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THE SPATIAL CONSEQUENCES OF GLOBALISATION IN THE EUROPEAN BREWING INDUSTRY

Abstract: The author characterises spatial effects of an ongoing transformation of the European brewing industry identifying patterns and the spatial consequences visible at the scale of the continent. The rate of transformation in the industry is clearly related to the participation of global players in the process. As a result most of the processes specific for the functioning of the manufacturing industry in the global economy age can be easily shown

Keywords: brewing industry, competition consolidation, globalisation, production concentration, transnational enterprises (TNEs).

1. Introduction

The current transformation of the European brewing industry is providing a most remarkable example how manufacturing industry is adapting to the new globalised economy. The largest brewing companies began expanding their influence in many European countries in the 1960s. According to the author that period was a prelude involving internationalisation before globalisation process itself. During the 1980s as most of the Western European countries economies continued to decline, major brewing enterprises made an attempt to diversify their production structure (Lopes 2003). The process involved acquisitions of other enterprises both within the beverage industry and in much less related sectors such as leisure and entertainment. Then in the late 1980s, the major players continued a disrupted expansion on international markets. The process accelerated during the second half of the 1990s with a series of acquisitions of entire brewing groups at a scale and with spatial consequences unparalleled in the annals of the brewing industry (Cosh, Guest 2001). During that period the activity of brewing companies extended almost unexceptionally throughout the whole continent. However it was not the spatial scale of activities that made them so extraordinary, but the increasing level of functional uniformisation of those companies. Only when occurring at the same time the two can be regarded as an evidence of ongoing globalisation.

Due to the pace and scale of changes taking place in the brewing industry, it seems very unlikely that the processes mentioned above have no impact on the level of production concentration in European countries. Taking this into account, the paper attempts to answer the following questions:

- Do global brewing enterprises behave differently one from another and is there any spatial pattern to this behaviour?
- How do global players act on the European market?
- Finally, what are the potential explanations?

1. Production concentration

The six largest European brewing enterprises were considered (Fig. 1). The data covered such items as location of operational brewing plants and their ownership status i.e. owned or not by one of the “Big Six” companies. At the age of licensed production and the European unification the choice of brewing plants could be questioned. It was made under the assumption that a direct investment could be considered an evidence of both the decision makers’ determination and remarkable level of risk involved. Consequently, the investor had to face directly other players present on the domestic country market¹.

The choice of the brewing concerns, to be taken under the consideration was based on two major reasons:

- 1) Firstly, the first four producers stand out from the rest in the terms of production volume (Fig. 1.). That leads to a question of the criteria for the remaining two:
 - SABMiller has been chosen due to the definitely global perspective of its activities,
 - BBAG/Brau Union for its acquisition in May 2003 by the Dutch company – Heineken.
- 2) Secondly, the smallest players, notably except No. 10, the Turkish Efes Beverage Group (EBG), are typically confined to their domestic markets such as Germany or The United Kingdom. This national focus made them much less interesting from the continent-wide scale of the intended spatial analysis point of view.

The Danish – Norwegian Carlsberg is the first example from the chosen companies². It emerged from the merger of Danish Carlsberg together with a brewing arm of the Norwegian conglomerate Orkla, in June 2001. The newly established brewing group made a radical policy change from the former Carlsberg Company. A good example of that was provided by the Polish operations of the company involving acquisition of three Polish brewing enterprises (Browar Bosman, Browar Kasztelan and Browary Piast)³ in July 2001 and the foundation of Carlsberg – Okocim Group. Surprisingly, most experts did not connect the expansion Carlsberg’s activities with ownership change,

¹ The market competition resembles more and more full contact game as can be easily seen on the Polish beer market for example.

² With 60 % of shares of Carlsberg Breweries AS belonging to Carlsberg and 40 % to Orkla.

