GROLSCH: Growing Globally

Deloitte Consulting Methods

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Georgetown University
I. Executive Summary

General Assessment | Company & Market Evolution

II. Current State Analysis

Herfindahl Index | Regional Opportunities | SWOT

III. Recommendations & Next Steps

Organizational Structure | MABA Framework | Global Expansion
I. Executive Summary

• General Assessment | Company & Market Evolution •
Executive Summary of Approach

Based on industry analysis, Grolsch must rework the MABA (Market Attractiveness, Business Assessment) framework while also leveraging and recognizing the value of SABMiller’s distribution network. The company should maintain focus on foreign markets, looking specifically at developing markets to diversify growth opportunities.

- Grolsch, a brewing company with a strong history and a highly rated product, has just been purchased by SABMiller. In light of the acquisition, the company is evaluating its global strategy to determine how to best position and sell its beer going forward.

- Grolsch has positioned itself well to compete internationally leveraging the MABA framework, but it needs to assess whether or not MABA is still useful, and what type of global strategy they should pursue (i.e. developed vs. developing markets) to achieve long-term success.

Success for Grolsch depends on how well they can identify markets where their high-end, premium product will be desirable, in addition to their ability to adapt the brand image and marketing approach based on the cultural differences of the international markets they enter.
Grolsch: Tradition, Quality, & Excellence Since 1615

*Signature green glass bottle with swing top is a trademark that symbolizes quality and provides a strong basis on which Grolsch can grow globally.*

<table>
<thead>
<tr>
<th>1615</th>
<th>Late 1800s</th>
<th>1900s</th>
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<tbody>
<tr>
<td>• Founded by Willem Neerfeldt in Groenlo.</td>
<td>• Owned by Theo J. De Groen.</td>
<td>• 1918: Marketing of Grolsch brand.</td>
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<td></td>
<td>• 1897: Introduced ceramic swing top bottle. Easy to open, save for later.</td>
<td>• 1922: Merger with brewery (Netherlands).</td>
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<td>• 1960s: Second most popular after Heineken.</td>
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<td>• 1984: De Groen Family agrees to IPO on Amsterdam Stock Exchange.</td>
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<td>• <em>Rob Snel</em> joins Grolsch.</td>
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<td></td>
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<td>• <em>End of 1980s</em>: No De Groens on executive committee. Retains 1/3 of shares.</td>
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<td></td>
<td>• 1995: Dutch government honors company with “Royal” title. Renamed “Royal Grolsch N.V.”</td>
<td>• 1997: 100th Anniversary of swing top bottle</td>
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<td></td>
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<td>• 1999: Rob Snel becomes head of Grolsch International.</td>
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<td><strong>SABMiller Merger: 2007 – Present</strong></td>
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<td></td>
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<td>• November 2007: SAB Miller – Friendly merger with Royal Grolsch N.V. of the Netherlands.</td>
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<td></td>
<td></td>
<td>• New standardized green cork bottle.</td>
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<td><strong>February</strong></td>
<td></td>
<td>• 2008: Grolsch becomes independent subsidiary.</td>
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<tr>
<td>• Total volumes increase by 3.1% to 3.3hl.</td>
<td></td>
<td>• <em>Rob Snel</em> becomes new CEO. Determining new global strategy.</td>
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<tr>
<td>• Revenues grew by 4.8% from €317.6m to €332.9m.</td>
<td></td>
<td>• In process of introducing new green swing top.</td>
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<td>• Net profits increase from €19.2m to €320m.</td>
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<tr>
<td>• <strong>BUT</strong> compared to 2003, brand’s total volume decreases from 3.2 million to 2.8 million.</td>
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</table>
Comparative Historical Global Market Evolution Analysis with Heineken: A Step Behind in Expansion

**Vision:** Brewing industry has failed to keep pace with changes in consumers’ preference for drinks. This has created a mainstream category that is under pressure from other drinks. Grolsch believes in the strength of beer in drink markets.

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

Heineken has first mover’s advantage in entering new global markets and acquiring market share. Grolsch’s entry into similar markets follows Heineken from anywhere between 5 to 10 years. The varying time differentials are represented by blue arrows.
Assessing Effectiveness of Grolsch’s Two Tier Model

While Grolsch’s product-oriented model serves it well domestically, to grow globally the company must adjust marketing strategy to a more geographical approach.

1. **Grolsche Bierbrouwerij Nederland**: Sales and Marketing of Grolsch in the Netherlands. Houses most production, logistics, and facilities support except operations with foreign partners.


