Anheuser-Busch InBev (BUD) Industry Analysis

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Introduction

According to economists, an industry can be defined as a group of firms that supplies a market. However, an industry refers to a broader sector of the economy, while a market pertains to a more specific product. Anheuser-Busch InBev (henceforth BUD) competes in the drink and brewing industries. BUD is a European multinational brewing company that owns a variety of different beer brands. Some of these brands include domestics such as Budweiser, Michelob Ultra, and Bud Light. However, they also own numerous foreign brands such as Corona Extra, Stella Artois, Castle Lager, Harbin, Aguila, and many more. Since BUD owns all of these brands, they are able to effectively compete in foreign beer markets. Heineken, for instance, also owns many different brands. Some of these include foreign brands such as Amstel, Desperados, Sol, and Tecate. They also have craft brands such as Affligem, Lagunitas, and Morte Subite. Having many different brands allows these companies to stay competitive.

Industry Attractiveness

Industry attractiveness is the magnitude and ease of making profit, in comparison with the risks involved, that an industry offers. It is based on the number of competitors, their relative strength, width of margins, and rate of growth in demand for its goods and services. The beer industry is a billion dollar business, with BUD dominating a large percentage of the market. We will be identifying the factors that affect the beer industry using Porter's five forces of competition framework. For large brewing companies like BUD, it's easier to keep competition at a minimum. Some of this is accomplished by owning a large variety of brands so they can keep

their market reach high. For smaller brewing companies, you will see more hypercompetition which is when competitors make fast moves to gain new advantages. For BUD, however, this is not necessarily the case. Because of this fact, the five forces model is more reliable since their presence isn't changing very rapidly.

According to the Foundations of Strategy textbook, for most industries, the major determinant of the overall state of competition and the general level of profitability is competition among the existing firms within the industry. The rivalry for existing firms in the beer industry is strong because there are many industry competitors.

BUD has several key competitors, two of which we have identified are Molson Coors Brewing Company and Heineken. These two companies are examples of existing companies that compete most directly with BUD. According to Yahoo! Finance, BUD has a market capitalization of

133.939 billion dollars. Molson Coors has a market capitalization of 13.193 billion dollars and Heineken has a market capitalization of 50.011 billion dollars. Because of these rivalries, there are a lot of different kinds of beers on the market. Since this is the case, companies must keep their prices low which will take a toll on their profitability in the long run. The intensity of competition between established firms is the result of the following factors: Concentration, diversity of competitors, product differentiation, excess capacity and exit barriers, and cost conditions.

Since there are multiple different companies competing in the brewing industry, we need to take into account the principle of substitutability, which is the next factor from Porter's five forces competition framework. Substitutability means that different products in different industries can be substituted for one another when they become relatively less desirable to consumers. This could be because of a price increase or a decrease in quality of the product. Substitutes for beer that have been identified are hard liquor, wine, cigarettes, and marijuana. The threat of substitutes is moderate to strong because consumers are not willing to pay the price for beer when they can get a cheaper substitute. This makes the demand for beer elastic with respect to price. Molson Coors and Heineken also have very popular beer brands that consumers enjoy. If BUD raises their price or changes an ingredient to something less desirable the consumers will go to another brewery.

The next factor from Porter's five forces of competition is the threat of entry into the beer industry. Given that the beer industry is attractive and profitable, it will generate new competition. There are countless craft breweries popping up and causing more competition in the marketplace. These small, independent breweries are on a rise, but established firms, like BUD,

are creating barriers to entry. This is an advantage for BUD since it excludes some of the competition.

