As for the prevention of alcoholic beverages, the Spanish Ministry of Health has the overall responsibility for the preventive alcohol policies in Spain. Every autonomous region has its own programme on substance abuse, but they are coordinated by the whole Spain Bureau of Alcoholism and Drug Addiction. Even though it was mainly formed because of the problems caused by illicit drug use, it has begun to pay increasing attention to matters concerning alcohol, especially issues related to alcohol and youth. Spain describes its alcohol control policy as covering only some aspects of the problems related to alcohol.

Spain has, undoubtedly, a long-lasting tradition of alcohol consumption. It is clearly part of the so-called 'wet drinking cultures' which means not only high levels of alcohol consumption but also that social tolerance to the harm produced by alcohol is high. From the alcohol viewpoint Spain is a society in transition, where traditional drinking patterns persist in older and rural populations, while young urban people clearly adhere to the new drinking patterns which tend to harmonize all over Europe. Traditional drinking patterns are characterized by drinking daily, during meals and avoiding intoxication, while the new drinking patterns are characterized by intermittent drinking, mainly during the weekend, in leisure hours and often leading to intoxication. These new drinking patterns show particular features in Spain due to two facts: first, our 'wet culture' makes alcohol easily available for all young people; and secondly, the Spanish climate allows people to drink outdoors the whole year round. The end result is known as the 'Botellón' phenomenon. Every weekend hundreds of young people gather in popular places in most of the large cities of Spain and they drink to intoxication with no control at all. This phenomenon has raised concern among authorities, but it is regarded as a social problem and not as a health issue. In fact, Spain is becoming famous for its unending weekend nights where people can buy drinks easily all night long, and can drink both in bars and off premises.

The legal drinking age is 18 years in Spain, but under age drinking is becoming a serious problem for families and the youth because the youth have nothing else to do with their time and turn to drinking which is a bad habit.

Class divisions have become starker, making Spanish society an unequal one. Despite economic liberalization, the percentage of the population in different income groups has not changed. During 2000–09, the percentage of the population in the top income group increased from 8% to 8.3%, whereas in the lowest income group it has decreased from 40.7% to 40.6%. These figures imply that economic growth has done little to change the pattern of income distribution.

Source: Spanish statistics office.

Table. Evolution of drinking patterns in different age ranges according to the Spanish National Household Survey.

<i>Drinking patterns</i>	<i>Age range</i>	<i>1995</i>		<i>1997</i>		<i>1999</i>		<i>2001</i>	
		<i>Male</i>	<i>Female</i>	<i>Male</i>	<i>Female</i>	<i>Male</i>	<i>Female</i>	<i>Male</i>	<i>Female</i>
Results shown in percentages of drinkers.									
Drink weekly during the last 12 months	15–19	36	23	40	31	38	26	39	26
	20–24	56	30	66	44	62	41	59	36
	25–29	58	27	66	35	63	38	68	39
	30–34	57	24	68	34	67	33	61	35
	40–64	57	20	67	31	64	27	67	30
Drink daily during the last 12 months	15–19	2	1	1	0	2	0	3	0
	20–24	6	1	3	1	4	1	7	2
	25–29	13	3	11	2	11	4	4	3
	30–34	23	7	18	4	18	5	17	5
	35–39	32	8	23	6	29	7	28	9
	40–65	38	9	34	9	33	10	37	11

Table. Evolution of drinking patterns in different age ranges according to the Spanish National Household Survey.

<i>Drinking patterns</i>	<i>Age range</i>	<i>1995</i>		<i>1997</i>		<i>1999</i>		<i>2001</i>	
		<i>Male</i>	<i>Female</i>	<i>Male</i>	<i>Female</i>	<i>Male</i>	<i>Female</i>	<i>Male</i>	<i>Female</i>
	15–65	24	6	21	5	21	6	24	7

Source: Instituto Nacional de Estadística.

Technological situation:

Spanish total expenditure on R&D, as a percentage of GDP, stood at 1.2% in 2007, which is much less than that of other developed nations. In comparison, France's expenditure was 2.13% of the GDP, 2.68% for the US, 3.18% in Japan and 1.8% for Canada during the same year. The low expenditure on R&D has restricted related activities in the country. With an increase in the Spanish innovation budget and access to the European technology fund, which aims at meeting the financing needs of research, development and innovation of enterprises, there will be an improvement in the funding of R&D activities.

