

# The Acquisition Of FEMSA Boosts Heineken's Sales...

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but difficult conditions in mature markets limit organic growth

Heineken, the number three brewer in the world, reported 17% volume growth, an increase in revenues of 9.7% and organic net profit up 19.7% in 2010. The strong performance was mainly due to the acquisition of FEMSA in early 2010, which further increased Heineken's exposure to emerging markets.

In organic terms, volumes fell by 3.3%, in comparison to the world's average growth of 1.1%, according to Euromonitor International. This reflects the difficult conditions still present in mature markets and although Heineken has a strong and expanding presence in emerging markets, it is a relatively small player in China, which drove global volume growth.

Heineken's international Heineken brand delivered strong 3.4% volume growth in 2010, outperforming the total portfolio, driven by a good performance in France, Vietnam, South Africa, Nigeria, Taiwan and Brazil.

The company posted very strong profit growth, with net profits before exceptional items and amortisation (BEIA) up by 37% to and by 19.7% in organic terms, principally driven by the 'Total Cost Management' programme, which resulted in ~280 million pre-tax savings in 2010, half of which came from Western Europe, turning the region's profits positive despite falling volumes.

## Traditional markets in decline

Traditionally important value-generating mature beer markets have shown volume declines in recent years, partially due to the global economic crisis, but a trend mainly credited to the aging population and growing health awareness, thus changing future prospects for brewers.

Western Europe has posted volume declines since 2007, and, according to Euromonitor International, it is expected to show a 0.2% CAGR volume decrease over 2010-2015.

Eastern Europe saw an even worse performance: beer volumes decreased by 7% in 2010, and, although the slump is expected to slow down, growth will remain under 1% of CAGR in the forecast period. Recovery seems to be delayed even for the shrinking North American market, where beer volumes are expected to fall further over 2011-2013.

Heineken aims to get hold of a higher portion of the shrinking cake in mature markets. As its volumes showed declines in Western and Eastern Europe in 2010 (down 3.7% and 8.5% respectively), the company has shifted its prime focus to value generation by pushing its premium brand, Heineken, accompanied by global marketing support, improving its price/sales mix and continuing its tight cost discipline.

## Investing in emerging markets for growth

In contrast to mature markets, brewers are experiencing high volume growth in emerging markets, thanks to growing populations and developing economies. The strongest growth rate is being seen in the Middle East and Africa, which is a small market; yet, it is expected to post 6% CAGR in the forecast period, through 2015.

Asia-Pacific, which is the largest beer market in the world, is also estimated to show nearly 6% CAGR in beer volumes in the forecast period, driven by the booming Chinese economy.

Heineken has shown its commitment to increasing its exposure in emerging markets. The acquisition of FEMSA has increased its volumes and revenue, and also set up Heineken for future growth, as Latin America is expected to post healthy 4% CAGR in beer volumes, led by Brazil and Mexico.

In early 2011, the company secured the leading position in the fast-growing Middle East and Africa as well, with the acquisition of two holding companies from the Sona Group in Nigeria, gaining access to five more breweries (Sona, IBBI, Benue, Life and Champion breweries) in the country.

The only region where Heineken does not have a strong presence is Asia-Pacific, mainly due to the dominance of economy lager in China.

It operates mainly through joint ventures with Asia Pacific Breweries and United Breweries Limited in the region, but, as the premium segment is benefitting from a growing middle-class and urbanisation, it needs to further strengthen its position.

Heineken is well placed to leverage its leading position in Europe and to exploit future growth with its strong presence in

the Middle East and Africa and Latin America. However, as the growth of the global beer market will be led by Asia-Pacific, in particular China, where the company has a small presence, its volume growth rate is expected to be under the global average.

Heineken will have to strengthen its position in China, especially as the premium segment develops in the region, but an engagement in acquisition is not likely in the near future, given recent activity.

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