

The global beer market: a world of two halves

Contributed by Euromonitor International
 Thursday, 24 February 2005
 Last Updated Wednesday, 14 September 2011

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In a marketplace where geographical expansion is becoming ever more important, prompting Anheuser-Busch to step up its overseas expansion and InBev to gain a foothold in every corner of the world, Anne Nugent, research manager for alcoholic drinks at Euromonitor International, assesses the driving forces within the global beer market.

Global patterns

According to Euromonitor International's latest research, the world beer sales totalled 1,484 million hectolitres in 2003, an increase of 2.3% over the previous year. The main impetus for growth came from increased consumption in developing countries, especially China, which has now overtaken the US as the largest beer market in the world. In more established beer markets, however, volume growth was slow due to increasing saturation.

Value sales grew more rapidly than volume sales in 2003, with a growth rate of 10.2%. Even without the distorting influence of exchange rate fluctuations – where growth at fixed US\$ rates was 3.8% in 2003 - value growth exceeded volume growth. This was due primarily to the burgeoning success of premium imported and speciality beers at the expense of standard and traditional products. In the US, currently riding-high on the low-carbohydrate diet phenomenon, manufacturers were also very active in pushing "light" beers, with Anheuser Busch's Bud Light brand leading the way.

The main barriers to growth in 2003 included the cooling of the US economy, and the ongoing economic recession in Japan. In addition, Euromonitor International has found that lifestyle trends are encouraging a broad shift away from beers, as health consciousness increases and encourages consumers to cut down on heavy drinking. Fashion trends towards alternative drinks, such as wine, FABs and bottled water, have also constrained growth in beer sales. Furthermore, stricter drink-driving legislation is deterring consumers from drinking away from home.

Pumping volume, pushing value

Eastern Europe was the fastest growing region in 2003, experiencing growth of 6% in volume terms over 2002. Much of this growth was attributable to the Russian market which enjoyed increased investment. As competition from overseas companies intensified, local breweries also worked to upgrade their production facilities. Meanwhile, Czech Republic, the country which holds top place in terms of per capita consumption by a long way, saw continued growth in 2003 much of which was buoyed by the expanding tourist industry.

Asia-Pacific also made impressive volume gains on the previous year. Growth was primarily driven by the expansion of the highly populous, yet underdeveloped Chinese market, underpinned by increasing disposable incomes, rising living standards and greater levels of foreign investment, mainly in the form of strategic alliances with local manufacturers. Value growth, however, was restricted by the ongoing economic recession in Japan, where reduced purchasing power saw a shift to the more competitively priced happoshu. Longer-term market potential is compounded by an ageing population and declining birth-rate.

In Latin America, volume sales increased by a mere 0.4% in 2003, with fast growth in Colombia and Argentina insufficient to counter heavy losses in Venezuela, hit by economic crisis, and a sluggish performance in Mexico and Brazil, where disposable income was fragile.

The region is one to watch, however, as the newly formed InBev, with a strong presence in Brazil thanks to AmBev, is likely to shake up the market. Its first incursion is likely to be into the Mexican market which, like many Latin American markets, is highly concentrated in the hands of few brewers. Euromonitor International expects this will prompt other brewers in the region, such as the Mexican brewer FEMSA, to step out of their home markets to face the challenge from InBev head on. Indeed with nearly 35% of the total population in Brazil under the age of 18, and overall beer per capita under 50 litres, this is one key market with potential.

Elsewhere in the world, the large South African market was stagnant with sales having reached maturity. Strong growth was evident in the Egyptian and Moroccan markets, where the beer market is very niche because of Islamic traditions forbidding alcohol. However young consumers are following Western influences and beginning to consume beer, especially in pubs and bars while tourism also plays a key part in driving sales.

In the developed regional markets of Australasia, North America and Western Europe, Euromonitor International found that volume sales declined, or at best, remained static in 2003. This was due to a combination of continued maturation, and intensified competition from other alcoholic drinks, such as wine or spirit-based FABs. Value sales fared better,

however, as a result of consumers' continued interest in premium beers, particularly imports.

Premium stepping up

Imported and speciality beers are gaining market share at the expense of standard and traditional products. In the UK, for example, 2003 saw the withdrawal of Heineken Cold Filtered to be replaced by a 5% abv genuinely imported version. Scottish & Newcastle also announced its intention to cease production of several of its economy lager brands, including Hofmeister and Kestral Pilsner, as well as its McEwan's standard lager and Courage Light standard ale brands, in order to focus on the premium segment of the market.

