PG0-001
MAY 6, 2011

PANKAJ GHEMAWAT

Grolsch: Growing Globally

In November 2007, SABMiller, the world's second largest brewer,[1] announced the friendly takeover of the world's 51st largest, Royal Grolsch N.V. of the Netherlands, for €816m in cash—84% more than Grolsch's value over the previous month. Nick Fell, SABMiller's Marketing Director, explained the logic of the deal:

> "[Grolsch is] a fantastic brand. It's North European, it's a fantastic product, it's got unimpeachable brewing credentials and authenticity and credibility. And it's a damn good product. So for anybody interested in developing their premium beer business, this is an absolute peach of a brand to get hold of… we see huge potential for it in our global footprint, particularly in markets like Latin America and Africa where we've got a strong route to market but where the premium beer business is still in its infancy."[2]

Grolsch had hitherto focused on developed markets, particularly the UK, US, Canada, Australia, New Zealand and France, in pursuit of its goal of becoming one of the world's top 10 global beer brands. Groslch was already the world's 21st largest global brand, measured by international (non-domestic) volume (see **Exhibit 1**). International volume had grown to account for slightly over one-half of total volume and, going forward, seemed to offer much more potential. Drinkers often rated Grolsch higher than larger brands, including Heineken, the top global brand as well as the leader in Grolsch's home market (see **Exhibit 2**). And Grolsch had started up a state-of-the art brewery in 2004 that could be expanded at little incremental cost.

The acquisition closed and in February 2008, Grolsch became an independent subsidiary of SABMiller. Rob Snel, head of Grolsch International since 1999 and an employee since 1984, was named Grolsch's new CEO shortly thereafter. He had to decide what changes, if any, to recommend to its global strategy.

---

1 This compares the relative positions of SABMiller with the two other major breweries, InBev and Anheuser-Busch as of the end of 2006. SABMiller's fiscal year ends in March.

2 "Q&A with Nick Fell, Marketing Director, SABMiller," SABMiller, www.sabmiller.com. Accessed Nov. 30, 2007.

This case was prepared by Professor Pankaj Ghemawat and Michael Jordan, Research Assistant, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

Company Evolution

Grolsch traced its history back to a brewery, in the Dutch town of Groenlo near the German border[3] that was purchased by Willem Neerfeldt in 1615. By the late 1800s, the brewery had come under the control of Theo J. De Groen. In 1897, he introduced Grolsch's iconic—and trademarked—ceramic swingtop bottle, which was advertised as easy to open and allowing storage of beer for later consumption. Marketing of the Grolsch brand began in 1918. In 1922, this operation merged with a brewery in nearby Enschede (see **Exhibit 3** for a map of the Netherlands), but Grolsch was retained as the principal brand. By the 1960s, Grolsch had grown from a "regional" brand to become the country's second most popular, behind Heineken.

After the death of the head of the De Groen family in 1982, the next generation of family members agreed to an initial public offering (IPO) on the Amsterdam Stock Exchange in 1984.[4] Subsequently, a non-family member was brought in to manage the company for the first time since the De Groens had assumed ownership. By the end of the 1980s, there were no De Groens on the company's executive committee, but the family continued to own one-third of Grolsch's shares and was represented on its supervisory committee.

Due to its stature in the Netherlands, the Dutch government honored the company with the coveted "Royal" title in 1995, and the company was renamed Royal Grolsch N.V. In 1997, Grolsch celebrated the 100th anniversary of its swingtop bottle; a company representative said, "After 100 years, the swingtop is a great differentiator and still makes the Grolsch brand famous today." In 1998, the company decided to build a modern brewery which, after disruptions and delays (see below under "Operations"), started up in 2004.

Grolsch had been incorporated as a two-tier company under Dutch law and had two major, fully-owned subsidiaries: Grolsche Bierbrouwerij Nederland, which handled sales and marketing of Grolsch in the Netherlands and also housed most production, logistics and facilities support except operations with foreign partners; and, Grolsch International, which was responsible for the worldwide sales and marketing of Grolsch (and other brands) outside the Netherlands and the UK and Ireland. The UK and Ireland were handled by a 51:49 sales and marketing joint venture with Coors called Grolsch (UK) Ltd., which brewed Grolsch under license locally.