³ Browar Bosman in Szczecin together with Browar Kasztelan in Sierpc were acquired from German Bittburger group and Browary Piast from a private investor – Ryszard Varisella.

even though the fact was mentioned in the press. Moreover, Carlsberg changed its attitude towards licensing its top brand – *Carlsberg Beer*. Until 2001 it had never been produced outside Denmark⁴. As a consequence of those changes a new aggressive competitor emerged on the European beer market. Its potentially strong position was also a result of its spatially diversified acquisitions, which took place before the 1990s, for example in Italy or Portugal. That gave Carlsberg a unique positioning for expansion on the several major European markets. Some patterns can be easily identified in the spatial distribution of the operational brewing facilities of Carlsberg (Fig. 2). On the one hand they are concentrated in Scandinavia and Baltic countries⁵ and on the other hand there is a visible presence in certain Southern European countries, i.e. Portugal, Italy and Turkey. This concentration of production near the original seat of the company would suggest a diffusion-like nature of investment expansion. That could be explained in general by relatively small cultural differences, which obviously reflect in both the level of alcoholic beverages consumption and the their structure as well. Consequently, what can be regarded as low cultural differentiation potential, has a positive influence on the decision-makers. A good example would be the Carlsberg's latest acquisition of German brewing group Holstein that concentrates its activity in northern Germany⁶.

The other spatial pattern is even more interesting. In all of the South European countries where Carlsberg has invested *per capita* beer consumption is lower than the European average⁷. This can be explained by the fact that all of them are popular tourist destinations. Moreover, most of the tourists inflow comes from the countries with the *per capita* consumption of beer higher than the average. Therefore an increasing number of tourists from these countries will quite likely results in a growing beer market.

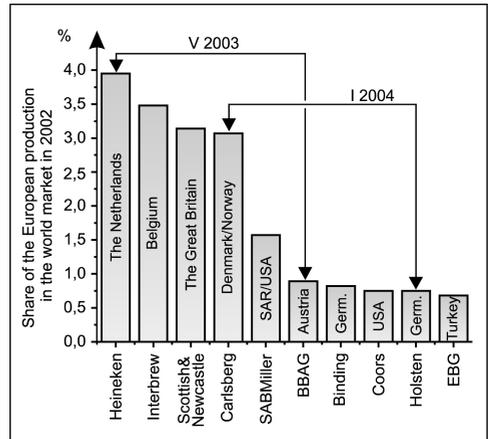


Fig. 1. The European Beer Market 2002-2004
Rys. 1. Europejski rynek piwa w latach 2002-2004

Source: Author's compilation after *Efes Beverage Group ...* and others.

⁴ However the other important brand in Carlsberg's portfolio – Tuborg had been produced under a license agreement in foreign countries.

⁵ In the former USSR states Carlsberg invests through Baltic Beverage Holding (BBH) which 50 % of shares is controlled by Scottish & Newcastle.

⁶ Holstein Gruppe has more than 10 % share in the beer markets of the following bundeslands: Bremen, Mecklenburg-Vorpommern, Niedersachsen/Bremen, Sachsen i Schleswig-Holstein/Hamburg.

⁷ Year 2002.



Fig. 2. Operational brewing facilities controlled by Carlsberg and Scottish & Newcastle in June 2003

Rys. 2. Funkcjonujące zakłady piwowskie kontrolowane przez Carlsberga oraz Scottish & Newcastle w VI 2003 r.

Source: Author's compilation.

A comparison of operational brewing facilities owned by Scottish & Newcastle with Carlsberg brings some similarities. Nevertheless, cultural factors seem to play an even more important role (Fig. 2). International investments, except for the combined operations in the former USSR states together with Carlsberg group, are concentrated mostly in Belgium and France. What is more, the French facilities are solely located only in the northern part of the country where the brewing traditions were stronger and the level of consumption higher.

The Scottish & Newcastle's attempts to enter markets of Greece and Portugal are largely similar to those of Carlsberg, but the scale seems much smaller (Fig. 2). One dissimilarity would be the conspicuous lack of direct investments on the dynamically growing markets of Central Europe. All of these points shows that S&N's behaviour



Fig. 3. Operational brewing facilities controlled by SABMiller in June 2003

Rys. 3. Funkcjonujące zakłady piwowskie kontrolowane przez SABMiller w VI 2003 r.

Source: Author's compilation.

is much more conservative than the others'. The assumption can be confirmed entirely by the fact of entering Greece where Heineken company controls approx. 80 % of the market⁸ (!). Scottish & Newcastle seem then to feel comfortable on extremely competitive markets.

SABMiller is a unique player on the European market. Although, its share in the European market seems quite modest for the second largest brewing company in the world, it is necessary to remember that it started his European expansion literally from scratch. A good example illustrating the growing importance of Europe in the company's

⁸ In March 2002 r. Scottish & Newcastle acquired 46,4 % of shares of a brewing company Mythos Zythopolia belonging to Greek group – J. Boutari Group & Son Holding S.A., which controled 46,4 % of the shares while the rest shares is held by Greek banks Alpha and Erva.