**Current Strategy**
- 850 of 875 employees in Netherlands
- Product-Oriented Organizational Model

**More Decentralized Approach**
- Geographic Organizational Model: better to understand regional tastes & market and economic trends
Assessing Effectiveness of Two Tier Model with MABA (Market Attractiveness/Business Assessment) Framework

Comparing MABA Framework with the Herfindahl Index: Is it too biased?

MABA Framework

- Total Volume and volume growth of international premium lager segment.
- Price premium between international premium lager segment and top volume lager brands.
- Geographic & cultural differences: Language Differences, EU Membership, Land Transport Cost, & GDP/capita

Herfindahl Index

- Index is higher if a few key players have high market shares than if market shares are spread more evenly across larger number of firms.
- The less competitors present, the higher the index.
- EBITA - Measures efficiency and profitability

In essence, the MABA Framework causes certain regional opportunities to be overlooked, such as Latin America and Africa.
Grolsch’s Essential Problem

1. **Organizational Structure:** Grolsch’s product oriented organizational model makes it less responsive to understanding consumer needs and market trends in varying geographic regions. While further evaluation needs to be conducted, at this point a more geographic organizational model would help Grolsch develop a better understanding of new opportunities outside of Western Europe.

   Without considering a reevaluation of the company’s current structure, a new, comprehensive global marketing strategy can not be developed as organizational structure and strategy reinforce each other.

2. **MABA (Market Attractiveness, Business Assessment) Framework:** As it stands, the MABA Framework needs to be re-assessed as it excludes other countries offering potential markets for growth, such as Brazil and South Africa. The framework’s bias towards Western European markets causes the framework to be anachronistic in today’s global competitive market. For the purpose of this presentation, the slides use the Herfindahl Index’s approach of focusing on markets with fewer competitors who maintain higher market shares as a means to highlight new market opportunities and the need for a new marketing framework.
II. Current State Analysis

• Herfindahl Index | Regional Opportunities | SWOT •
**Five Forces Analysis of European Brewing Industry**

**Reveals Saturated Market**

*Grolsch has hitherto focused on developed markets, particularly in Western Europe. With a Blue Ocean Strategy approach, the company must now attract new customers in developing markets to ensure long-term growth.*

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**Threat of New Entrants: Low.** New entrants would be reluctant due to the trend of mergers and acquisitions. Since there are only a few large companies with a lot of power, the financial effort for new entrants would be too high to enter the market. Also, because of the strong brand and loyalty of existing consumers in Europe, it would be difficult for new entrants to challenge well established leaders.

**Bargaining Power of Suppliers: Medium.** There are very few suppliers of glass for bottles. Suppliers must adjust pricing and quality to be competitive, giving them low bargaining power. But, there are many suppliers of raw materials for brewing and energy, giving these suppliers high bargaining power.

**Current Competition: Very Intense.** Brewing industry in Europe has low switching costs, and there are many acquisitions. Grolsch faces fierce competition from Heineken, etc.

**Bargaining Power of Customers: High.** Low switching costs give customers a high power position. Supermarket chains also have high bargaining power because of their ability to easily change the brand (supplier).

**Threat of Substitute Products: High.** Many products such as wine, soft drinks, and energy drinks are becoming increasingly popular in European markets. In particular, there has been a decrease in beer consumption in Western Europe, highlighting the increase of substitute products.
Comparative Regional Assessments of Market Share & Market Size Using Herfindahl Criteria: Latin America is Key

**Central & South America**
- Total Consumption: 241,252 hl

- Many competitors, but control small market shares.
- Despite InBev and Modelo, Heineken and Carlsberg has a small presence.

- In Bev
- SAB Miller
- Anheuser-Busch
- Heineken
- Carlsberg
- Modelo
- Molson Coors

**North America**
- Total Consumption: 254,760 hl

- High degree of competition with local brands.

- In Bev
- SAB Miller
- Anheuser-Busch
- Heineken
- Carlsberg
- Modelo
- Molson Coors

**Asia**
- Total Consumption: 462,437 hl

- More competitors, but market size is twice as large.
- Strong presence of Japanese brands: Asahi & Kirin

- In Bev
- SAB Miller
- Anheuser-Busch
- Heineken
- Carlsberg
- Modelo
- Molson Coors

**Australasia**
- Total Consumption: 20,099 hl

- Fewer competitors, but low consumption of foreign brands.
Comparative Regional Assessments of Market Share & Market Size
Using Herfindahl Criteria: East Europe & Rest of Africa are Key

**West Europe**
- Total Consumption: 294,214 hl
- InBev: 44,426
- SAB Miller: 12,357
- Anheuser Busch: 5,884
- Heineken: 5,590
- Carlsberg: 70,023
- Modelo: 0
- Molson Coors: 0

Competition is highly concentrated.