Technology hardly influences the beer market. The process of producing beer is standardized and therefore brewing technology is not highly sophisticated. Nevertheless some companies use new technology in logistics and packaging. Technology helps brewing companies to develop more efficient distribution channels and upgrade facilities with technology that increase the brewing process and improve the quality of the cultivate ingredients and harvesting process. This helps to increase consistency and reduce costs. Heineken is very rich in using information Technology for their production process because its worldwide operations are highly dependent on the availability of information systems. (Heineken International (2011))

Environmental situation:

Spain is a poor performer on environmental indicators. Despite its progress in international commitments, Spain faces important challenges concerning marine environment, climate change and regional air pollution. Although over 400 proposed climate change-related measures are under consideration, very little has been achieved at the implementation level.

Despite the low performance in environmental indicators, Spanish brewery industry continues to lead the food and beverage sector in the reuse of containers, with 87% of them being recycled or reused in 2002. In 2003, 57% of the containers in the brewing sector were reusable, while the remaining 43% were single-use recyclable.

Most of brewing industries use alternative sources of energy, such as wind, sunlight and Biogas to power their operations. Furthermore through constant monitoring and maintenance of facilities and adopting technology innovations and techniques use by brewers helps to produce beer with energy efficiency. According to Heineken International (2011), Heineken use Renewable energy sources to generate some of the heat required in brewing process. These biogases take from the anaerobic treatment of wastewater. Heineken has 19 anaerobic treatment plants and it's the 7th largest user, that use biogas as an energy source.

International renewable energy investors are preparing for potential legal action against the Spanish government for cutting renewable energy subsidies and other reforms in order to reign in the \$37.4 billion tariff deficit in its electrical system. Spain's Parliament passed a law on Thursday that cut renewable energy technology subsidies for alternative energy technologies which, coupled with other recently passed laws, have angered international investors who now find it hard to turn a profit. Source: The daily caller

Cerveceros de España, together with the Traffic Authority (DGT), the Royal Automobile Club of Spain (RACE), the National Confederation of Driving Schools (CNAE), the

Spanish Association of Oil Operators (AOP), the Spanish Highway Association (AEC) and Driver Assistance Association (ADA), ran this campaign aimed at raising awareness of the incompatibility of drinking alcohol and driving during the summer of 2003. Apart from the advertising campaign in the printed press and on billboards, promotional material (posters, postcards and key rings) were distributed to almost all of the driving schools in Spain.

"The brewing sector has always shown its great concern and respect for the environment by ensuring its packaging waste is controlled to the maximum. It should also be pointed out that, despite the recent market trend to reduce reusable packaging, the brewing industry is committed to maintaining the percentage to which it is used, which has turned the sector into the leader of the reuse of packaging within the food and beverage sector.", Jacobo Olalla Marañón. (Director General de Cerveceros de España from February 1997)

Because of the economic crisis the government of Spain has cut its spending in many sectors, green energy included. International renewable energy investors are preparing for potential legal action against the Spanish government for cutting renewable energy subsidies and other reforms in order to reign in the \$37.4 billion tariff deficit in its electrical system. Spain's Parliament passed a law on Thursday that cut renewable energy technology subsidies for alternative energy technologies which, coupled with other recently passed laws, have angered international investors who now find it hard to turn a profit.

Source: The daily caller

Legal situation:

Beer is regulated by the Royal Decree 53/1995, of the 20th of January by the Minister of the Presidency, in which are included the Technical-Sanitary Regulations for the production, circulation and sale of beer and malt liquid (BOE #34, of February 9, 1995).

The Royal Decree 1334/1999, of July 31, in which the general Standard is approved for labeling, presentation and advertising (BOE # 202, of August 24, 1999), establishes the general labeling standards for all food products to be delivered without further handling to the final consumer, as well as the aspects related to its presentation. It also applies to food products to be delivered to foodservice establishments.

Beer, as a food product, is subject to the regulations of this Royal Decree, with the specifications established in its own Technical-Sanitary Guidelines.

Source: CERVECEROS DE ESPAÑA

Regulation regarding excise duties applied to beer

The subjection of beer to law 38/1992, of December 28th, of Excise Duties (BOE # 312, of December 29, 1992), responds to the adjustment of these taxes on a communitarian scale, being configured as indirect taxes that fall upon the consumption of certain goods, taxing its fabrication or importing. The obligatory tax charge makes it so it is absorbed by the consumer, in addition to VAT as a general tax (at the rate of 16% for beer).