Rise of "light" beers

While the dominant trend in the beer market between 1998 and 2003 was one of premiumisation, "light" beers gained momentum during 2002/2003, as manufacturers began to target health conscious consumers. Such activity was particularly pronounced in the US, where four of the five top-selling beer brands were light lagers in 2003.

The latest idea is to reinvent light beers as "low-carbohydrate" beers, in order to appeal to consumers on high-protein, low-carbohydrate Atkins-style diets. Despite previous failed attempts by brewers to push light beers in the UK market, Anheuser-Busch followed the "if at first you don't succeed;" mantra and launched Michelob Ultra in 2003.

Bolt-on acquisitions in new territories

The beer market has been characterised by a distinct shift towards consolidation in recent years. With many brewers finding their domestic markets approaching saturation point, especially those based in Western Europe and North America, it has become necessary to look for opportunities to expand into international markets.

Merger activity was particularly pronounced in the large German market, which is currently extremely fragmented. With the current climate favouring speciality beers, regional German brews may offer strong growth potential in international markets, if backed with sufficient financial clout and effective marketing.

China has also been the scene of a number of key deals including the well-publicised tussle between Anheuser-Busch and SABMiller for Harbin, with the former gaining the upper hand. With a number of acquisitions already in hand, international companies are keen to scoop up remaining local companies which have optimum margin potential as well as ensuring that they gain strategic geographical advantage.

Mega-mergers: who's next?

Without doubt, the headlines creating the biggest stir are those covering the mergers between heavyweights. No sooner than the dust had settled following the announcement of Interbrew's merger with South American brewing giant AmBev in March 2004, than the proposed Coors/Molson deal became the next headline story to keep the industry awash with speculation. These moves follow on from the merger of South African Breweries with the Miller Brewery Co, in July 2002.

Some observers feel that even if the Coors/Molson does go ahead, it is only a matter of time before the new company becomes the subject of a take-over, with Heineken and SABMiller being the most likely bidders. As the global league table becomes ever more competitive, Euromonitor also earmarks changes ahead for Carlsberg, Scottish & Newcastle and Kirin.

The global giants

Despite a clear trend towards consolidation, the global beer market remains highly fragmented with the top 10 producers accounting for under 45% of total volume sales in 2003. Compare this to soft drinks where Euromonitor International research shows that the top five companies hold half of global sales.

The company ranking line-up is changing year-on-year in line with merger and acquisition activity. Assuming no further acquisitions, InBev will move up to first place, ahead of Anheuser-Busch in 2004. Should the merge of Coors/Molson go ahead, this will give the company a fifth-place ranking. With consolidation taking place within the top ten players, this league table in 2004 will admit Kirin to tenth position.

A look to the future: what's next?

In developed markets and sectors, manufacturers will continue to compensate for high levels of penetration by encouraging consumers to trade up to premium, imported beers. This focus on developed countries will continue to be crucial for increasing margins as many of the key developing markets for beer, particularly in Asia-Pacific, are likely to remain economy driven for the foreseeable future.

While it is unclear whether the low-carbohydrate beers will take off in other countries as it has done in the US, organic beer is expected to benefit from an increase in consumer demand for organic food in general, in the light of growing concerns over artificial ingredients and genetically-modified foods. Another important theme in the future is likely to be the development of niche and speciality beers from microbreweries, as brewers seize the current opportunity to cater to consumer interest in different beer varieties. Wheat beer was the fastest growing product type in a number of countries in 2003, notably Italy and the UK. Brewers are increasingly seeing these products as one of the few ways of being able to

maintain high margins, especially in the off-trade channel. InBev's recent partnership deal with the German company Spaten-Franziskaner-Brau will enable the latter to compete internationally and for InBev, this move adds to its wheat beer portfolio which already includes Hoegaarden.

Euromonitor International also forecasts that flavoured beers are likely to grow in prominence, as brewers attempt to enhance the product's popularity amongst younger consumers. Growth can be expected to flourish in core markets such as Italy and France, where these products made promising gains in 2003. However the comparative lack of interest in markets such as the UK illustrates the limited potential for anything other than a marginal presence in many countries characterised by a solid and deeply entrenched drinking culture. Instead there is a push by some UK brewers to mirror the success of wine and align beer with food.

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