Case study I
Internationalization of brewery companies

The case of Carlsberg

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The brewery industry has specific characteristics that make it worthy of a detailed analysis. It is an industry that: (a) has adopted similar technologies globally, (b) offers a homogeneous product (although differentiated by brand), (c) is dominated by a few large multinational corporations (MNCs) and (d) is highly internationalized. In addition, MNCs from what can be characterized as small or medium-sized countries, such as Heineken (the netherlands), Carlsberg (Denmark), Interbrew (now known as AB Inbev; Belgium) and SAB (now known as SAB-Miller; South Africa), have achieved the position as global market leaders through successful merger and acquisition (M&A) strategies, whereas important players from large countries, such as Anheuser Busch and Miller in the USA and Scottish & Newcastle in the UK, have become takeover targets.

This chapter analyses the internationalization paths of these companies. Investigating this industry, departing from the Uppsala approach, where companies incrementally become international in relation to geographical spread and commitment, the large brewery MNCs follow the pattern we see from other industries in relation to entry modes and governance structures. In the early stages of the internationalization process, the successful breweries concentrate on less-risky export strategies, where they often liaise with local agents and distributors. Next, international joint ventures with local breweries begin to play a significant role. Subsequently, international acquisitions increase significantly. However, some of the breweries that also tried to internationalize but later become takeover targets skipped the initial stages and started entering through acquisitions. On the other hand, the internationalization process, in relation to geographical entrance, seems to be more scattered, where entrance is not always in the next nearby country. One reason is that brewery companies seek first mover advantages and internationalize where there is a market opportunity, rather than selecting the nearby market. Further, competing breweries enter the same market, as "follow the herd" counterattacks. However, most markets soon become under pressure and there is no room for the four major brewers in each market; this leads to a scattered picture looking at the world map in relation to representation. MNC breweries are therefore challenged by global market developments. Sales have been affected by the stagnation in almost all traditional high-volume markets in the developed world with beer consumption declining recently in many of these markets (for example, in Germany, the UK and Japan). Notable growth in demand is evident in emerging economies, such as China, Russia and Brazil, but profit margins are considerably lower in these countries. Global breweries need to invest heavily in order to access distribution channels and to make their brands known in these regions, while average purchasing power (measured in GDP per capita) remains relatively low.

General internationalization patterns

Some of today's major players – especially those from small home countries – internationalized their businesses soon after their foundation. Heineken, for instance, was founded in 1863 and almost immediately began to export beer to neighbouring European countries (especially France) and to the Dutch East Indies (now Indonesia). The same is true for Carlsberg, which was founded in 1847. By 1868, the company was exporting beer to Scotland. Despite this early international trade, the overall trade of beer has never reached the levels evident among many other finished goods. Today, only about 5 per cent of global beer production is traded across national borders. This is because beer is a voluminous product that mostly consists of water, which makes its transport over large distances costly. However, the low tradability of beer has been offset by licensing agreements and, as we see today, by increasingly foreign direct investments.

Consequently, over the last two decades, the brewery industry has experienced numerous small- and medium-sized cross-border acquisitions. Heineken, the most active company in this respect, acquired no fewer than 35 smaller breweries around the world between 1990 and 2008. Often, these acquisitions involve partial shareholdings. Besides the lower risk compared to the full takeover, partial shareholdings offer the MNC a "foot in the door" in areas where a "big bang" market entry is not feasible due to market and ownership structures. Alternatively, such shareholdings may enable the MNC to enlarge its influence in a given country by gaining access to more firms in the local market. The following section will elaborate on these tendencies from one company point of view. The Danish MNC brewery is the fourth-largest brewery and is a typical example of the patterns described earlier.

Carlsberg

Carlsberg is a Danish brewery that was founded in 1847 by Carl Jacobsen. Today, Carlsberg is one of the world's leading brewers with activities in more than 150 countries, in which it markets more than 500 brands. Carlsberg's global reach has resulted in a high degree of internationalization, as expressed by the fact that foreign sales account for 92.6 per cent of total sales, though a natural outcome of being headquartered in a small country. Many minor markets are reached through export and licensing agreements. Only 29 subsidiaries are listed in the annual report as having significant operations. These subsidiaries employ most of Carlsberg's 41,000 employees.