The Royal Decree 1165/1995, of July 7th, establishes the conditions detailed in the application of the law in form of Regulation (BOE # 179, of July 28, 1995), having been modified by Royal Decree 112/1998, of January 30 (BOE #27, of January 31, 1998), Royal Decree 1965/1999, of December 23 (BOE # 312, of December 30, 1999) and by Royal Decree 1739/2003, of December 19 (BOE nr. 11, of January 13, 2004).

Tax rates are updated through the General Law of State Budgets.

Source: CERVECEROS DE ESPAÑA

Environmental Standard (IPPC)

The beer industry is subject to the compliance of Law 16/2002, of July 1, for integrated pollution prevention and control (BOE # 157, of July 2, 2002), which coordinates a procedure for integrated environmental permission of the industrial installations subject to this law, where the maximum authorized emission limits in function of the best techniques available in each case must be stated. As a reference concerning the best techniques available by sector, documents called BREF have been created in the IPTS (Institute of Prospective Technologies) of Seville.

Taking the foodstuffs BREF as a basis, Cerveceros de España, in collaboration with the Ministry of Environment, has published a Guidance document on Best Available Techniques in the Spanish Brewing Industry. This Guidance document has been designed as a practical and useful tool that includes all the available information which may assist the competent authorities in their task to assess and issue the integrated environmental permissions.

Source: CERVECEROS DE ESPAÑA

Regulation regarding safety and hygiene

EU Regulation # 178/2002, of the European Parliament and Council, from January 28, 2002, which is directly applicable without having to transpose it to our national standard, establishes the general principles and requirements of food legislation, creates the European Authority of food Safety and sets the procedures relating to food safety (Official Record of European Communities L 31, of February 1, 2002).

This Regulation is based on two extraordinarily important pillars: risk analysis and traceability.

EU Regulation # 852/2004, of the European Parliament and Council, from April 29, 2004, on the hygiene of foodstuffs, is also applicable as from January 1, 2006.

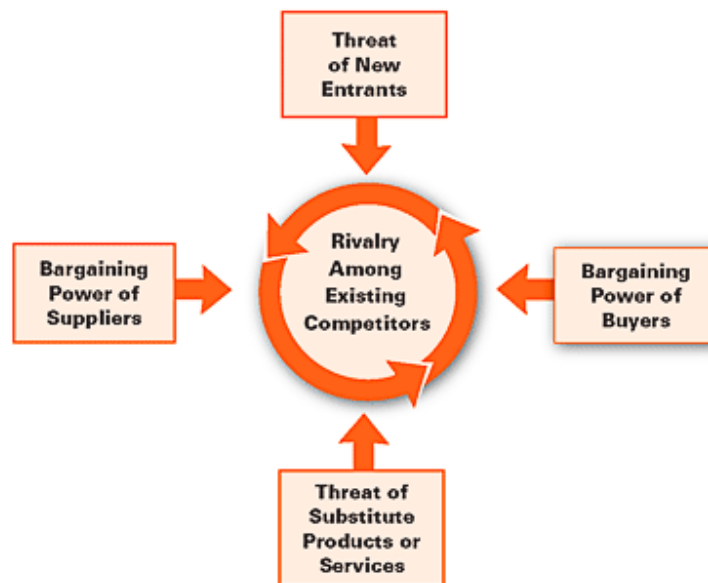
In October 1996, Cerveceros de España presented its manual for the Application of the system of Risk Analysis and Control of Critical Points in the Spanish Brewing Sector (Plan for Analysis of Hazards and Points of Critical Control, according to the most recent terminology), with the approval of the Department of Health and Consumption. The Brewers of Europe have recently approved a document about managing food safety in the European brewing industry through the application of HAPPC principles, which, together with the entry into force of Regulation 852/2004, have lead Cerveceros de España to issue a new guidance document on the application of the system of Hazard Analysis and Points of Critical Control in the Spanish brewing industry.

Source: CERVECEROS DE ESPAÑA

Porters 5 Forces Analysis of the Spanish brewery industry

The essence of formulating competitive strategy is relating a company to its environment. Industry structure has a very strong influence in determining the competitive rules of the game as well as the strategies potentially available to the firm, the key is found in the different abilities of firms to deal with them. Competition in an industry is rooted in its underlying economic structure and goes well beyond the behaviour of current competitors. The state of competition in an industry depends on 5 basic competitive forces which are shown in the diagram below. (M.E.Porter. Competitive strategy)

The Five Forces That Shape Industry Competition



The Spanish beer market is highly concentrated, with the four largest players holding 81.8% of the total market volume. The market leaders own a variety of recognized brands and operate in various segments of the market, which is possible due to the ease of production capacity expansion. There is a high degree of product differentiation in the market, as there are many varieties of beer, such as ales, stouts, low/no alcohol, standard and premium lager, and specialty beer.