**East Europe**
- Total Consumption: 218,617 hl
- InBev: 42,849
- SAB Miller: 46,128
- Anheuser Busch: 83,535
- Heineken: 0
- Carlsberg: 130,296
- Modelo: 0
- Molson Coors: 0

Less competitors, large market. SAB Miller has a greater presence than in West Europe.

**Middle East & North Africa**
- Total Consumption: 7,482 hl
- In Bev: 0
- SAB Miller: 0
- Anheuser Busch: 120
- Heineken: 224
- Carlsberg: 0
- Modelo: 0
- Molson Coors: 0

Very few competitors. Small Market.

**Rest of Africa**
- Total Consumption: 68,908 hl
- SAB Miller: 14,540
- Anheuser Busch: 10,061
- Heineken: 0
- Carlsberg: 0
- Modelo: 0
- Molson Coors: 0

Few competitors. Decent size market.
SWOT Analysis (Using Herfindahl Criteria) of South Africa, Brazil, & Russia

Despite pricing, import taxes, large competitor market share, and infrastructure challenges, growth opportunities exist due to rapidly growing beer markets, few competitors, and SABMiller’s already existing production facilities which will aid in bypassing import taxes. South Africa is an optimal choice.

- Scale of 1 to 5 | Strength & Opportunity: the higher, the better | Weaknesses & Threats: the lower, the worse -

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<tr>
<th></th>
<th>Strengths</th>
<th>Weaknesses</th>
<th>Opportunities</th>
<th>Threats</th>
<th>Total Score</th>
</tr>
</thead>
</table>
| I. South Africa| - Rapidly growing market for beer  
- Country alone makes up for about half of Africa’s beer consumption  
- Highest profitability and concentration of Grolsch is in South Africa  
- 2006: SAB Miller’s second highest revenue making country. | - Market size is smaller when compared to Brazil and Russia due to population. | - Demand and market for premium beer is growing but still in infancy.  
- As SAB Miller is already based in South Africa, less costly than entering or trying to expand in other markets | - Threat of new entrants  
- Economic stability  
- Infrastructure | 17          |
| II. Brazil     | - Third largest beer market in the world  
- European beer is considered prestigious  
- SAB Miller already has a stronger presence than Heineken or Carlsberg  
- Beer: accessible to most | - High foreign import taxes  
- 2-3% of the market is open to international companies | - World Cup and Olympics marketing opportunity  
- New market for international beer | - Infrastructure  
- InBev has largest market share (65%), including nation brands such as Skol and Brahma | 13          |
| III. Russia    | - One of top four beer consuming markets  
- Still licensed to brew and sell Amsterdam brand in Russia  
- Estimated cost of transportation is low | - Past ruble devaluation reduced Grolsch’s presence in Russia  
- Price of Amsterdam beer is much higher than other premium beers | - According to MABA, market appeal of Russia is high  
- Smaller brewers can do well with the help of major companies | - High growing domestic and Eastern European-based beer market  
- Heineken dominates the international beer market | 12          |
III. Recommendations & Next Steps

- Organizational Structure | MABA Framework | Global Expansion -
Apply Design Thinking to Evaluate Grolsch’s Current Organizational Model and Conduct Needs Assessment

- **Design thinking**: A creative process of solving problems and discovering new opportunities.

- **Goal**: Use the method to gain the point-of-view of appropriate employees/users from the corporate office and key geographic locations to improve Grolsch’s marketing processes and create a more responsive organizational structure to market changes in the long run.

- **Design Process**:
  1. **Empathize**: Observing how employees/users and colleagues operate and gather marketing data.
  2. **Define**: Determine the problems and challenges.
  3. **Ideate**: Brainstorm a number of different structural models for implementation with appropriate employees/users.
  4. **Prototype**: Create structural models with appropriate supporting technologies.
  5. **Test**: Test the possible structural models and technologies by running through simulations to determine the optimal solution and acquire feedback from employees/users. Return back to prototyping if necessary.

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<thead>
<tr>
<th>Week 1</th>
<th>Week 2</th>
<th>Week 3</th>
<th>Week 4</th>
<th>Week 5</th>
<th>Week 6</th>
<th>Week 7</th>
<th>Week 8</th>
<th>Week 9</th>
<th>Week 10</th>
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<tbody>
<tr>
<td><strong>Project Launch</strong></td>
<td><strong>Empathize (Interviews of employees and colleagues)</strong></td>
<td><strong>Define</strong></td>
<td><strong>Ideate</strong></td>
<td><strong>Prototype</strong></td>
<td><strong>Test &amp; Implement</strong></td>
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# Five Year Market Expansion Execution