The first barrier to entry is capital requirements. Capital costs of getting established in an industry can be so high that small companies are discouraged from entering. The second barrier for new entrants is the choice between entering on a small scale and accepting high unit costs or entering on a large scale and bearing the costs of under-utilized capacity. So, new entrants into the beer industry would need to be efficient, which typically requires a large-scale operation, a feat that is usually not possible. The third barrier is that established firms may have a unit cost advantage over entrants irrespective of scale. BUD's cost advantage comes from barley, since they purchase 20 percent of the world's supply. This gives them greater bargaining power stemming from their monopolistic influence. Product differentiation is the fourth barrier for new competition. Established firms have the advantage of brand recognition and customer loyalty to differentiate their products. BUD contributes to this barrier in the beer industry because they produce some of the top beer brands globally. These brands have huge brand recognition across the world and high customer loyalty. Governmental and legal barriers are the fifth barrier because regulatory requirements, environmental, and safety standards often put new entrants at a disadvantage to established firms. Compliance costs tend to weigh more heavily on newcomers since they have not had the benefit of being able to refine their practices over time.

The fourth factor on Porter's five forces of competition is the bargaining power of buyers. The strength of customer buying powers depends on two factors: Buyers' price sensitivity and relative bargaining power. Buyers' price sensitivity is the extent to which buyers

are sensitive to the prices charged by the firms in an industry. There are four main factors that influence buyers' price sensitivity:

- The greater the importance of an item as a proportion of total cost, the more sensitive buyers will be about the price they pay.
- The less differentiated the products of the supplying industry, the more willing the buyer is to switch on the basis of the price.
- The more intense the competition among buyers, the greater their eagerness for price reductions from their sellers.
- The more critical an industry's product to the quality of the buyer's product or service, the less sensitive are buyers to the prices they are charged.

Alcohol consumption typically constitutes a modest portion of disposable income, so this consideration is moderate to low in importance. A lot of BUD's power comes from its domestic brands. These brands are popular, so they can charge slightly higher prices in the short run. But, since there are competitors, the buyers bargaining power will put pressure on their profitability in the long run.

Relative bargaining power is the relative power of parties in a transaction to exert influence over each other. A key issue is the relative cost that each party sustains as a result of the transaction not being consummated. A second issue is each party's expertise in managing its position. Some factors that influence relative bargaining power:

- Size and concentration of buyers relative to suppliers - The smaller the number of buyers and the bigger their purchases, the greater the cost of losing one.

- Buyers information - The better informed buyers are about suppliers and their prices and costs, the better they are able to bargain.
- Ability to integrate vertically - In refusing to deal with the other party, the alternative to finding another supplier/buyer is to do it yourself.

The fifth and final factor in Porter's competition framework is the bargaining power of suppliers. The firms in the industry become the buyers and producers of inputs are the suppliers in this factor. Because raw materials, semi-finished products, and components are often supplied by small companies to large manufacturing companies, suppliers usually lack bargaining power. For BUD, the bargaining power of suppliers is relatively low. An example of this would be the 17,000 barley growers across the world that BUD purchases barley from. Since there are so many suppliers, they are left with no individual bargaining power.