Threat of new entrants

Treats of new entrants will depend on the extent to which there are barriers to entry which most typically are: Economies of scale, capital requirement of entry, product differentiation, access to distribution channels, cost advantages independent of size, legislations or government action, etc. (G. Johnson & K. Scholes 1984).

Overall, there is a moderate likelihood of new entrants in the Spanish beer sector. It is now possible to enter the market on a small scale as a microbrewery, as high quality beers can be sold at premium prices. Investment in production equipment can be recovered by adding a good margin to the price of the endproduct. The larger companies, however, tend to rely on the mass-market production of internationally palatable lagers; here, margins may be much lower. Producers need to distribute their products widely, which generally relies upon retail channels such as supermarkets. Despite the presence of company-owned on-trade outlets, these retail chains often have considerable buyer power, which can force down the prices that beer producers are able to obtain. In such a market, economies of scale become much more important. As a result, barriers to entry, such as capital outlay on largescale production plants and the need to establish reliable supplies from multiple third-party hop and barley growers, become much higher. Government regulation of beer and other alcoholic beverages market is stringent in many countries; Spain included and may impact on the ease of market entry.

Threats of substitutes

The threat that substitutes pose to industry's profitability depends on relative price to price ratio of the different types of products or services to which customers can turn to satisfy the same basic needs (P. Ghemawat 2010).

The price consumers are willing to pay for a product depends on the availability of a substitute product. The absence of a close substitute product, as in the case of Gasoline and cigarettes, means that consumers are comparatively insensitive to price, i.e., demand is inelastic with respect to price. The existence of a close substitute will mean customers will

switch to substitutes in response to price increase for the product, i.e., demand is elastic with respect to price. And the extent to which substitutes limit prices and profits depends on propensity of buyers to substitute between alternatives (Robert, M. Grant 2002).

Overall, there is a high threat from substitutes in the Spanish beer industry. Spain is well known for wine and the country was the world's 3rd largest producer of wine, today Spain is known for its high production in beer, 3rd in the E.U and 7th in the world. There also include substitutes like cyder which is fast gaining grounds, flavoured alcoholic drinks and non alcoholic beer.

The main substitutes for beer are other alcoholic beverages such as spirits and wine, and in some cases non-alcoholic beverages such as functional drinks, which can act as substitute for low/no alcohol beer. Switching costs are not high, and the per-unit-volume prices are higher than for spirits or wine for distributors. It is also difficult to be conclusive about the benefits of alternatives: beer and alternative products are optimally stored in chilled cabinets, which make them more expensive to store. Spirits may offer better returns on shelf space than higher-volume wines and beers. Conversely, some on-trade establishments (e.g. pubs) would find it difficult to operate without selling beer; others (e.g. restaurants) target particular demographics and would focus on provision of wine and spirits.

Consumers observe some differences in consumption patterns due to personal preferences; this makes beer vulnerable to the threat of other alcoholic beverages.

Bargaining power of buyer

Buyers compete with the industry by forcing down prices, bargaining for higher quality and more services, and playing competitors against each other- all at the expense of industry profitability. A buyer group is powerful if the following circumstance holds true:

1) It is concentrated or purchases large volumes related to sellers sales. 2) The product it purchases from the industry represents a significant fraction of the buyer's costs or purchase. 3) The product it purchases from the industry is standard or undifferentiated. 4) It faces few switching costs. 5) It earns low profits. 6) Buyers pose a credible threat of backward integration. 7) The industry's product is unimportant to the quality of the buyers' products or services. 8) The buyer has full information (Michael E. Porter 1980)

Overall, buyer power is assessed as moderate, as about 66% of all beer consumed in Spain is sold by the hospitality sector (on-trade), which means 23.3 million hectolitres is sold on-trade and about 34% of total beer consumption (12.0 million hectolitres) in Spain is beer sold by supermarkets and other retail outlets (Ernst&Young). This makes the concentration of buyers not big enough. Supermarket chains are often able to negotiate favorable terms on price with beer producers; this increases buyer power significantly. Switching costs for buyers are not particularly high, which increases buyer power in all markets. Beer producers can differentiate their products quite strongly, not only by the overall segment (lager or bitter, for example) but also by brand, ingredients, and style. Major buyers generally need to offer a wide range of beers to accommodate for consumer preferences, which should undermine buyer power. Furthermore, producers and retailers operate in distinct businesses, with very little likelihood of forward or backward integration.

