GLOBAL EDITION

BEVERAGE MANAGER

THE INTERNATIONAL BUSINESS & TECHNOLOGY NEWSPAPER FOR THE BEVERAGE INDUSTRY

COMPANY – HEINEKEN CEE

Investments will focus on growth markets through 2014

14 countries – 60 breweries – 180 brands. These numbers, characteristic of Vienna-based Heineken CEE, provide an impression of the strong role this region plays in the global Heineken concern. 05

SUPPLIER – ZIEMANN GROUP

Always one innovation ahead

Over the past years the prestigious title "TOP 100 – top innovator" has been conferred three times in succession on the company, which originated from a typical German mid-sized company, as one of the 100 most innovative German mid-sized companies. 13

MARKETS

American craft beer exports increased 86% in 2011

American craft beer is making inroads outside the USA. The Brewers Association, reported that exports rose 86 percent by volume last year and now have increased for the ninth consecutive year. 04

ISSUE 04 / APRIL 2012 WWW.BEVERAGEMANAGER.NET EURO 2,80 / US $ 3,60

SUPPLIER

CCL Industries makes first investment in Chile

CCL Industries, a global player in specialty packaging solutions for the consumer products and healthcare industries, announced that it will make its first investment in Chile.

Acrus-CCL based in Santiago is a joint venture between CCL and a newly created Chilean investment holding company. The partners will initially invest approximately $10 million between them, financed by a combination of debt and equity, to create a state-of-the-art label production plant in Santiago dedicated to the wine industry.

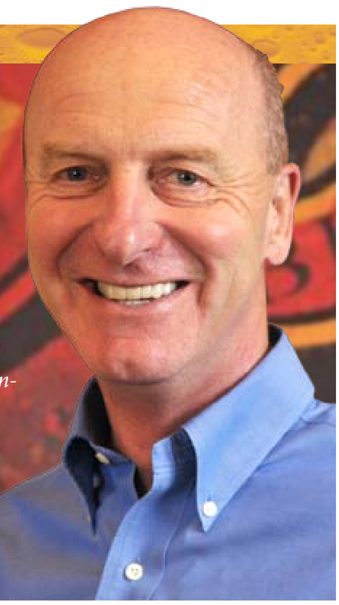
"We are excited to bring new leading edge supply chain and label converting technologies to the very specific needs of Chilean wine exporters. We have a highly experienced local management team that knows the wine industry intimately, supported by the technologies and global leverage of the world's largest label company," said Aldo Gonzalez, General Manager Acrus-CCL.

Chilean wine exports have more than doubled in less than a decade and are estimated to have reached 50 million cases in 2011. ● *(bmg)*

STRATEGY

Molson Coors grows through M&A

This deal caused considerable commotion in the beer industry: Molson Coors, the fifth-largest beer brewer in the world, scooped up the Czech beer group StarBev from the financial investor CVC Capital Partners for $5.65 billion (€3.4 billion). With its 4,100 employees, StarBev operates nine breweries in Central and Eastern Europe.



"We will increase our investment behind our brands to drive top-line growth and take advantage of changing consumer tastes and new market segments as they emerge." Peter Swinburn, Molson Coors CEO.

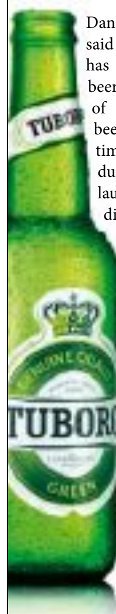
In 2011, it achieved sales of nearly €0.7 billion ($1.0 billion), and its earnings before interest, taxes, depreciation and amortization (EBITDA) were €241 million ($322 million).

"The takeover of StarBev is a perfect fit for the strategy of Molson Coors to expand our portfolio of first-class brands and to extend our reach to growth markets throughout the world," commented Peter Swinburn, President and CEO of Molson Coors. The company is expanding its worldwide business step by step through M&A activities and is thus challenging the leading quartet of the industry (ABInBev, SAB Miller, Heineken, and Carlsberg) in Central and Eastern Europe as well. On the global stage, the division into regional segments ensures a successful business.