Fig. 4. Operational brewing facilities controlled by Heineken and BBAG/Brau Union in April 2003

Rys. 4. Funkcjonujące zakłady piwowskie kontrolowane przez Heinekena oraz BBAG/Brau Union w IV 2003 r.

Source: Author's compilation.

policy and the continuous globalisation of its spatial expansion was the moving of SAB head office, prior to the merger with Miller Co., in 1999 from Johannesburg, South Africa, to London and entering London Stock Exchange the same year.

The spatial picture of company's operational brewing facilities has its significance. SABMiller is the only company, which has not entered directly on the Russian market focusing instead the Central and Southern European markets (Fig. 3). Considering the fact that in most cases Heineken is SABMiller biggest rival the latter's position seems quite weak in the comparison to the other players. However, in the largest markets where SABMiller has direct presence i.e. Czech Republic, Italy, and Poland the company has the best selling brands (respectively, Gambrinus, Peroni and Tyskie).

Dutch Heineken has the longest pedigree of all the largest competitors in Europe. It also seems to be pursuing the most aggressive strategy. Immediately after entering

directly a market Heineken starts production of its leading brand i.e. *Heineken Premium Lager*. Consequently, domestic brands gradually lose their market shares. This scenario is the shortest path to total uniformisation of the beer market in both regional and global scales as the result of making it possible to produce beers with identical sensoric features (*matrix beer*) in every part of the world.

Heineken's European brewing facilities are scattered throughout the continent. The one conspicuous exception, as far as direct investment is considered, is Germany – one of the biggest and most traditional European markets (Fig. 4). Moreover, the lack of investments in the Northern Europe and modest Central European operations are easy to see. However, in every Central European country where the company engaged directly Heineken has dominant position on the market (sic!). The company's regional policy could be dubbed a spatially selective concentration. There is another aspect where Heineken's status is also unique. The company is the only global player, which has risked direct investment on Russian market without a partner. All other players present on the market i.e. Interbrew Scottish & Newcastle and Carlsberg have sought to limit the risk factor by sharing it with other players, whether international (BBH = Scottish & Newcastle⁹ + Carlsberg) or domestic (Sun Interbrew = Interbrew + Sun Group).

The Belgium brewer Interbrew was established in 1987, as the result of a merging between two domestic brewers – Artois and Piedbeouf. The company's brand strategy is quite extraordinary. Like no other brewing company Interbrew is taking over strong regional brewing companies throughout Europe and develops marketing strategies basing on the domestic brands acquired in the process¹⁰. The policy seems even more exotic because of the fact that Interbrew has a strong global brand that is *Stella Artois*. However, it has licensed *Stella Artois* production only on few markets i.e. Ukraine and Russia, and so far at a small scale.

The spatial pattern of Interbrew controlled producing plants resembles the shape of a boomerang, starting in Scotland and finishing at the foothills of the Ural Mountains (Fig. 5). The pattern however, is differentiated within itself. There is a clearly recognisable area of primary growth i.e. Benelux countries plus two adjacent countries, the UK and Germany, the largest two markets in Europe¹¹. On the other hand the investments on the Central European markets which in general seems to be spatially cohesive, can at a lower level of granularity be broken down into two groups: Balkan countries together with Romania, and Russia with Ukraine (Fig. 5).

BBAG/Brau Union may be the smallest of the companies considered here, but its relatively high importance in Europe comes from its highly concentrated operating brewing facilities (Fig. 4). The cultural factors of the engagement in foreign countries in this distribution pattern are clearly visible again. The fact that its direct investments are limited only to countries at least partly belonging to the former Hapsburg

⁹ Originally Carlsberg was sharing the risk related with BBH activities with Finnish brewing group Hartwall, which was acquired by Scottish & Newcastle.

¹⁰ The strategy is well represented by the company's (slogan) motto: 'World's Local Brewer'.

¹¹ Respectively 3rd and 7th largest beer markets in the world.



Fig. 5. Operational brewing facilities controlled by Interbrew in June 2003

Rys. 5. Funkcjonujące zakłady piwowskie kontrolowane przez Interbrew w VI 2003 r.

Source: Author's compilation.