Bargaining power of supplier

Suppliers' power is seen as a mirror image of buyers' power. As a result, the analysis of suppliers power typically focuses first on the relative size and concentration of suppliers relative to competitors and second on the degree of differentiation in the input supplied. (P. Ghemawat 2010).

Suppliers can exert bargaining power over participants in an industry by threatening to raise prices or reduce quality of purchased goods and services. A supply group is powerful if the following apply: 1) the conditions making suppliers powerful also tend to mirror those making buyers powerful. 2) It is dominated by a few companies and it is more concentrated than the industry it sells to. 3) It is not obliged to contend with other substitute products for sale to the industry. 4) The industry is not an important customer for the supplier group. 5) The supplier's product is an important input to the buyers business. 6) The supplier's group's product poses a credible threat of forward integration. 7) The supplier's group's product is differentiated or it has built up switch costs. These conditions that determine suppliers' power are not only subjected to change but but also often out of the firms control. (Michael E. Porter 1980)

Overall, there is a moderate degree of supplier power in the Spanish beer industry. The main inputs for beer producers are malted grain, hops and bottles or barrels. Traditionally, beer makers operated nonvertically integrated businesses: buying hops from independent producers along with either barley from farmers for processing at the brewery's own malting house, or malted barley from third-party producers. Beer would then be packaged on site. However, the scale of the dominant multinational players in the market means that some breweries now incorporate some degree of vertical integration, weakening supplier power. Independent hop growers are numerous, and include some fairly small operations, which further weakens supplier power. Independent barley growers can find alternative markets, reducing their dependency on the beer market. For example, barley can be sold for animal feed and malted barley for distillation in the production of spirits, and it is also possible to integrate forwards into beer-making. These factors augment supplier power. Raw material quality is highly important in this business: the end product is strongly influenced by the nature of the ingredients used

Rivalry among existing competitors

Rivalry among existing competitors takes the familiar form of jockeying for position using tactics like price competition, advertising battles, product, and increased customer service or warranties. Rivalry occurs when one or more competitors either feel the pressure or see the opportunity to improve position. Price competitions are likely to leave the entire industry worse off from the standpoint of profitability while advertising battles expand demand or enhance the level of product differentiation in the industry for the benefit of all firms. Intense rivalry is the result of a number of interacting structural factors: 1) numerous or equally balanced competitors. 2) Slow industry growth. 3) High fixed or storage costs. 4) Lack of differentiation or switching costs. 5) Capacity augmentation in large increments. 6) Diversed competitors. 7) High strategic stakes. 8) High exit barriers. (Michael E. Porter 1980)

The Spanish beer market is consolidated, with the three largest players holding 81.8% of the total market volume. Some large beer producers have begun to introduce brand

management and in order to become more identifiable to the public. Purchasers have a very wide range of beers to choose from, with relatively low switching costs. Major players may offer premium beers, but much of their business involves mass-market products. This implies high fixed costs, because of the need to operate large breweries. At the same time, prices that can be obtained for these products may be forced down by large retailer chains that are able to exert strong bargaining power. These factors boost rivalry, which is assessed as strong overall.

Future opportunities

Technology

Packaging

The value of a product is closely judged by the way the product is packaged in the beverages industry. This is valid for alcoholic beverages as well. Packaging also plays a far more significant role in the brewery industry besides just consumer appeal. Packaging continues to remain one of the key innovation areas to increase the product life cycle or change the positioning of the product in the mind of the consumer. In terms of the material, glass retains an important and stable position as a favoured bottling material in key categories of beer, wine and spirits. Its strength lies in its tradition and association with product quality. Not surprisingly, glass accounted for 59% of global packaged beer sales in 2009, but is suffering some share loss to metal cans and to PET (Polyethylene terephthalate). Metal cans also continue to be an important part of packaging. Cans are mostly used to package products for the economy segment while glass packaging continues to dominate the premium market segment. In the next five years, packaging is expected to be a legislative area where green packaging and processes could be encouraged. Significant investment and research is necessary in these areas and there is bound to be increasing pressure on manufacturers to optimize their packaging:

- Reduce wastage by driving sustainable processes and setting 'green' targets.
- Ensure faster turnaround of used bottles in the supply chain.
- Increase margins by reducing the quantity of packaging material.