The guidelines according to which Molson Coors orients its growth strategy are clearly defined: "To grow profitably in the core businesses through brands and innovation, to grow in new and emerging markets and, when it meets the strict shareholder return criteria, to grow though M&A." Peter Swinburn has concrete ideas about the measures to be taken to implement this strategy. "We will increase our investment behind our brands to drive top-line growth and take advantage of changing consumer tastes and new market segments as they emerge," according to the Molson Coors CEO. "Our approach to global organic growth is based upon disciplined market development, strong strategic partnerships and sound investment in our brands. These growth strategies, paired with disciplined cash use and cost management, will drive profit, cash flow, and long-term value for our shareholders." ▸ 06

BREWING

Carlsberg launches Tuborg brand for Chinese market



Danish brewer Carlsberg said on Wednesday that it has launched its Tuborg beer brand in China, as part of a rejuvenation of the beer brand. It is the first time that Tuborg is introduced in China, following launches in Russia and India earlier this year, the company said in a press statement. The redesigned Tuborg bottle comes with a "ring-pull" cap, Carlsberg said, marking the first time an international brand has introduced a pull-off cap to Chinese consumers.

"As the fourth largest brewer globally, Carlsberg is optimistic about the rapidly growing and dynamic Chinese market," Carlsberg China CEO Stephen Maher said in the statement. The China launch follows on from the relaunch of the Tuborg brand in Russia and India earlier in the year and Carlsberg Group plans to roll out the rejuvenated Tuborg brand across 13 markets by the end of 2012, with more markets to follow in 2013. Tuborg is, next to the main Carlsberg beer brand, company's second flagship brand.

Carlsberg was one of the first international brewers to export beer to China more than 130 years ago. Carlsberg officially began its business in Greater China in 1978. ● *(bmg)*

BEVERAGE

New plant produce 30,000 cans per hour

Kenya's Coastal Bottlers has opened a US $5.5 million can factory at the coast. In the past, Coca-Cola has imported canned drinks sold in Kenya. In many sub-Saharan countries, over 95% of the company's unit case volumes are delivered in returnable glass and recyclable bottles.

The new line has the capacity to produce 30,000 cans per hour in quantities of 150ml, 250ml, 330 ml and 500ml and is the first such facility in East Africa by Coca-Cola. Coastal Bottlers is one of Coca-Cola's oldest bottlers in Kenya having started operation in 1962 as a small company in Mombasa Old town that delivered beverages to the colonial community at the Coast of Kenya. ● *(bmg)*

MARKETS – GERMANY

Are the beverage industry's business models drying up?

The beverage industry is at a high boil. A majority of companies are under massive pressure on the profit side, because the derivative market power of wholesalers keeps margins for producers very low.

*By Dr. Johannes B. Berentzen**

Often a single percent in sales, which depend on seasonal happenings that are outside of the companies' influence, such as the weather or sporting events, can make the difference between profit and loss. The limits of organizational growth in the beverage market have been reached—at least, the domestic markets are completely saturated. In many cases, market volume is even creeping downward. The current economic and political crises are increasingly exacerbating the situation. The considerable pressure from the retail grocery market to provide discounting is also putting the beverage industry under pressure, as up to two-thirds of sales are discounted in many segments. Against this backdrop, more and more companies are in the unfortunate position of having to think seriously about their own (sufficient) continued existence. ▸ 10