Exhibit 4 summarizes Grolsch's recent financial and operating history. In 2007, Grolsch's total volumes (including beers sold under exclusive distribution rights) increased by 3.1% to 3.3 million hectolitres (hl),[5] with volumes derived specifically from Grolsch brands decreasing by 3.4% to 2.8 million hl. Revenues grew by 4.8% from €317.6m to €332.9m and net profits edged forward from €19.2m to €20m during the same period.

Prior to the takeover by SABMiller, Grolsch had emphasized growing faster than its key markets while achieving a return on investment that exceeded its average cost of capital (estimated to be 7.5% by one investment bank[6]), steadily increasing earnings and dividends per share, and maintaining a healthy balance sheet. It paid attention to non-financial stakeholders as well, especially employees and its local community. Indicators of employee welfare ranged from an average payroll cost of €60,000 per employee (payroll accounted for 15% of revenues) to the complimentary case of Grolsch

[3] Groenlo means Green Forest in Dutch. The town was also known as Grol and Grolle.

[4] Dominic Walsh, "Swing was the thing when popped tops reached Top of The Pops," *Times Online*, Nov. 20, 2007, http://business.timesonline.co.uk/tol/business/industry_sectors/consumer_goods/article2903549.ece

[5] 1 hl = 100 litres. An average bottle holds 333 millilitres (0.333 litres). Cases vary from 8 to 12 litres by volume.

[6] "Grolsch: How much to pay for U.S. fantasy?" Fortis Investment Bank, Feb. 23, 2007, p. 4.

beer traditionally delivered every week to employees' homes. About 850 of the 875 employees were based in the Netherlands, as were all members of the executive and supervisory committees. The company had particularly strong ties to the eastern part of the Netherlands, especially Enschede (population 155,000), home to its headquarters and the new brewery. It did, however, seek managers and sales people with multiple language skills and international experience and education.

To achieve its objectives, Grolsch had articulated the following vision and mission:

Vision: The brewing industry has failed to keep pace with the changes in consumers' preferences for drinks. This has created a mainstream category that is under pressure from other drinks. Grolsch believes in the strength of beer in the drinks market.

Mission: Grolsch is going to break through the mainstream and restore beer's premium status.

In its presentations to investors, Grolsch emphasized that it targeted a premium, differentiated position in the markets in which it competed. It also highlighted adaptation around its core products as its key strategy for achieving international growth (see **Exhibit 5**).

Products

Exhibit 6 shows the company's product range, which was organized into two main brand families: Grolsch and Amsterdam (the company also distributed small amounts of imported Belgian beer such as Grimbergen). The Grolsch brand was the centerpiece of the company's strategy. Its flagship product, Grolsch Premium Lager, represented 90% of the company's domestic volume, although nine variations were also marketed in the Netherlands. The Grolsch brand was the focus, as well, of the company's UK joint venture and the brand accounted for two-thirds of all exports, with Grolsch Premium Lager being the only product sold in many markets.

Grolsch Premium Lager was classed as a pale lager[7] and the company emphasized that its malty, relatively bitter taste made it distinctively refreshing. Groslch was brewed to one recipe, which was in strict conformance with German purity laws, and was aged for a minimum of six weeks, compared to two to four weeks for many of its competitors. One beer enthusiast described the aroma as a "peppery hop with a spritzy citric edge to it," and its taste as "an obviously well-attenuated beer whose balance is toward the dry and bitter [that is] quite refreshing."[8] Beer guru, Michael Jackson agreed: "it has a fresher, more herbal, hop character than most international lagers, and a cleaner malt background," but provocatively asked, "is that enough?" His conclusion? "Not today. The differences between popular lagers are refinements."[9] Grolsch management strongly disagreed.