New product introductions

Beer manufacturers have been relentless about new-product innovation mainly because of their recent expansion into different geographies and the resultant need to cater to consumers in each of these markets. Constant innovation, in tandem with the skill for passing on input-cost increases, has allowed the industry to boost its margins significantly. The need to aggressively shape portfolios to increase the proportion of the fastest growing and profitable categories to sustain growth momentum has led companies to look closely at R&D for new product innovation. The boom in the craft beer segment where micro producers are spearheading innovation, prompts major players to adopt more experimental

and radical approaches through product extensions, flavoured variants, etc. Micro brewers are trying to create a niche by targeting millennials, women, etc., forcing major players to come up with competing products. The 'retro' or 'vintage' effect has relevance to the vast majority of CPG industries including the beverage and brewery industry. This trend results in the introduction of variants, once appreciated and enjoyed by the earlier generation about 30 or 40 years older than us. The trend appears to be a gradual return to heritage, tradition, and craftsmanship. This has been surfacing as a key driver across the alcoholic drinks industry globally.

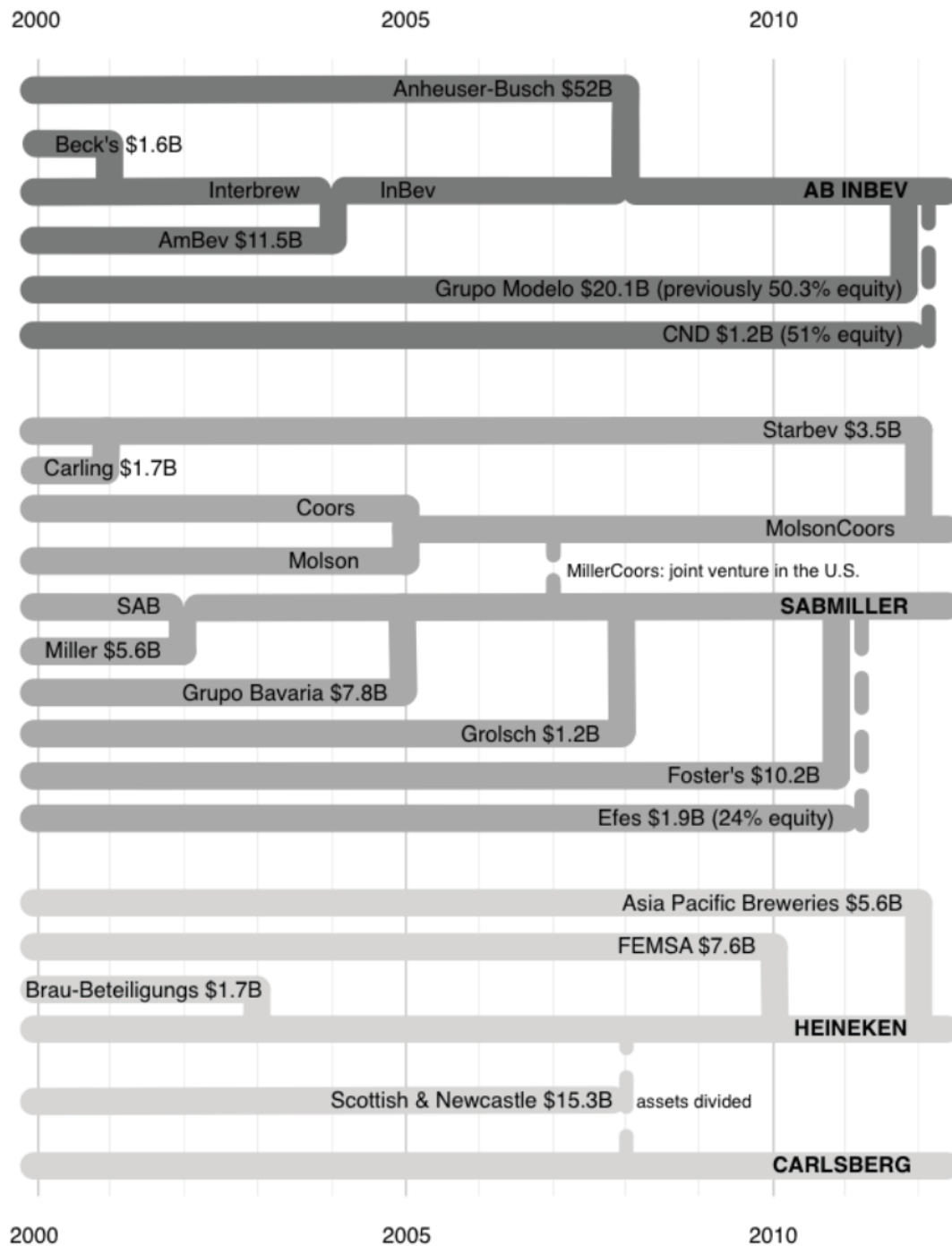
Source: Tata consultancy service

Globalization

Mergers and Acquisitions are the two most popular form of globalizing the beer industry. Until very recently beer making and distribution was locally focused, a reflection of a bygone era when beer had a short shelf life and was difficult to transport. The brewing industry has long been a collection of tiny players dominated by national market oligopolies. Indeed, in most countries the top two or three brewers command more than 80% of the market, and the world's top 10 brewer's account for only one-third of world production. Until 1945 Ireland's Guinness was the only brewer to go international, moving its headquarters to London in 1886. After World War II, Dutch brewer Heineken and Danish brewer Carlsberg entered the international arena, but few followed their lead.

The amount spent on these mergers, acquisitions and joint ventures totals nearly \$150 billion, and does not include another \$50 billion in transactions involving smaller firms in the industry (Ascher 2012). AB InBev's most expensive acquisition was the \$52 billion purchase of Anheuser-Busch in 2008. Its most recent moves include a majority stake in the Dominican Republic-based brewer CND in 2012, and 100% equity of Mexico's Grupo Modelo in 2013. SABMiller's largest acquisition to date was purchasing the Australian firm Foster's for \$10.2 billion in 2011. Heineken and Carlsberg jointly purchased the U.K. firm Scottish & Newcastle in 2008 for \$15.3 billion, and divided its assets between them. Heineken has more recently acquired the Mexican firm FEMSA (2010), and increased its equity in Asia Pacific Breweries (2012). The specific strategies and geographic emphases