Empire is clearly more than just a coincidence. In May 2003 the company was acquired by Heineken for 1,9 billion and the two have embarked on a road to integration. The acquisition is improved the Heineken's position especially in Central Europe where it had no direct investment before 2003 (Fig. 4). As a result the Dutch brewer will consolidate spatially. Actually, if the peripheries of the European beer market i.e. the North European countries and the former Soviet states were not taken under consideration Heineken would have a direct and strong presence on practically every significant European beer market, with an exception of Germany. Depending on the future path of the company development this could be the beginning of a *pax heinekeni* on the European beer market.

2. Competition the European beer market

As this research progressed I felt the need to investigate the level of competition on the European beer market. Two different procedures were implemented to achieve this, both using quite simple information data including the country of location (where?) and the name of the company directly engaged in the country (who?).

First a matrix of competition was drafted (Tab. 1). It clearly showed which companies would face the increasing competition as the effect of BBAG/Brau Union merger with Heineken and where will it happen. The brewers are SABMiller and Interbrew, both global players. The matrix shows, however, an even more important effect. At the moment there are two pairs of companies which are competing on a limited number of markets and so are therefore spatially most complementary i.e. SABMiller against Scottish & Newcastle and Scottish & Newcastle against Carlsberg (Tab. 1). That leads to a conclusion that even among the “Big Six” there are still opportunities for mergers. The second pair seems to fit a bit more than the first one mainly due to the joint undertaking in the former Soviet states (BBH) and cultural similarities, nevertheless the first scenario is also possible as the result of the capital controlled by SABMiller.

Another method was used for visualisation of the competition level within European countries (Fig. 6). The five brewing companies have been matched with the countries where they have operational brewing facilities. The sixth one – BBAG/Brau Union was included in Heineken. The scale of competition was based on the assumption that

Tab. 1. The major competitors on the European beer market in 2003

Tab. 1. Główni konkurenci na europejskim rynku piwa w 2003 r.

	Heineken	S&N	SABMiller	Interbrew	Calsberg
Heineken	X				
S&N	Belgium, France, Greece, Ireland, Russia	X			
SABMiller	Czech Rep., Hungary , Italy, Poland, Romania , Slovakia, Spain	none	X		
Interbrew	Bulgaria, Croatia, Czech Rep., Hungary, Romania, Slovenia , The Netherlands	Belgium, Russia, the UK, Ukraine	Czech Rep., Hungary, Romania	X	
Calsberg	Bulgaria, Italy, Poland, Switzerland	Portugal, the UK	Italy, Poland	Bulgaria, Ukraine, Russia	X

Romania the markets of new, direct competition between Heineken and its rivals after the acquisition of BBAG\Brau Union

Romania rynki nowej, bezpośredniej konkurencji między Heinekenem a pozostałymi graczami



Fig. 6. The level of competition on the European beer market in 2003

Rys. 6. Poziom konkurencji na europejskim rynku piwa w 2003 r.

Source: Author's compilation after Tab. 2.

Tab. 2. The construction of the competition level scale

Tab. 2. Konstrukcja skali poziomu konkurencji

the level of competition	number of global scale players
high	3-4
moderate	2
low	1
very low	0

Source: Author's compilation.

the presence of minimum three global players correspond to the high level, whereas the lack of any of global competitors to very low level (Tab. 2). The examples from the markets of Italy or Poland where three global players compete between themselves confirm the assumption. In the contrast, the absence of any global brewing companies on a domestic market is a visible sign for a very low level of competition. That assumption excludes however, the local competition and could consequently be the potential source of the largest error margin in the whole procedure. In fact local brewing groups garner just a few percent of the

domestic market share except for Spain (Damm group) and Germany, and so can be omitted at this scale of analysis.

The image emerging at this scale is quite remarkable. There are three clearly different areas with the countries enjoying a high level of competition. The first area is quite obvious and includes the stable and mature Western European markets. What is interesting though is how well they correspond to the well known European “banana” region (Fig. 6). The second area can be identified in Central Europe spanning Poland and Bulgaria separated from the territorially largest Eastern European market including Russia by a buffer band of low competition countries (Fig. 6).