In addition to its core Grolsch products, the company devoted considerable attention to packaging. The green swingtop bottle played a particularly key role in entering foreign markets. As Tom Wilms, Consumer and Market Insight Manager, put it:

> "We use the swingtop as a door opener especially in a market that is very crowded in the premium segment…Once the volume starts picking up, we introduce the crown cork (i.e.,

[7] A lager is a type of beer that is brewed by using a bottom-fermenting yeast in comparison to ales, which are brewed with a top-fermenting yeast. While the tastes of both lagers and ales vary greatly depending on the ingredients and process, lagers are generally lighter and crisper whereas ales tend to be darker and stronger. Lagers dominate the overall market for beer.

[8] Blog, http://www.epinions.com/content_129738444420. Accessed April 2, 2008.

[9] M. Jackson, "Behind the mystery of Grolsch," originally published in *The Observer*, July 1, 2001, http://www.beerhunter.com/documents/19133-001561.html, July 9, 2001. Accessed April 1, 2008.

regular bottle cap). In nearly all of our key markets, most of the volume is in crown cork bottles."

In 2007, a new, standardized green crown cork bottle, with a stylish look, an embossed Grolsch logo on flattened sides and an accompanying crate, was introduced with much fanfare worldwide, after a two-year development process. In early 2008, the company was also in the process of introducing a new green swingtop bottle globally. This marked a particularly significant change in the Netherlands, where the swingtop bottle had been brown for 111 years. Bottles for the Dutch market were mostly returnable whereas bottles sold elsewhere were non-returnable. Bottles shipped out of the country were offered in more varied sizes and had country-specific labels. Aside from bottles, cans accounted for 30% of total volume and were more standardized, although there were two different designs (one for the domestic market and another for international markets). Kegs were significant as well, particularly at home in the Netherlands.

Grolsch's other product range centered on Amsterdam, positioned as a non-premium brand and sold mostly in tall 500-millilitre cans at supermarkets and smaller independent shops. Amsterdam beers were available in five varieties and were considered to have a smooth but strong taste: the strongest, the Maximator, had 11.9% alcohol content by volume (compared to 5% for Grolsch Premium Lager). Four markets—France, Russia, Australia and Africa—accounted for 95% of Amsterdam's volume.

Despite the company's clear focus on the premium Grolsch brand, the brand's total volume had actually declined from 3.2 million hl in 2003 to 2.8 million hl in 2007, as exports more or less stagnated while the Dutch and UK markets shrank. Total volume (including Amsterdam and other smaller local brands under license) changed from 3.4 million hl to 3.3 million hl over the same period, with the growth of the Amsterdam brand making up for some of the decline in the Grolsch brand.

Markets

Although Grolsch dated back to the beginning of the 17th century, it began to look beyond the Dutch market only in the middle of the 20th century. Exports commenced after World War II and in 1946, amounted to 3,000hl or 10% of total production. (Indonesia, the largest foreign market, absorbed 1,000hl.) However, exports were curtailed in the 1950s by buoyant domestic demand. Interest in internationalization revived in the 1970s with domestic stagnation and shrinkage, and the example of Heineken, Grolsch's larger Dutch rival, making impressive headway (see **Exhibit 7** for comparative timelines). In the second half of the 1970s, Grolsch set up its own import organizations in the United States and the United Kingdom. Distribution deals in Canada, Australia and New Zealand followed in the mid-1980s.

The 1990s saw investments, for the first time, in foreign production, starting in developed markets. In 1990, Grolsch acquired Wickuler, a regional German brewer, in a move that doubled its capacity. And in 1992, after having grown Grolsch into the UK's third largest premium lager brand, it bought Ruddles, a small UK brewer, as much for its distribution network as for its ale brands. But both moves were quickly unwound. It sold Wickuler in 1994 to one of Germany's largest brewers, Brau and Brunnen, and signed an agreement to distribute Grolsch in Germany with the latter. That same year, it formed a joint venture partnership with Bass, under which the latter took over production and distribution for the UK. Ruddles was divested in 1997.