of each of these top four firms are described further below. The figure below explains better the timeline of significant changes leading to the top four global firms from 2000-2012.



Source: Philip H. Howard 2013.

These mergers and acquisitions are also happening in Spain, as Heineken Bought Cruzcampo to be the largest beer company in Spain until recent years when Mahou bought San Miguel from Donone who pulled out of Spain. We can also see that market in Spain is dominated by local Spanish companies, a d strange thing in this global era. The government of Spain regulates which acquisitions can be done and those which can not, this might have helped Spanish firms to gain high market share in their industry. Further, the global trend is about mergers and acquisitions something the worlds leading companies have the resources and the know how to pull it off.

Conclusion

The Spanish beer industry is quite competitive and there exist high industry rivalry. The Spanish beer market is highly concentrated, with the four largest players holding 81.8% of the total market volume. This does not mean that the other 18.2% of the market share will be easy to access. Going to any city center in Spain for a drink, you will find out that people like to drink draft beers (caña) and eat tapas or pinchos or picka picka. Most microbreweries sell their own beers in their pubs and more people are drinking this draft beer from micro breweries which are cheap, especially now that the crisis is still hitting hard on the economy. Major players like Guinness, Danone, and Coors have all pulled out of the market and other big players like Mahou, Heineken, etc. have acquired other breweries to have even bigger shares.

The brewery industry in Spain is quite competitive and Rivalry is the extent to which companies compete with one another for customers. Rivalry can be price-based or non price-based. 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.

Switching costs

Within the beer industry there are no switching costs. The consumer can purchase whichever beer he/she favors. However, consumers are very brand loyal. Beer companies spend millions of dollars annually on advertising. The commercials are not necessarily created to increase demand, however create brand awareness. According to Gary Wilcox of allbusiness.com: "The majority of empirical evidence suggests that advertising expenditures are not significantly related to primary or aggregate demand for alcoholic beverages, but instead may positively impact selective demand for a particular brand or product category".

Decreases in demand

There has also been a decrease in demand for beer in recent years. Due to the economic crisis, the demand and consumption of beer has decreased dramatically, according to the Ministry of Environment, Rural and Fishery Development figures. For the first time, beer consumption has decreased not only in the on-trade (-5.9%), but also in the off-trade (-1.9%). Beer consumption in Spain has been decreasing since 2007. The consumption per capita was 48.3 liters in 2010 (Ernst & Young). Because demand has decreased, companies are trying hard to keep old clients and create a market for new clients.

