

Beer And The FIFA World Cup Is A Game Of Two Halves For Host Nation Brazil

Contributed by Euromonitor
Wednesday, 18 June 2014
Last Updated Wednesday, 18 June 2014

In 2013, beer volume sales in Brazil declined by 2%, according to Euromonitor International. This was the result of unit price increases imposed by the Brazilian government as part of the "Great Brazilian Plan"™. This programme includes gradual tax increases in what the government considers relatively under-taxed industries, with the money raised to be invested back into industry to boost infrastructure development and job creation. As a result, key brewers such as A-B InBev began to negotiate with the government for a more inflation-aware set of tax increases prior to the FIFA World Cup.

First Half - a World Cup to Boost Volume Sales

In 2012, beer volume sales suffered strongly from a 9% increase in manufacturer unit prices, marking an attempt to dilute the 26% tax increase scheduled for later that year. A further 13% increase in average unit price was imposed by manufacturers in 2013 to counter inflationary pressures and future planned tax increases on their margins. However, manufacturers foresaw the lack of sustainability in future unit price rises, thus forcing the biggest company in the market, A-B InBev with a 63% share of volume sales in 2013, to negotiate with the Brazilian government with regard to a gradual tax increase programme.

Regardless of these recent unit price hikes, A-B InBev anticipates low single-digit growth in volume sales as a result of a boost from the FIFA World Cup. In 2014, Euromonitor International expects beer volume sales in Brazil to rise by 5%, generally agreeing with A-B InBev's™ expectations.

Regardless of the reduced growth rates that the tax changes are expected to have on volume sales in Brazil, value growth is likely to remain positive. This will mainly be due to manufacturers increasing their unit prices to curb their declining margins, but also continued premiumisation in the market.

The irony of this situation is that the stated intention of the tax rise is to create employment and not hinder the consumption of alcoholic drinks. So, to what extent a tax increase can maintain beer volume sales growth, while maintaining a sustainable increase in tax revenue - supposedly to support employment - is a question yet to be answered.

Second Half " Vulnerable to Non-Quantifiable Effects

The industry must be careful with this optimism as the market is vulnerable to non-quantifiable factors. When looking at examples of previous host nations of the FIFA World Cup or European Championships there was no significant consistency in beer volume sales growth for host nations between 2002 and 2012. Poland in 2012, Portugal in 2004 and South Korea in 2002 witnessed strong growth. However, when compared with the years before and after, growth was in line with the ongoing dynamics of each market around that period. Furthermore, beer volume sales are often dependent on weather conditions and so can suffer from adverse weather events.

Brewers in Brazil have to also keep in mind the possibility of further potential social disruption during the FIFA World Cup. As the event starts they already face up to strikes in key municipal services, such as Rio de Janeiro's main airport, where workers are staging a partial walkout over pay. This is also following the pre-World Cup demonstrations in São Paulo. If disruptions take hold, intensify or spread to more cities then it will be significantly detrimental to Brazil's™ beer volume sales, especially in the on-trade.

The Brazilian beer market is expecting a continuation of the 6% rise in consumer prices in 2014 and further tax increases till 2015. In addition, there is also uncertainty with regard to unexpected tax rises, as considered by the government at the beginning of June 2014, and which rattled A-B InBev into negotiating a gradual tax rise. The beer market's™ performance in Brazil can be a game of chance.

So far, the government has stated that in September 2014 it will increase tax on beer by between 1.5-2.3%. Manufacturers will continue to pre-empt this tax rise by absorbing part of the increase during the FIFA World Cup. However, with continued inflation putting pressure on volume sales in 2014 and 2015, they will seek to protect their margins via further increases in unit prices during the year. As a result, manufacturers are likely to invest in cost-cutting initiatives, developing economy brands, and/or expanding the premium end of the market where demand is less price elastic.

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