PRESS RELEASE

A market overview of the beer and brewing industry:
Is the market for the people's beverage flooded?

[February 22nd, 2012] The German beer market is suffering from a hangover: for years now, the market has been stagnating and breweries are dealing with a massive slump in sales. The historic all-time low for German beer consumption of 101.4 litres per capita is definitely jointly responsible for this situation, yet the causes for the crisis are far more multi-faceted: many brewers reacted to the cost pressures from increasing energy prices by making massive investments in energy systems – these cost increases are today undermining the profits of the brewing companies. Added to this are the increasing prices for malting barley and continuous cost increases in road transport and haulage, in short: flagging consumption is occurring concurrently with increasing factor costs – and this cost differential is calling the future viability of many breweries into question. Surplus capacity of over thirty per cent, as well as hard-fought price wars in the context of promotion policies are bringing the brewers to their knees. The only winner in this situation is the consumer, who is profiting from rock-bottom prices. At present, a fundamental and far-reaching solution for the industry is not in sight. In fact, a further upsurge in consolidation is pending, which will lead to urgently required capacity adjustments in the industry – according to the outlook from top management consultancy firm Dr. Wieselhuber & Partner (W&P).

Long-term observation of the beer market reveals that the most important sub-sector of the market, pilsner, has, according to an assessment by the industry experts at W&P, shrunken from 31.1 million hl in 2008 to 29.5 million hl in 2011 – and this downward trend is set to continue. This decline of around four per cent of the sales volume within such a short period of time is the equivalent of the actual ejection of one of Germany's top ten breweries in terms of production. This has ominous implications for the industry, for virtually one third of all production capacity is currently lying idle and is therefore driving down profits.

And the reaction of the breweries as a consequence of this? They are entering into cut-throat price and quantity competition battles in the sales markets, trying to shore up sales through sales promotion campaigns and special offers, in spite of the increasing factor costs and a declining standard price – from 2008 until 2011, breweries boosted the promotional quantity of pilsner by all of 23.8 per cent. Consequently, around sixty-seven per cent of all pilsner sold today goes at a rate of under ten euro for a crate of 20 x 500ml (reusable) bottles – and that means for just under two euro below the standard price. A good deal? Yes, but only for the consumer, says Jürgen-Michael Gottinger, industry sector expert at W&P: "*As per our calculations, these promotional campaigns and offers have resulted in a negative earnings trend for the total market of at least thirty million euro – this amount has remained in the wallets of the consumers, as it were*". Gottinger sees this sustained change in profits at the same time as increasing excess capacity as the expression of a strategic crisis in the overall market. In addition, as a result of the progressive scarcity of malting barley, a drastic increase in the price of this commodity is expected, which could quickly top the record price of 2008.

In light of this state of affairs, the strategy of promotional campaigns is no longer maintainable – especially as in spite of the lower prices, beer consumption is not increasing and nor is the total sales volume able to be stabilised. Even conventional measures for reducing costs, such as reduction of personnel costs or material costs are not sufficient for stabilising the profit situation any more than substantial increases in exports or process-intensive innovations or innovations in marketing and distribution. As Gottinger, the industry sector expert comments "*The beverage industry is being compelled to take more radical steps: it is urgent that capacity disappear from the market; the entire industry must consolidate more quickly. There are a range of actors, like the Radeberger Gruppe, who can take an active role in shaping the landscape of the industry"*. Thus fixed costs in administration, logistics and distribution could be reduced by means of regional mergers and acquisitions or functional co-operation agreements at a regional level. On the other hand, in the operating segment, product, packaging and container portfolios are in need of revision and reworking, and complexity management should be intensified – and this should be done sooner rather than later. For as long as the brewers fail to reassess their business orientation and alignment, there'll only be one winner laughing: the consumer.

About Dr. Wieselhuber & Partner

Dr. Wieselhuber & Partner (W&P) is an independent, cross-sector top management consultancy for family-owned businesses, as well as public institutions. This consistent orientation to particular target groups and the expertise resulting from it has led W&P in the past twenty years to become the leading management consultancy firm in Germany for family-owned businesses and the public sector. With offices in Munich, Düsseldorf and Hamburg, Dr. Wieselhuber & Partner affords its clients comprehensive expertise in business sectors and methods and stands out above all due to its competency in the area of conflicting priorities of family, management and business

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