**) Manager and industry expert at Dr. Wieselhuber & Partner management consultants, Germany*

MARKETS – GERMANY

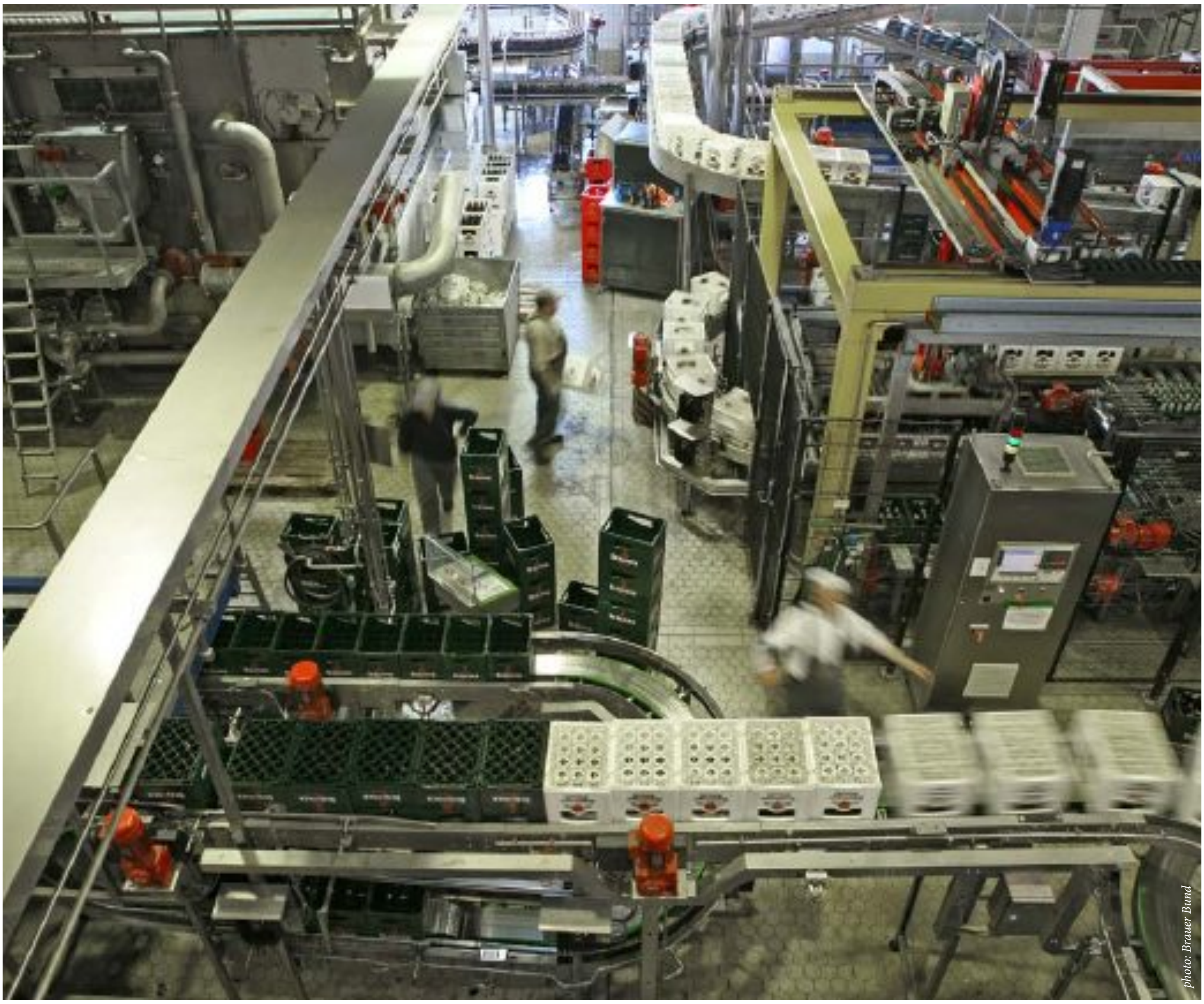


photo: Brauer Bund

Beverage industry must be sustainable, now more than ever, and their business models must be highly resistant against external variations.

01▸ This affects the medium-sized sector particularly severely: from 1995 to 2010 alone, the number of producers (up to 500 thousand hl) has fallen 34 percent from its previous level of 585—whether due to business closure or sale to large companies. Fundamentally, two common "business model diagnoses" can be differentiated. In the first case, the business model is supportable, in the sense that it is profitable, but it is not robust in the face of economic or consumer variability, and has no future capability. In the second case, it is not even self-supporting, that is, it makes no or not enough money (the measurement stick here should be the typical return for the industry.) But what exactly is behind the sometimes inflationary term, business model?