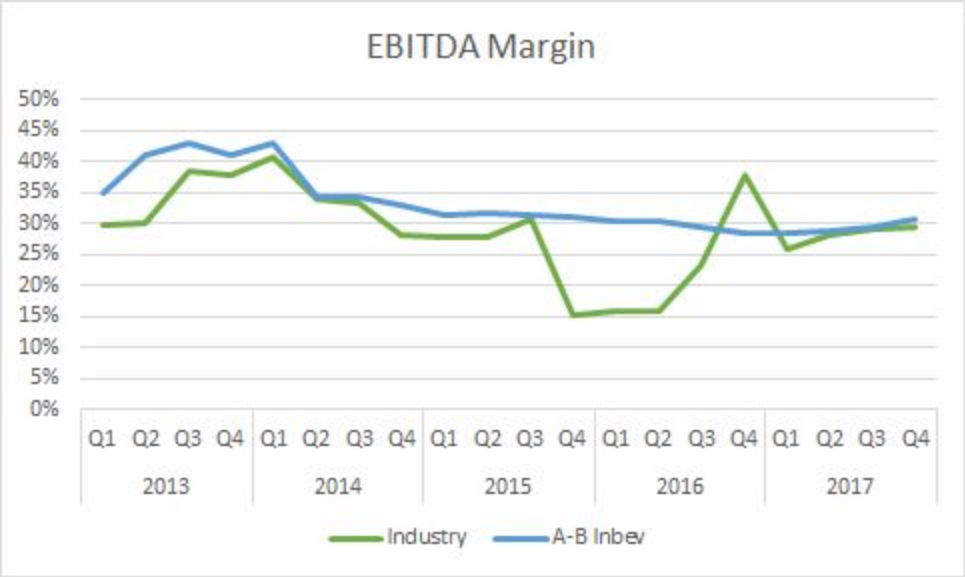
There is one possible force that is missing: Complements. In any industry, substitute goods will lower the value of every other good in that market. A complement will increase the value. There are several types of complements for beer. Two simple examples being beer salt and limes. These go really well with beers like Corona and Heineken. Often, people will want to alter the flavor of their drink and give it more of a twist. When you go to a liquor store or a bar, there are always snacks available that enhance the experience of drinking, not just to get drunk, but to unwind from a long day at work. It's also common for some consumers to add oranges to their drinks. Also, when you go to a liquor store, there will be tastings. Customers like this because they can figure out what they want to get instead of having to take the risk of getting something they would otherwise end up not liking. The only downside of these beer tastings is that you have to pay for them. People will go out to dinner and order a steak and have beer with

that, though they may opt to have wine with their steak instead. People also like to drink beer when they go eat a burger. Liquor stores will also sell cigars. Many people will want to have a cigar with their beer or whiskey, if that is what they are drinking.

Financial Standing

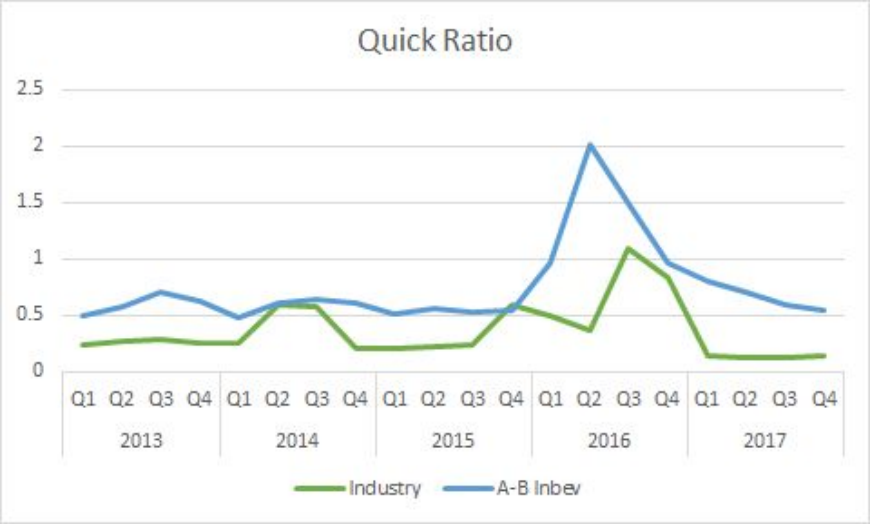
Analyzing own-company financial information is more useful in a competitive analysis. It allows a business to look at themselves and see where improvements can be made so that they can improve their operations to be more efficient in specific areas. The main use of financial data in an industry analysis such as this is to compare it to industry average data to see how well the firm is performing against other competitors in the marketplace.

The first measure we will be examining is the EBITDA margin for both BUD and the alcoholic beverages industry over the past five years. This margin was selected to provide a look at the profit potential of BUD compared to its competition.