The opening up of Eastern Europe in particular prompted a shift in focus in the second half of the 1990s, towards emerging markets: Grolsch invested in Poland and Russia and set up representative offices in Brazil and China. In Poland, Grolsch acquired an indirect stake in a brewery in 1995 but sold it in 1998 because of poor profitability and an inability to build up its stake to a majority level. One Grolsch executive added, "The Polish brand Zywiec was bought by Heineken and there was no need for two Dutch players in the Polish market." A distribution agreement with the purchaser was later annulled. In Russia, Grolsch paid in 10% of the capital for a small new brewery in 1999, but sold its stake to the majority owners in 2000. They, in turn, sold it to Turkish brewer Efes in 2004, whom Grolsch still licensed to brew and distribute the Amsterdam brand in Russia.

The Asian financial crisis, had significant ripple effects in Eastern Europe, including a massive devaluation of the ruble in Russia, and pushed Grolsch back to focusing on developed markets. It entered France in 1999 by setting up its own distributorship—the only country with such an arrangement—which focused on selling the Amsterdam brand. Grolsch stepped up efforts on the Iberian Peninsula with an investment in Portuguese distributor Cereuro and a distribution agreement with Spain's La Cruz del Campo. The Cereuro investment was halved in 2005[10] and in Spain, Heineken bought out La Cruz del Campo.

In addition to the markets mentioned above, Grolsch sold beer in many other countries, making a total of about 70 export markets. As of 2007, international volume accounted for 51.5% of the company total. Grolsch did not systematically disaggregate sales or profits by market, but it did supply partial information that could be supplemented with analysts' inferences.

Key Markets

According to Grolsch, Western Europe accounted for 88% of its revenues and 94% of its contribution margins, i.e., Western European markets' average contribution margin was twice as high as others' (23% vs. 11%).[11] If fixed production costs (13% of revenues) were allocated in proportion to revenues, Western Europe accounted for 103% of operating profit (EBIT). But in order to build international volume, beer exports from the Netherlands were actually transferred to Grolsch International at variable production cost.

Grolsch's home market of the Netherlands accounted for close to one-half its total volume, an estimated 65% of revenues, and a much greater share of EBIT. That said, market shrinkage and discounting had put Dutch brewers under significant long-term profit pressure. Grolsch, with 13% of volume, was part of a second tier of competitors that included Bavaria (17%) and Interbrew (14%), behind market leader Heineken (46%), which controlled the country's two largest brands, Heineken and Amstel. Grolsch was the third largest brand, and was particularly strong in the eastern Netherlands.

Grolsch's second largest market was the United Kingdom, where it owned 51% of Grolsch (UK) Ltd., a joint venture that brewed Grolsch under license, in partnership with MolsonCoors (which came in after Bass was taken over and broken up). The UK accounted for 25% of Grolsch's total volume and 1.5% of the UK market. Grolsch was ranked fifth in the premium lager market behind the top three brands: Stella Artois, Kronenbourg and Budweiser.[12] In 2007, Grolsch's 51% stake in it generated about 12% of its operating profit, down from 18% the previous year because of market shrinkage and supermarket pricing pressures.

10 "Portugal Sumolis Boosts Stake in Cereuro to 90.05 Pct," *Portuguese News Digest*, April 15, 2005.

11 Grolsch Annual Report 2007, Dec. 31, 2007, p. 52.

12 Grolsch Company Book, "Brewing for the Future," 2006, p. 35.

Grolsch's third largest market was the United States, to which—like virtually all other markets—it exported beer from the Netherlands. Analysts estimated that Grolsch's US volume had stagnated at about 140,000hl—4% of the company's total and 0.5% of US import volume (overall, imported beer represented close to 15% of total US consumption). Grolsch was ranked 11th in the imported premium beer market (the top three brands were Corona, Heineken and Beck's).[13] An agreement in 2006 with market leader Anheuser-Busch to distribute Grolsch in the US had been hailed as key to become a top 10 imported brand by quadrupling volume. But the acquisition by SABMiller, which owned Anheuser-Busch's biggest US competitor, Miller, ended that arrangement.