A business model, at heart, always has objectives in two directions, which we call "front end" and "back end." The service provided at the "front end" is the establishment of a value proposition that the company presents to the market, to meet a specific need of its consumers more quickly, better, less expensively, and in particular differently from its competitors. For a beverage manufacturer, this value proposition is first found in the performance of its various products. In addition to the core utility of "quenching thirst," a beverage must stand out to the consumer, for instance due to its ingredients, packaging, or form of delivery. A significant secondary utility for the consumer is the brand proposition, especially for premium products.

The service provided at the "back end" means configuring the value creation architecture and the resources required for it in individual areas (technology, capital, personnel, etc.), specifically and as efficiently as possible, to fulfill the value proposition. In the beverage industry, this essentially means creating as efficient a structure as possible for internal production and logistics facilities, optimizing interfaces and processes within the plant or warehouse, and continuing to develop value integration with the raw materials industry for true value creation partnerships.

Accordingly, the "grand art" of designing a successful business model is

- to objectively evaluate one's own position, first with respect to efficiency (economic viability) and differentiation (true added value for the customer or consumer), as compared to each individual competitor,
- to then determine the effort and value of improvement options on each of the two axes, and to compare them to each other,
- finally to derive the optimal path (that can be financed) for one's own company, and thereby to anticipate the reactions of competitors appropriately.

If the business model is fundamentally sound, as well as robust and sustainably by means of appropriate changes, then it is possible that the financing requirements for implementing exactly those changes may present a bottleneck. Getting money from banks, however, is becoming more and more difficult, especially for medium-sized companies. The risk transfer options of the banks, limited by Basel III, will lead to higher financing costs or requirements for security in the future. Therefore, share financing and so-called credit substitutes will be increasingly important in the future.