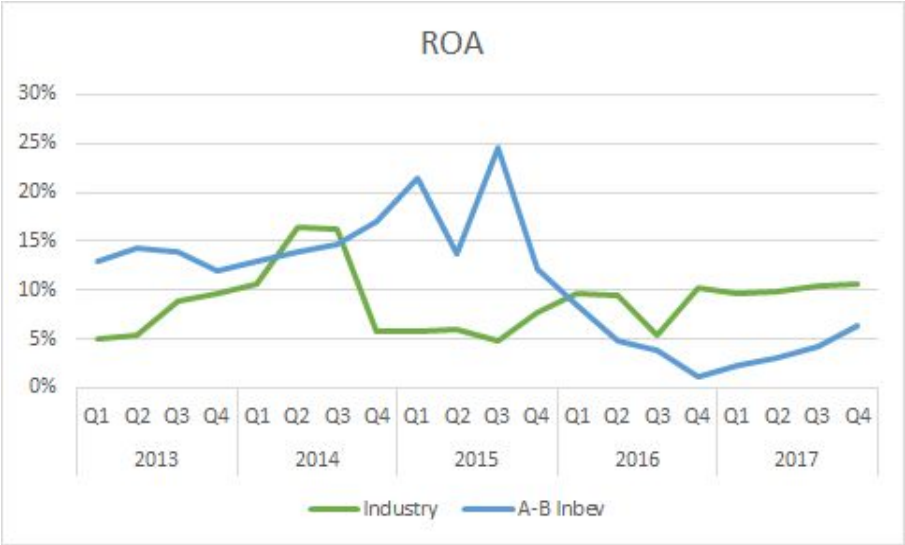
It is clear from the chart that BUD has consistently kept up with and even outpaced the industry with their earnings margins. This is important to the longevity of the company since higher

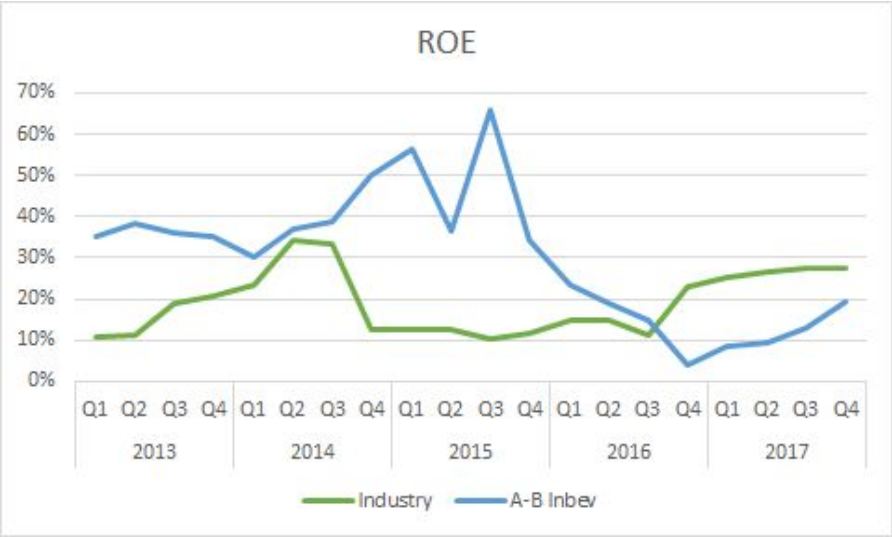
margins mean that BUD has more wiggle room to take risks in its investments. Furthermore, BUD demonstrates resistance to market shocks since its margins remained on a relatively shallow decline while the rest of the industry took a four-quarter nosedive. To help explain and further reinforce this idea of shock resistance, we will next look at the quick ratio.



The quick ratio is a fairly useful proxy for measuring a firm's liquidity. We can see that BUD tends to be more liquid than the rest of the industry on account that their quick ratio stayed about 0.25 higher than the industry's on average over the last five years. This relative liquidity allows BUD to absorb shocks more easily than other firms simply because they have more assets available to help ride out the storm without getting into a bind on debt. Having a quick ratio comfortably above the industry average is a good indicator of BUD's financial well-being.

Both the EBITDA margin and quick ratio indicate that BUD is performing well against its competitors, but what about their returns? Next up, we will look at return on assets and return on equity to get an idea about how efficiently BUD is using its capital compared to the industry average.