France was Grolsch's fourth-largest market with volumes estimated to be around 100,000hl, almost all of which was made up by the Amsterdam brand. The Amsterdam brand was ranked second in strong beers behind Bavaria.[14] Canada was the next in line (and the fourth-largest for the Grolsch brand), with volumes estimated to be about one-half those in the US. Grolsch had given its Canadian distributor, Sleeman, a license to brew Grolsch Premium Lager nationally. Grolsch was ranked fifth in imported premium beers (the top three were Heineken, Corona and Miller Genuine Draft).[15] The remaining markets—including the two other markets classified as "key," Australia and New Zealand—individually represented less than 1% of Grolsch's total volume. In Australia, Grolsch occupied fifth place in the international premium segment behind the top three: Corona, Heineken and Stella Artois.

The MABA Framework

Over time, Grolsch had developed a MABA (Market Attractiveness, Business Assessment) framework to assess international opportunities. The Market Attractiveness ("MA") analysis included: total volume and volume growth in hectolitres of the international premium lager segment; the price premium between the international premium lager segment and the top volume lager brands; and, the geographic and cultural distance between the market and Grolsch's home base in the Netherlands.

The distance measure had four components: differences in languages; non-membership vs. membership of the European Union (of which the Netherlands was a founding member); the landed cost of transport; and differences in GDP per capita. The Business Assessment ("BA") involved the total volume and volume growth of Grolsch premium lager, variable commercial contribution (contribution margin minus the direct expenses associated with serving a market), and Grolsch's share of the premium lager segment. **Exhibit 8** provides more detail.

Each year, the company worked through these calculations to assign aggregate scores to each market being considered. Markets with high scores were classified as "key," those with somewhat lower scores as "seeding," and those with low scores as "trading." **Exhibit 9** shows the output of the 2006 MABA analysis. A Grolsch executive commented that: "The MABA is a tool that informs us in our decisions. At the end of the day, the senior management decides on whether a market is key, seeding or trading each year during the annual strategic planning sessions." Key/seeding markets were served by one of two main groups within the sales organization, Brand Builders, and trading markets by the other, Direct Export. The Grolsch policy for trading markets was to generate profits each year. The profitability was measured by ensuring that exports to trading markets covered at

[13] Ibidem.

[14] Ibidem.

[15] Ibidem.

least variable costs and the direct expenses associated with management such as transportation, sales people, marketing and customer service.

Operations

Grolsch followed German purity laws and emphasized the finest natural ingredients, the absence of additives such as stabilizers, the combination of two types of hops—an innovation dating back to the 1600s that was celebrated in the company's logo—and a long maturation process. Some attention to procurement scale had recently been overlaid on the traditional emphasis on high-quality ingredients: in 2002, Grolsch formed a purchasing alliance with German brewer, Warsteiner.[16] And internal training programs reinforced the legacy of craft-like, high quality brewing by emphasizing the theme of "Craftsmanship is Mastery."

In 1998, Grolsch began to plan for a large new brewery to consolidate its two relatively old facilities: the Groenlo brewery, which produced for export, and the Enschede brewery, which produced for the Dutch market. The two towns waited anxiously as Grolsch chose between them and finally opted for a location outside Enschede. During the planning phase, an explosion destroyed parts of the old Enschede brewery, forcing a major scramble to keep operations going. In 2001, after delays, Grolsch received governmental approval to build. When the new brewery opened in April 2004, it had cost €277m,[17] and had a capacity of 3.2 million hl that could be increased to as much as 6 million hl. (In the short run, expansion to 3.7 million hl was planned at an additional cost of €10m). Grolsch estimated that it would save €1m in operating costs annually by optimizing production, but no significant headcount reductions were anticipated. Pride in the new brewery - described as the most modern in the world - focused on its state-of-the-art, environmentally friendly technology.

Grolsch's new brewery was located on a major highway and was about 200 kilometers from the main Dutch shipping port, Rotterdam. Beer was transported by truck to markets within the European Union, at costs estimated to range from about €1.47 per hectolitre to Germany to €6.68 per hectolitre to Spain.[18] Transportation to all other markets was by ship, in 20-foot, 40-foot or 45-foot[19] containers at costs estimated to be €10-15 per hectolitre (see **Exhibit 10** for more detailed estimates).