3. Conclusions

The spatial behaviour of the global players on the European beer market tends to show some significant features. The factor of cultural resemblance between the country of the origin of the company and the market where the direct investments are introduced seem to be of the greatest importance. The most obvious examples are Carlsberg, Scottish & Newcastle, BBAG/Brau Union and at a much smaller scale Interbrew. The explanation for these could be the following. The decision makers are trying to minimise the level of risk inherent in any foreign direct investment by restricting the area of potential locations to the countries where beer consumption level and/or alcoholic beverages consumption structure is similar to that of the company's country. Moreover, in the cases of larger differences in the features mentioned above the cultural similarity may provide the opportunities for the desired changes in the structure of the consumption. The example illustrating this proposition is growing Carlsberg presence in the Baltic countries.

Another interesting regularity is the surprisingly high level of interest the global players take in the South European markets. Presumably, this is underlined by the optimistic forecast of increasing tourism in the region. Visitors to the region come mainly from the countries with the high *per capita* beer consumption, thus constituting an endogenous factor of a potential local consumption growth. Consequently, the whole region is becoming more and more appealing for the global investors (Fig. 6.). According to the author the process could be further intensified as the opportunities are created by strong domestic brewing groups, such as in Spain.

The continental-wide analysis of the operational brewing facilities can be concluded by noting the high level of the complementarities of certain major players. That spatial complementarities may be a strong push factor for the companies to consider merging scenarios. This would accommodate the author's hypothesis on future merger opportunities some of the five largest European players (Fig. 1.).

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Przestrzenne konsekwencje globalizacji w przemyśle piwowarskim Europy

Streszczenie

Procesy transformacji zachodzące współcześnie w przemyśle piwowarskim Europy stanowią jeden z najwyraźniejszych w przemyśle przetwórczym przykładów dostosowywania się całej branży do nasilających się procesów globalizacji. Koncerny piwowarskie już od lat 60 poszerzały swój stan posiadania w różnych państwach europejskich. W latach 80 wraz z postępującym kryzysem gospodarczym największe przedsiębiorstwa próbowały dywersyfikować strukturę swojej produkcji poprzez przejęcia firm z branży alkoholowej oraz innych branż, praktycznie nie związanych z główną działalnością takich jak np. hotelarstwo. Od połowy lat 90 rozpoczyna się w europejskim piwowarstwie seria przejęć całych grup piwowarskich, nie mającą swojego odpowiednika w całej historii tej branży. Dopiero ten okres charakteryzujący się nie tylko szerszym w sensie przestrzennym polem działania koncernów, ale także rosnącym stopniem uniformizacji funkcjonowania podmiotów, wypada uznać za początek właściwej fazy globalizacji.

Zachowania globalnych graczy na europejskim rynku piwa wykazują pewne charakterystyczne cechy przestrzenne. Kluczowym dla obrazu rozmieszczenia zakładów produkcyjnych wydaje się czynnik kulturowy. Polega on na koncentracji inwestycji w krajach, pod względem kulturowym są zbliżone do kraju macierzystego korporacji piwowarskiej. Można domniemywać, że jest to wynikiem minimalizowania stopnia

ryzyka przez decydentów, którzy dużo bardziej skłonni są do poparcia inwestycji, w kraju, w którym wzorce konsumpcji piwa są zbliżone, do rodzimych. W przypadku zaś większych rozbieżności w poziomie i strukturze konsumpcji napojów alkoholowych podobieństwo na płaszczyźnie kulturowej sprawia, że wykreowanie pożądanych wzorców konsumpcji jest wysoce prawdopodobne.

Interesującą prawidłowością globalnych graczy w Europie jest ich spore zainteresowanie rynkami Europy Południowej. Przyczyną, która zdaniem autora kryje się za tym jest optymistyczna prognoza wzrostu ruchu turystycznego w tym regionie. Rozumowanie takie przy założeniu, że na wzrost ten w większości złoży się napływ turystów z krajów o wyższym poziomie konsumpcji piwa prowadzi do wniosku o możliwości endogenicznego wzrostu konsumpcji. Zdaniem autora proces ten może ulec dalszej intensyfikacji.

Rozkład przestrzenny zakładów produkcyjnych analizowany w skali całego kontynentu prowadzi do wniosku o komplementarności niektórych z czołowych graczy. Uzupełnianie się pod względem posiadanych zakładów na płaszczyźnie przestrzennej uzasadnia zdaniem autora tezę o możliwości kolejnych fuzji w gronie największu dziesięciu graczy na europejskim rynku piwa.

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