As expected, both ROA and ROE follow a similar pattern of growth and decline. BUD posts good numbers on both measures through the end of 2015. In 2016, BUD's ROA fell significantly below the industry average. ROE also fell below the industry average later in 2016. Falling behind in both of these ratios is certainly a cause for concern at BUD. Generating lower rates of return is not the end of the world for a company, but it can mean attracting less investors thereby reducing capital available for use in the future.

Applications

We have thoroughly assessed all possible avenues and formulated a strategic plan that will help ensure the company is headed in a positive direction. Through intensive research analysis, we are able to ensure said vision by accurately identifying which markets will produce the most optimal results, as well as effectively positioning ourselves against any and all competition. In any business setting, especially this particular industry (beer industry) it is essential that any senior executive has a good bearing on the targeted market in which he/she can effectively and efficiently measure and compare data that will bolster market share. For BUD, the primary markets in which to achieve the most optimal results would traditionally be within the United States. This makes sense on account that BUD has been in this market for over 100 years.

Market segmentation is the process of dividing up a market base on consumer preferences. The first step is identifying possible segmentation variables. The beer market is divided up in a couple of ways: age and income. Older consumers would have higher income on average. Because of this they would be more inclined to get a fancier type of beer (IPAs, craft, etc.) to enjoy in the comfort of their own home while watching the game. College students love to drink beer, but for parties and football games, they do not want to spend too much. Because of this they would most likely go with Budweiser or Bud Light. This is probably one of the most attractive market segments in the brewing industry. However, a lot of college students don't enjoy spending $10 on a six pack but instead would rather spend around $6. In order to do well, BUD needs to price their products fairly.

That said, in keeping up with the ever-changing markets, BUD has made a strong initiative into China and Africa. China has the largest beer market by volume thanks to their

enormous population. As a result of these initiatives, BUD holds the third highest position in total market share of beer by volume and the number one position by volume in the fast-growing premium beer category in China. With consumer preferences shifting in the country, we expect strong growth for BUD's products to continue in China.

The long-term outlook for Africa is very attractive, and it is vital for any organization to establish a connection with its intended market. For example, BUD has made significant attempts to accompany the ever so fragile yet growing market in Africa. However, markets with increasing gross domestic products, a growing middle class, and expanding economic opportunities ensure great potential. Also, South Africa accounts for a vast majority of premium BUD products.

Effectively positioning your company against any and all competition is crucial in keeping up with continuous improvement. By effectively positioning your company against its competitors you are pro-actively insuring the company from certain liabilities. By forming such contingencies, allowance is made for errors to occur without causing significant harm to the company. However, effectively positioning against competition involves knowing how your product in that region relates to the consumer. For instance, BUD has leveraged the synergies associated with mass production and brand diversification in each regional competing market. This allows BUD to command a significant portion of local and global market share.

Recommendations

- Keep costs down to outpace the declining U.S. beer market and to improve margins.
    - The U.S. beer market has been in decline due to decreases in both the quantity of alcohol consumed and the proportion of alcohol consumed that is beer. People

aren't drinking as much and are substituting cocktails and wine for beer, especially younger crowds.

    - Earnings margins have been good, but the industry average has caught up. To maintain profitability, higher margins are a good place to start.

- Continue to invest in global markets.
    - BUD has experienced tremendous success in many of its foreign ventures, and it draws strength from each new market it is able to establish itself in. For example, an eSports campaign in China by BUD-owned Harbin Breweries was very successful in gaining market share among 18-29 year old males.
    - Growing markets in Africa can provide growth in the future as other markets reach maturity or even begin to decline.
- Expand non-beer product offerings, especially in mature beer markets.
    - In markets where beer sales growth has begun to stagnate, new sources of revenue must be developed.
    - Consumers often substitute from beer to ready-to-drink cocktails in cans and bottles. BUD already offers some varieties of these, but it could stand to increase the selection available.