Marketing

Grolsch's other marketing policies, pricing, promotion and placement were meant to reinforce its positioning as a premium product.

Pricing

Grolsch was priced similarly to Heineken and was considered a standard lager brand within the Netherlands. Overseas, Grolsch positioned the brand at premium prices. In three of its six largest non-domestic markets—the US, Canada and Australia—Grolsch was priced at a discount to other

---

16 "Grolsch, Warsteiner boost alliance with Italy deal," *Reuters News*, Jan. 28, 2003.

17 Grolsch Brewery, Proleit Website, http://www.proleit.com/en/Industries/BreweryGrolsch_Neubau.php. Accessed Sept. 13, 2007.

18 Estimated by case writer.

19 20-foot containers were a shipping standard and were 8 feet high x 8.5 feet wide and 20 feet long. 40-and 45-foot containers had the same height and width as 20-foot containers with the only difference being length.

leading European imports. Thus, in the US, the average off-premise[20] retail price of Grolsch Premium Lager was about \$3.18 (€2.53) per litre in 2006, compared to Heineken at \$3.48 (€2.77) and Budweiser at \$2.13 (€1.70). And prices in Canada approached standard rather than premium levels, with C\$4.50 (€3.16) for Grolsch vs. C\$6.24 (€4.38) for Heineken and C\$4.44 (€3.11) for Budweiser. In the UK pricing was comparable to the leading premium lagers: Grolsch averaged £1.90 (€2.79) per litre versus £1.93 (€2.84) for Stella Artois, £2.11 (€3.10) for Budweiser and less than £1.50 (€2.20) for standard lagers. In France and Russia—the markets where the Amsterdam brand was the key driver of volume gains—Grolsch Premium Lager was priced substantially higher than other premium lagers.

Promotion

Like most brewers, Grolsch undertook a wide array of promotional activities. For example, the launch of the new green bottle in 2007 was supported by advertising in print media, the Internet (to make special offers and build the customer base through music programs and fan clubs), outdoor and on-premise displays, sponsorships (e.g., of football clubs), events (e.g., music concerts) and television advertising. TV advertising, which had begun in the 1960s, nonetheless garnered the bulk of promotional expenditures. In the Netherlands, Grolsch spent 4% to 6% of sales on advertising. Recent spots featured 30-somethings in cosmopolitan settings with tag lines like "One day you won't drink beer anymore, you'll drink Grolsch." In the UK, where Grolsch enjoyed access to an extensive network of on-premise locations through its relationship with MolsonCoors (the country's second-largest brewer and the owner of the largest brand, Carling), advertising reinforced the "Green Light District" campaign in which customers were served Grolsch beer in locations saturated with Grolsch imagery. UK TV advertising also played up Grolsch's Dutch origins, often by poking fun at them, e.g., with a Dutch spokesperson speaking English with an exaggerated Dutch accent.

Dutch roots were also accentuated in TV advertising in other markets since Grolsch believed that its main locational advantage was the image of beer from Northern Europe and, especially, the Netherlands, which became a major exporter (to England) back in the 14th century and now exported more of its production—about 50%—than any other major producer. This country-of-origin advantage had been validated by Heineken, which imported its beer into the United States instead of producing it locally and, as the second largest import, behind Corona, sold more than 5 million hl of it there a year, at the highest prices in the market. But Dutch origins had to be pitched differently in countries less familiar with the Dutch: as one executive put it, "Few people in the US have specific knowledge about the Netherlands." In addition, while UK and US advertising ostensibly shared the English language, the content of the ads had to be varied greatly to reflect other large cultural differences between the two markets (see **Exhibit 11**). In the US, the allure of the Grolsch swingtop bottle featured prominently in a new commercial, "Got that Swing" aired during the professional (US) football playoffs and throughout the year in New York's Times Square. This differed markedly from Grolsch's edgier UK commercials. The broader approach, in both the US and Canada, was to use targeted advertising and promotional campaigns to reach trendsetters in select regions of the country. Promotional efforts in other, smaller markets, were much more modest.