Excess Capacity

Because the consumption of beer is lower than the capacity the industry as a whole can produce there is the problem of excess capacity. This is good for the customers as supply exceeds demand hence prices will be low, but this will lead to a lot of competition within the brewers as they seek to sell what they produce. And companies who incur high fixed costs might exit the industry. "Most new entrants into this business are too young to see what excess brewing capacity can do to this industry. I remember going ten years without an effective price increase in the 90s. Then as legacy regional brewers (Stroh, G. Heileman, and Pabst) started shuttering breweries, and then craft brewers that didn't make it closed up shop, the pricing situation returned to normal" (Harry Schuhmacher, 2013, beernet).

Low Differentiation

The brewery process is standardized and this does not give the brewers opportunities to be very creative with beer, hence beer is similar and almost tastes the same. Differentiation in this industry is mostly done during packaging and advertisements. Porter states that "in the brewing industry, product differentiation is coupled with economies of scale in production...to create high barriers." 17 In the brewing industry there is definitely an attempt made at creating a brand and building brand loyalty. This attempt to create product differentiation can be seen through the amount of money that the industry spends on advertising. In 2005 the brewing industry spent over \$1.1 billion on advertising and this

which was the fourth straight year of ad spending that exceeded \$1 billion (Liz Boeing et.al. Beer brewer industry analysis).

Differentiation provides insulations against competitive rivalries and because of brand loyalty by customers and resulting lower sensitivity to price. It also increases margins which avoid the need for a low cost positioning. The resulting customer loyalty and the need for a competitor to overcome uniqueness provide entry barriers. Differentiation yields higher margins with which to deal with supplier power, and it clearly mitigates buyer power, since buyers lack comparable alternatives and are thereby low price sensitive. Finally, the firm that has differentiated it to achieve customer loyalty should be better positioned vis-à-vis substitutes than its competitors. (Michael E. Porter, 1980)

Entry requirements

At the top level it is difficult to get in because the capital cost is high and there is a lot of regulation from the government. But it is very easy to come in as a micro brewery and grow, thus making the entry not difficult. Barriers to entry as a major brewer are HIGH. While it may be difficult to enter as a major brewer, entry into the better beer segment, producing less than 2 million barrels per year, is relatively easier. Small, micro-breweries and brewpub restaurants are supported by their local customers and typically serve a certain region (Jennifer Pontinen)

Buyer power varies depending on buyer's reliance on beer sales to generate revenues: buyer power is greater amongst larger retailers (supermarkets/hypermarkets) as switching costs are not particularly high. The wide range of brands available, with an accompanying variance in quality and price, prevents buyer power from becoming disproportionately strong in this market. However, some of the larger companies possess a wide variety of local and international brands. Supplier power is also moderate, due to the fact that raw materials for the end product are commonly available. Entry into this market would be highly dependent on the growth prospects and also on the size of the existing players. Furthermore, beer is vulnerable to the threat from substitutes, such as spirits and wine, due to low switching costs and consumption patterns.

The presence of private label continues growing

In a continuation of trends established in 2009, private label alcoholic drinks recorded the best performance in Spain during 2010. The influence of private label references in alcoholic drinks increased throughout the review period. The aggressive pricing policies and the strong marketing strategies of certain grocery retailers, notably Mercadona and Carrefour, contributed to the strong performance of private label in 2011. Aggressive promotional campaigns which offer discounts such as 'buy one get one half price' and 'three for two' promotions combined with the decline in disposable income levels boost demand for private label, to the detriment of branded equivalents.

The near future for alcoholic drinks is not so bright

Spanish economic crisis and the country's recovery from this crisis are set to play the leading role in the performance of alcoholic drinks during the forecast period. The massive deficit in Spain's public finances needs to be reduced in order to meet EU standards, and the measures which the government must enact in order to achieve this are expected to result in higher taxes. For example, during 2010, VAT increased by two percentage points, while income tax increased during 2011. This is set to result in declining disposable income levels and many Spanish people struggling to make ends meet on a monthly basis, especially as the unemployment rate is expected to continue growing. Special taxes which are levied on tobacco and alcoholic drinks increased in 2012. As a consequence, a high number of Spanish consumers acquire their alcoholic drinks through off-trade channels, a trend which is set to represent a significant detriment to on-trade sales of alcoholic drinks during the forecast period. Furthermore, demand for cheaper products and private label alcoholic drinks is set to continue increasing. This trend is also expected to boost sales within cheaper grocery retail distribution channels such as discounters, while supermarkets and hypermarkets will continue to benefit from high consumer interest in the frequent use of price promotions on alcoholic drinks.

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