

Big Cola maker takes on beer giants

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Industrias A&A's, the privately-owned Peruvian beverages multinational, made its first foray into alcoholic drinks in September this year, launching Franca beer in its domestic market.

For its expansion into beer, the Andean company is employing a strategy similar to the one used to break into the soft drinks market: selling beverages in big volume bottles at lower prices than the major players. With soft drinks operations in 10 Latin American countries, Industrias A&A's is the fourth largest carbonates player globally and one of the fastest growing, posting off-trade volume growth of 17% in 2006, compared with 3% for The Coca-Cola Company and 2% for PepsiCo according to Euromonitor International. The company's flagship cola carbonates brands, Big Cola and Kola Real, have prospered despite the dominance of the aforementioned industry giants, and the high barriers that their presence represents.

A no-frills operation, Industrias A&A's undercuts competing brands Coca-Cola and Pepsi on price with little advertising, relying instead on word of mouth, and leaves distribution to third parties. Although the lack of its own distribution fleet and cooler supply deals could be considered a weakness, not least because it does not have complete control and because in terms of being a potential acquisition target, Latin American companies are often bought for their distribution networks, this approach has proved successful for the company in the soft drinks arena and the existing distribution arrangements can easily be leveraged for the distribution of beer as well. Competitive constraints

Franca is being introduced as Peru is experiencing intense price wars. The entry of Industrias A&A's into the high growth Peruvian beer market has placed the company in direct competition with multinational brewers SABMiller and InBev. SABMiller has been present in the market since 2005 when it acquired Colombian-based Bavaria, which owned Backus, and has a 95% share of the beer market by total volume. In 2006, the company invested US\$102 million in Peru, an indicator of its commitment to this market. Despite being a much smaller player (with 3.5% of the market), InBev is another force to be reckoned with. Since launching its global Brahma brand in Peru in 2005, the company has competed aggressively on price to pressure SABMiller's dominant brands.

The move into beer will have its challenges but the company has a successful track record in the soft drinks market and is no stranger to major competitors. Despite the intensely competitive environment, Industrias A&A's has the advantage of being a domestic company with great knowledge of the Peruvian market and its characteristics. It has some experience of entering into product adjacencies since it recently entered the snacks market in which it has seen initial success. As well as gaining share from existing players, its low-price strategy enables the company to attract Peruvians, mainly from less affluent segments, who did not previously consume such products. If the company is successful in attracting new consumer segments in beer then it might co-exist well with other players, at least in the short to medium term while there remain consumers on very low incomes.

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Major beer brands in Peru (2007)Euromonitor International

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Price comparison of beer brands in Peru Bottle sizeRetail price (soles)Retail price per litre (soles)Retail price per litre (US\$)Cusque&a (SABMiller)Â 330ml2.808.482.59Pilsen (SABMiller)Â 355ml2.40 6.76 2.06Barena (SABMiller)Â 650ml3.40 5.23 1.60Cristal (SABMiller)Â 620ml3.20 5.16 1.57Brahma (InBev)Â 630ml2.50 3.96 1.21Franca (Industrias A&A's)Â 700ml2.70 3.86 1.18The next rising star in Latin America?

Peru has one of the lowest beer consumption rates in Latin America (31 litres per capita compared to 96 litres in Venezuela and 52 litres in Mexico), which makes the country an attractive target for brewers. Both multinational and domestic companies have invested in the country and as a result new brands are frequently launched making the industry more dynamic. However, Peruvian consumers remain price-sensitive, which influences consumption patterns. Industrias A&A's, a local company with domestic knowledge, seems ideally placed to take advantage of the distinct opportunity to boost beer consumption in Peru by offering a reasonably priced, quality beer. According to news reports, the company is initially aiming for a 10% share of the Peruvian beer market, which would place it ahead of InBev in terms

of volume sales.

If the move into beer proves successful in Peru, the company may consider reproducing the formula in other countries in which it already has a strong position in soft drinks. Mexico, Industrias AÃ±aÃ±os' biggest market for soft drinks, would seem the obvious choice, but the company would face the duopoly of Grupo Modelo and FEMSA, which control 98% of the market. Both companies already have economy brands on offer, however neither Grupo Modelo's Tropical (which retails at MX\$13.15 [US\$1.17] per litre) nor FEMSA's Kloster (MX\$14.04 [US\$1.25] per litre) account for more than 0.1% of the total beer market by volume. This is because sales of economy lager are miniscule in Mexico, accounting for less than 0.5% of beer sales by total volume. Interest in low-end lagers is, however, increasing with foreign brands (such as Gallo, an economy lager from Guatemala) showing some success. In fact, Mexico was where Industrias AÃ±aÃ±os first attempted to venture into the beer market with a 2005 plan to build a brewery. The project was scrapped, however, after new laws were passed in Mexico to tax beer sold in non-returnable bottles and cans at a higher rate than returnable bottles presenting an additional hurdle for new entrants alongside their other start-up costs.Ã

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