Placement/Distribution

Grolsch emphasized that it selected the best route to the consumer by market, in cooperation with importers, distributors, brewers and retailers. Placement or distribution arrangements in the Netherlands had had the most time to mature. In off-premise channels, Grolsch resisted aggressive price promotions (by supermarkets, particularly) and emphasized its premium products, packaging and ancillaries such as

[20] Off-premise was also called off-trade and referred to supermarkets, specialty stores and other shops. On-premise (or on-trade) signified restaurants, bars, hotels and catering.

the PerfectDraft®[21] dispenser system.[22] Grolsch relied on on-premise channels more than its rivals and owned six beverage wholesalers that handled half its sales, guaranteed financing of premises and equipment by bar-owners and owned properties operated as bars and restaurants.[23]

Distribution in the United Kingdom had also been in place for some time—since 1994, despite the change in the joint venture partner from Bass to MolsonCoors (Grolsch was MolsonCoors's second largest lager brand in the UK after Carling). But elsewhere, there had been more turnover. In the US, Canada, Australia and New Zealand, Grolsch was on its third or fourth set of distributorships since the mid-1990s (see **Exhibit 12** for details). Except for France, where Grolsch owned its own local distribution and Russia, where Efes was licensed to brew Amsterdam beer, most other countries had seen similar changes.

Industry Dynamics

In 2005, global beer volumes were 1.5 billion hl (155.2 billion litres) and total retail value—including, in many countries, a very sizeable tax component—amounted to €354 billion.[24] Globally, volumes had grown at 2.7% per year while global value had increased by 4.7% per year between 2000 and 2005.[25] Beer markets in developed regions such as North America, Western Europe and Japan had recently been flat or had suffered slight decreases in volume between 2000 and 2005. Global volume growth was driven by developing regions such as Eastern Europe and Asia Pacific, in both of which volume had grown by more than 5% per year. **Exhibit 13** shows information on past and projected volumes in the 20 largest country markets. Overall, lagers accounted for nearly 95% of market volume and 90% of value, and ales, stouts and no/low-alcohol beer for the remainder.

Partly because of the low price-elasticity of demand for beer (estimated at -0.3 for the Netherlands, for instance), brewers responded to volume pressures by trying to build up the premium part of their portfolios, often by launching premium line extensions to recognized brands.[26] Worldwide, premium lager represented 16% of volume and 28% of lager value in 2005, up from 15% and 23% respectively in 2000. Standard lagers accounted for 53% of volume and 58% of value—both figures down a few percentage points from 2000—and economy lagers for the rest. **Exhibit 14** tracks the premium lager segment by region over time.

Total imports—mostly of premium beers—represented 5% of global volume and 10.6% of global sales in 2005 (up from 4.3% and 8% respectively in 2000).[27] **Exhibit 15** disaggregates imported versus domestic sales by region. In addition, foreign brands were sometimes brewed under license for a local market. For example, Budweiser was brewed by Guinness for sales in Ireland. Heineken granted licenses to breweries in which it had stakes and also forged license-to-brew agreements with small breweries such as a deal with the Danish Brewing Group to brew Heineken for Denmark.[28] Typical royalty/licensing fees depended on the beer's price point, volume and promotional support; royalty/licensing fees ranged from €1 per hectolitre to €6 per hectolitre.

---

21 The PerfectDraft® system was an appliance developed by Philips and was an appliance designed to replicate draft beer served at bars and restaurants. Several major beer brands marketed 6-litre kegs suitable for the appliance.

22 Grolsch Annual Report 2006, Dec. 31, 2006, p. 12.

23 Ibidem.

24 "The World Market for Alcoholic Drinks," Euromonitor, p. 5.

25 Ibidem.

26 "The World Market for Alcoholic Drinks," Euromonitor International, Dec. 2006, p. 12.

27 Ibidem., Dec. 2006, pp. 76-77.

28 Drinks Marketing Director, Heineken, Euromonitor 2005, p. 2.