The Carlsberg Group produces 10,895 million litres of beer annually and its net revenue was US$10,695 million (2010 figures). Carlsberg's most important brand is Carlsberg, which is also its most recognized and fastest-growing beer brand on a global basis. Other well-known brands on an international scale are Tuborg, Baltika and Kronenbourg 1664. The company has a strong market presence in Denmark, Norway, Finland, France, Russia, the UK, Laos, Nepal, Cambodia, Malaysia and Vietnam. It has a weaker presence in the Americas. The company lacks operational scale when compared to its main competitors, Anheuser-Busch InBev, Heineken and SABMiller, in terms of volume, investment in foreign acquisitions and growth in turnover. However, today it has a much stronger presence compared to ten years ago, primarily because of its market leadership in the major BRIC country Russia.

Carlsberg's internationalization process

Although Carlsberg started to export to the British market in the nineteenth century, its internationalization adventure did not take off until after the Second World War. At that time, Carlsberg and its associated brewer Tuborg intensified their marketing campaigns abroad, which led to a tripling of exports between 1958 and 1972. In this period, the two companies also started to establish breweries around Europe and in Asia. An early investment outside Denmark was made in Malawi, although this investment led to a few licensee agreements, rather than significant internationalization in Africa.

This period was characterized by a cautious investment strategy focused on licensee arrangements and exports. In the late 1960s, Tuborg established strategic partnerships, or licensee agreements, in countries such as Turkey, Iran, Cyprus and Brazil, but many of these early engagements were later withdrawn. In the 1980s, investment was made in Asia, such as the establishment of the Carlsberg Brewery Hong Kong in 1981 and Malaysian unit in 1982. Other Asian investments include the 1991 investment in Hite Brewery, Korea's largest brewery. Carlsberg launched operations in Vietnam in 1993 through two joint ventures with Hue Brewery and SEAB. More recently, Carlsberg has acquired Chinese companies. The first entry into eastern China failed due to harsh competition on prices and expensive target prices. As a result, Carlsberg focused on breweries in western China. It now holds a controlling interest in Xinjang Wusu Beer and Dali Beer, and a minority interest in several other breweries. It also has four plants in India through a joint venture with South Asia Breweries.

Carlsberg has made major investments in the German market. In 1988, Carlsberg acquired 83 per cent of Hannen Brauerei GmbH in a follow-up to a 1977 licensee agreement with German Reemtsa group, which included Hannen Brauerei. When the licensee agreement came to an end, Carlsberg took over Hannen. One reason for doing so was the brewery's location near the Belgian border, which opened up sales opportunities in that market. In 2004, Carlsberg made further investments in the German market. Europe was the focus point for Carlsberg from 1980 onwards, takeovers were made, especially in the Nordic countries, but also in countries such as Spain, Portugal, Switzerland, Poland, Italy and Croatia.

However, Carlsberg had always paid attention to the UK markets: soon after its foundation it started to export to this region; in fact it started to export to the UK in 1868. By 1939, 55 per cent of all beer imported into the UK was from Carlsberg. Naturally, its first major foreign engagement and investment was in this market. In 1970, the company entered into a partnership with the British beer maker Watney in order to build a larger brewery in Northampton. Later, owing to some restructuring in the industry, the Danish brewery obtained 100 per cent control of this business. Furthermore, Carlsberg formed a strategic alliance with Allied-Lyons in Britain. The new firm – a 50/50 joint venture known as Carlsberg–Tetley Plc – took an 18 per cent market share. Through this alliance, Carlsberg gained access to its partner's distribution network, which included 3,500 pubs. After four years of disappointing results owing to a focus on discount brands, Allied Lyons sold its shares to Bass when the contract came to an end in 1996. In terms of turnover, the 1997 acquisition of Tetley was the largest foreign takeover by a Danish company between 1994 and 1998. Even though the British became of less importance compared to engagement in other countries, and Carlsberg faced increasing competition and decreasing sales, its latest major investment again was in the UK. This time it was the takeover of Scottish & Newcastle (S&N). This was a joint acquisition with Heineken. At the time of the takeover, S&N was considered to be a leading European brewery with operations in 15 countries. S&N's assets were divided between Carlsberg and Heineken, so that Carlsberg gained 100 per cent ownership of BBH and S&N's French (Kronenbourg), Greek (Mythos), Chinese and Vietnamese operations, whereas Heineken gained control S&N's UK, Irish, Portuguese, Finnish, Belgian, US and Indian operations. The takeover gave Carlsberg leading positions in the East European, Russian, French and Greek markets, which were expected to counter the declining beer consumption in the mature west European markets. Through the full control of BBH, Carlsberg controlled a range of subsidiaries.

This historical overview illustrates a change in Carlsberg's preferred entry mode from greenfield establishments towards acquisitions. However, it is also an overall low risk investment-profile as some of these acquisitions were partial.