<table>
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<tr>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
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<tbody>
<tr>
<td>• Analysis of <strong>South African</strong> economy, market &amp; consumer preferences</td>
<td>• Localize products</td>
<td>• Increase product diversity</td>
<td>• Establish premium lager bars in Cape Town, Pretoria &amp; Bloemfontein</td>
<td>• Increase product diversity during regional expansions</td>
</tr>
<tr>
<td></td>
<td>• Localize advertising</td>
<td>• Create sponsorships</td>
<td>• Continue regional expansion</td>
<td>• Consider new offices in nearby regions</td>
</tr>
<tr>
<td></td>
<td>• Launch products</td>
<td>• Increase distribution</td>
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<td></td>
<td></td>
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<tr>
<td>• Analysis of <strong>Brazilian</strong> economy, market &amp; consumer preferences</td>
<td>• Localize products</td>
<td>• Increase product diversity</td>
<td>• Establish premium lager bar in Sao Paulo and Rio de Janeiro</td>
<td>• Increase product diversity during regional expansions</td>
</tr>
<tr>
<td></td>
<td>• Establish agreements with distributors</td>
<td>• Create sponsorships</td>
<td>• Continue regional expansion</td>
<td>• Consider new offices in nearby regions</td>
</tr>
<tr>
<td></td>
<td>• Localize advertising</td>
<td>• Increase local distribution</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Launch products</td>
<td>• Expand regionally</td>
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</tr>
<tr>
<td>• Analysis of <strong>Russian</strong> economy, market &amp; consumer preferences</td>
<td>• Localize products</td>
<td>• Increase product diversity</td>
<td>• Establish premium lager bar in St. Petersburg</td>
<td>• Increase product diversity during regional expansions</td>
</tr>
<tr>
<td></td>
<td>• Establish agreements with distributors</td>
<td>• Create sponsorships</td>
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**WORK STREAM 1:** Bi-annual regional, evaluative reports assessing progress and needs. Reports communicated to other regional offices and headquarters.

**WORK STREAM 2:** Semi to bi-annual meetings with regional directors and executive and supervisory committee.

**WORK STREAM 3:** Yearly follow up consultations to monitor progress and assess needed adjustments.
Assessing Our Recommendations & Strategy

As Grolsch enters next phase of development, we want to ensure its transition leads to optimal growth. The benefits of organizational and marketing restructuring will ensure Grolsch’s long term competitiveness.

<table>
<thead>
<tr>
<th>BENEFITS</th>
<th>CHALLENGES</th>
<th>RISKS</th>
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<tbody>
<tr>
<td>• We are committed to helping you to achieve your mission of breaking through the mainstream and restoring the status of premium beer.</td>
<td>• Company culture transition: Most of the employees are stationed in Netherlands and most decisions have been made from a top-down approach</td>
<td>• Unanticipated costs in entering and expanding new markets</td>
</tr>
<tr>
<td>• Improved regional market understanding of customers and trends.</td>
<td>• Despite transition, retain core Dutch pride of Grolsch</td>
<td>• Variability in expected outcomes</td>
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<tr>
<td>• Better understanding of regional product development and advertising needs.</td>
<td>• Ensuring that executives and middle management are part of the change process</td>
<td>• Potential loss of consumers and market share during transition</td>
</tr>
<tr>
<td>• Despite transition from a product oriented to geographic oriented model, company still retains focus on customer using design principles to understand user needs and tastes.</td>
<td>• Revamping MABA Framework to better reflect current global economic trends and adjust to future changes</td>
<td>• Potential loss of employees and/or recruitment of new employees in order to optimize organizational processes</td>
</tr>
<tr>
<td>• South Africa, Brazil, and Russia serves as case studies to consider for future expansion.</td>
<td>• Distribution, land transportation, and import costs</td>
<td></td>
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<tr>
<td>• Follow up consultations to ensure the progress of organizational model challenge and regional expansion</td>
<td>• Need to determine output measures to understand status of progress in each region</td>
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<tr>
<td></td>
<td>• Follow up consultations monitoring the progress of organizational model challenge and regional expansion</td>
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Next Steps: Further Analysis of the Problem to Ensure Accuracy in Methodology

**INTERNAL**

- Before making any decisions on strategic marketing, meet with our consultants to discuss launching a 10 week design process investigation to understand company and employee needs as this will ultimately influence the global marketing strategy.

- Conduct evaluation of how organizational changes to Grolsch may affect dynamics with SABMiller.

**EXTERNAL**

- Organize consultation meetings with our analysts and deploy them in the corporate and regional locations in South Africa, Brazil and Russia to better understand market and consumer trends before making significant investment commitments.
THANK YOU

• Questions & Answers Session •