For example, corporate bonds are an alternative to classic credit financing,

MARKETS – GERMANY

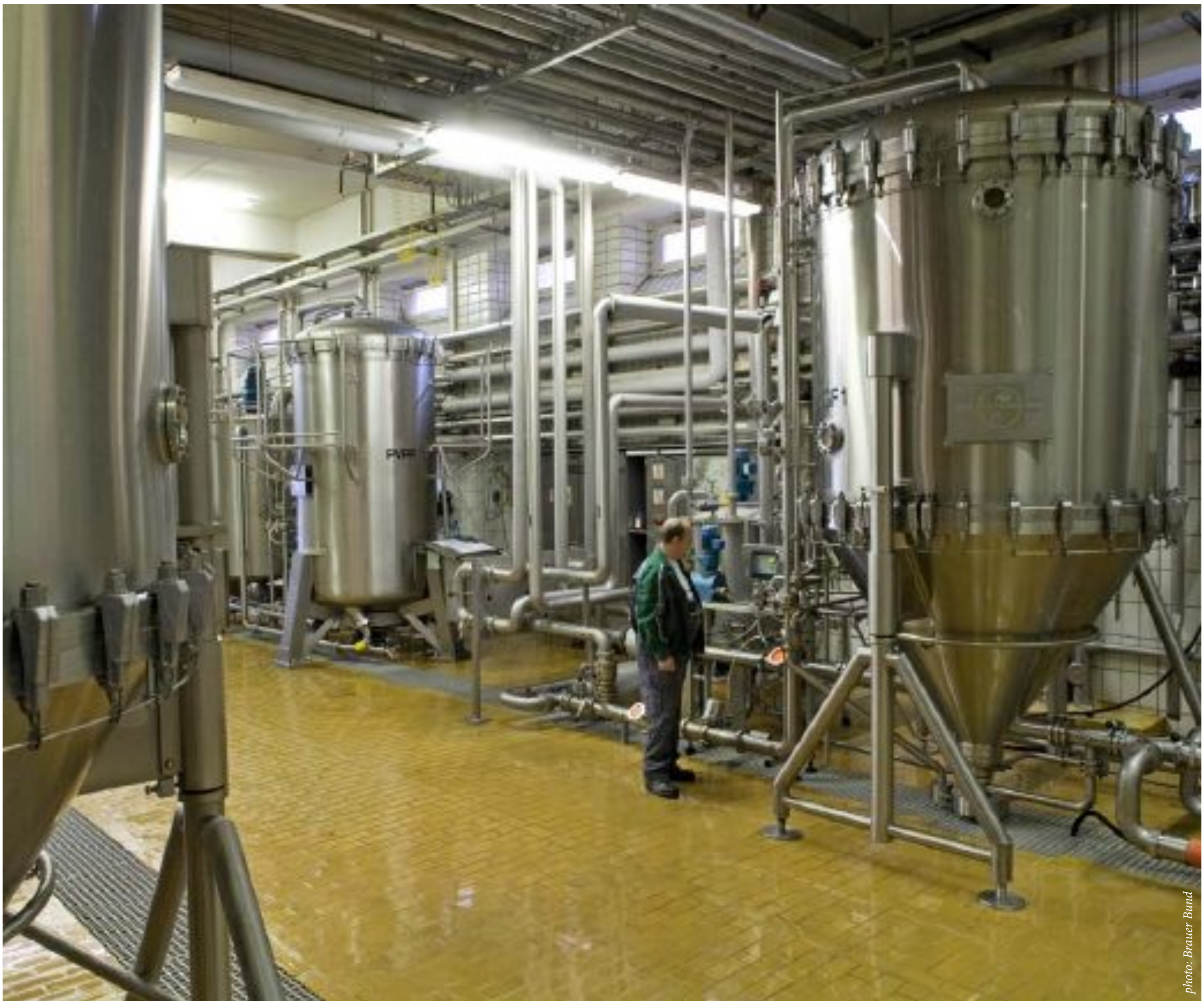


photo: Brauer Bund

and are also placed via the banks—and are a very inexpensive option if the company in question has an excellent credit rating. Not uncommonly, corporate bonds from medium-sized companies are heavily oversubscribed in a very short time. The more "compelling" their business model is, which must generally be formulated explicitly for such purposes, the simpler it is to be placed by the appropriate financial institution.

In the case where the business model is not sound, then the appropriate level of crisis must first be identified. A lack of soundness of a business model is generally evident fairly early, as indicated by a stakeholder or strategy crisis. At the latest, a product and sales crisis reduces profits and eventually leads to losses. Sooner or later, this leads to a liquidity crisis for the company, and in the worst case end up in insolvency.

If a company is already in a profit crisis, and the business model is no longer robust and sustainable enough to pull out of it under its own power, then the sale of the company must also be considered as an option. This is because a viable sale is always better for all participants than a terminal liquidation of the company. Also, as a rule, the conditions for a sale are considerably more advantageous prior to a liquidity crisis than in case of insolvency, where the owner no longer has much influence and the banks are in the driver's seat. Before the sale, it is wise to perform vendor's due diligence, which prepares the company for sale and identifies potential weaknesses that would reduce the sale price. Potential negative surprises from a buyer's due diligence review are thus avoided, and the effort on the buyer's side is also minimized.

In both of the cases described, the business model must be made "fit" again. Companies must be sustainable, now more than ever, and their business models must be highly resistant against external variations. But how can the goal of any business model—namely, to achieve above-average profits—be actively influenced? And what dependencies must be considered? Sustainable corporate structures concentrate costs wherever customer utility is created. If sustainability is to be increased with across-the-board "minus 10% programs", a cautious approach is needed. Cost reduction measures all too quickly affect the areas where customer utility is hurt the most, such as marketing, sales, or development.

Regardless of whether the business model is to be further refined, fundamentally reconfigured, or prepared for a takeover: all of the factors that influence corporate profitability must be critically examined and adjusted if needed.

Like many other industries, the beverage industry today still has value-added architecture that has been developed historically rather than strategically, often differing only marginally between the major players. This means, in turn, that comparable efficiencies, and thus often cost structures, have a negative spiraling effect on economic performance.

For exactly this reason, it is necessarily to subject this complex to an intensive and completely unbiased review, in the sense of a "green field approach," and to realign the strategy and business model as needed. Only then is there a realistic opportunity to find the business model that is actually "better," and to identify and achieve success in the profit and loss statement. ● *(bmg)*

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