Management of the acquired brewery targets

Takeovers of breweries and the immediate reorganizations of their activities illustrate Carlsberg's views on the strategic development of these acquired breweries that become subsidiaries of Carlsberg's headquarters. Carlsberg views efficiency in its production processes and distribution as key to its success. In numerous cases, old production plants have been closed and production moved to new plants. However, opposite cases can also be found, where Carlsberg upgraded the acquired local brewery. One example is Finnish Sinebrychoff, where production and administration improved after Carlsberg took full ownership. For example, new types of packaging were introduced in 2005. Many of the East European cases show similar developments, as is the case with Derbes in Kazakhstan, where major upgrades in production quality, national sales, distribution and management were evident. In fact, the upgrading of the Derbes' bottling line turned the brewery into one of the most modern in Europe.

Another integration strategy is to achieve cost reductions. This we saw in the case of a Turkish acquisition, where cost reductions were made by laying off workers in order to counteract the low sales of the local Skol brand.

Cost reductions, reorganizations, but also upgrading of technologies point to a general tendency in the brewery sector. However, what we will focus on here is the GloCal strategy of Carlsberg. This strategy is implemented in the organizational matrix structure, which is characterized by front-end localization and back-end centralization. As stated in Carlsberg's 2011 Annual Report, this entails "working closely together at a GLObal level while allowing loCAL brands and initiatives to flourish". By implementing such a matrix structure, the company aims to meet the challenges of its industry, which include considerable variations in local markets and customs, as well as significant pressure for efficiency and standard solutions arising from other major international competitors. An outcome of this strategy is evident in Carlsberg's marketing expenditure, the majority of which is devoted to local brands and directed towards emerging markets. This approach allows Carlsberg to decentralize decision-making power and resource control to its foreign subsidiaries, though often within narrowly defined value chain mandates. For example, central coordination of procurement is located in Switzerland, accounting in Poland and R&D in France. Therefore, Carlsberg appears confident that it can derive value by streamlining and centralizing across borders, while it still seems to recognize that substantial value is created locally in each individual market.

At this point, we can conclude that Carlsberg is motivated by an efficiency-seeking strategy when acquiring foreign breweries and that it creates value through such acquisitions. On the other hand, the GloCal strategy point towards simultaneous upgrades in strategic responsibilities. This mixture of different processes is investigated in three cases.

Okocim

In 1996, Carlsberg acquired a 31.8 per cent stake in the Polish brewery Okocimskie Zaklady Piwowarskie S.A. (Okocim). At the time, Poland was an interesting market for Carlsberg.

It was a major, growing beer market with 40 million inhabitants and a per capita annual demand of 40 litres. Furthermore, in this transitional period following the political and economic changes of the end of the communist regime, Polish citizens were experiencing an increase in their purchasing power and shifting their consumption preferences from spirits to beer. Carlsberg made use of its revised investment strategy and increased its ownership in the brewery to 50.1 per cent in 2001 and to 100 per cent in 2007. However, the investment in Poland was initially problematic. Carlsberg's market share fell from 8 per cent to 5 per cent. It took several years for the company to increase this share to 17 per cent, which it has achieved through additional acquisitions. In this period, Carlsberg was struggling more than other MNC breweries (Heineken and SABMiller), who had much higher market shares.

At the time of the acquisition, Okocim was an inefficient brewery and Carlsberg spent €70m to increase its efficiency, making major investments in production capacity and modernization, leading to a tripling of production capacity. Carlsberg also had staffing problems; there were frequent changes in the subsidiary's management. For example, the subsidiary was unable to keep a sales manager employed for more than a year. However, this situation improved with the replacement of the expatriate managers with local managers. This led to an improvement in managerial skills, which in turn led to the relocation of skilled managers from its Polish brewery to other subsidiaries, such as Tetley in the UK. Another example of strategic development was that the subsidiary gained an international market mandate: the Okocim brand was launched in the UK, targeting the 600,000 Polish inhabitants in the country. The Okocim brand was also launched in India.

This case illustrates the acquired firms' reorganization following the takeover, followed by the introduction of Carlsberg's best practices and control through expatriated subsidiary management. This development process is probably linked to Carlsberg's entry process, which was based on partial acquisitions of a brewery with low market power. The case also demonstrates a tendency of some of the first foreign direct investment, which for the first decade was problematic, then changed and become successful. One example is that Okocim gained responsibility for international activities over time.

Kronenbourg

Kronenbourg, a French brewery, was "indirectly" acquired by Carlsberg in 2008, when Carlsberg was involved in the Scottish and Newcastle acquisition. Carlsberg and Heineken agreed that Kronenbourg would be transferred to Carlsberg. The company had been owned by Group Danone but was taken over by S&N in 2000. At the time of its takeover by Carlsberg, Kronenbourg held a dominant position in the French market. It also had strong brands (such as 1664) and controlled important distribution networks. Furthermore, it was recognized for its innovative abilities and sophisticated approach to brewing. However, due to decreasing sales on the French market, the general international financial crisis and the increased regulation of the brewery sector, Carlsberg opted for a complete reorganization of the subsidiary. Consequently, 214 of the unit's 1,400 employees were laid off, a range of minor brands were downgraded and the subsidiary's CEO was replaced with the Swiss CEO from Feldschlösschen. After three years of restructuring, however, the company was still struggling, despite expensive marketing campaigns.

Nevertheless, the subsidiary gained a significant mandate, as the Carlsberg R&D centre dedicated to beer and packaging – a €17m investment – was located in the Obernai location. The Obernai plant already brewed and marketed several important brands, such as Kronenbourg 1664. Additional production capacity was to be added, which led to allocation of production from other Carlsberg breweries. Some of the Feldschlösschen production was to be transferred to the French site, turning this site into a European cluster. There may have been several reasons for the decision to locate the R&D centre in France; one may have been Jean-Yves Malpote, who had formerly served as Subsidiary R&D CEO. After 2008, Malpote had served as Vice President for Carlsberg R&D, which implies tight and personal connections with Carlsberg's top management. Another reason may have been the long tradition in brewing and R&D at this site. Finally, Kronenbourg 1664 was one of Carlsberg's strongest international brands and was distributed in more than 50 countries.

This case also illustrates that the brewery company were reorganized in some parts of their activity, while being upgraded in others. In this case, Kronenbourg controlled the resources upon which Calrsberg headquarters and other brewery subsidiaries depended, such as R&D and capacity; this is definitely a reason for the R&D mandate being gained by Kronenbourg.

Baltika breweries

The state-owned Baltika brewery was formed in 1990 and focused on quality beer from the beginning. In 1999, a modern factory was completed in St Petersburg, which was also the location of the company's headquarters. In 1992, Baltika became part of a joint venture with Orkla (named BBH, Baltic Beverages Holding), in which Carlsberg first held a 30 per cent stake, then a 50 per cent stake. In 2008, Carlsberg increased its share to 88.86 per cent as an outcome of the acquisition of S&N. Today, Baltika is the largest brewing company in the Russian Federation and in Eastern Europe. The subsidiary employs more than 9,500 individuals. Baltika is also the most well-known brand in these regions and is sold in 98 per cent of relevant stores in Russia. The brand was valued at US$2.3bn in 2010. A substantial part of Carlsberg's revenue (approximately 25 per cent) is generated by Baltika.

Baltika controls 10 subsidiaries and 12 production plants. An organization of this size is naturally well positioned in an MNC network, Baltika collaborates with other Carlsberg subsidiaries to a high degree. For example, Baltika has an agreement to share marketing costs with the Finnish subsidiary Sinebrychoff Oy. It also has an agreement with Feldschlösschenin by which the two subsidiaries buy consultancy services from each other. Furthermore, Baltika builds close ties with a range of external partners. In this regard, the company emphasizes its connection with the government of St Petersburg. BBH's brand, production technologies and production capacity, and its close connections with the external environment place this unit in a favourable position. Other organizational units depend on BBH resources. In particular, the external relationships represent a type of knowledge that is difficult for headquarters or other brewery units to capture on their own, such as the importance of managing personal relationships with outside stakeholders.

From an internationalization point of view, BBH's development is of interest. Often, one would associate the international growth as an outcome of headquarters activities or decision. However, much of Carlsberg's recent international growth has been driven by their Russian subsidiary. To give examples, since 2008, BBH has established licensee production in Japan, Uzbekistan, Australia, Kazakhstan, France, Italy and the Ukraine. Simultaneously, Baltika has launched exports to such countries as Lebanon, Vietnam, Norway, Chile, Malaysia, Guinea, Panama, Costa Rica, Congo, Syria, Mexico, Brazil, Bulgaria, Mali, Sierra Leone and Romania. In fact, the subsidiary has entered more than 60 markets since 2000.

The internationalization processes at this stage of Carlsberg's history is therefore an outcome of a decentralization of such processes. This brings a lot of power to such a subsidiary.