Industry Analysis
Case Section #1
Adolph Coors in the Brewing Industry

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BREWING INDUSTRY ANALYSIS

Dominant Industry Characteristics:
The brewing industry has many principal characteristics like any other industry. The industry has six main key competitors who supply the entire United States with a small amount of lesser competitors. This means that competition between key competitors is stiff and that other entrants have a hard time competing. The industry's market for customers has grown only at a pace of roughly less than one percent. This in turn means that not only is competition stiff but that existing market-share is highly competed over.

All breweries in this industry are legally bound that they cannot establish their own outlets, besides at the location of their breweries. This means that each company must have a customer base of either retail stores or wholesalers, with a few exceptions.

Distribution within the market is another matter of what defines this industry. Those able to cheaply supply their customers are better off than those who can not. Advertising within this industry is becoming a booming area for companies to sink money into; however, if this advertising is not above par it makes almost no difference.

References to Attraction of Industry through Porters Model:
Overall the brewing industry is becoming less and less attractive as seen by exhibit one in the text of this case. Beginning in 1959 there were a total of 217 breweries, by 1983 there were a total of 78. This 64% loss of breweries is significant proof that competition within this industry is harsh.

A Weak Bargaining Force by Suppliers:
Within the brewing industry, brewers are supplied by a plethora of agricultural suppliers whose products are highly non-differentiated which in turn allows brewers to pick and
choose those that they wish to do business with. Other suppliers to the brewing industry are not much better off. This is because these suppliers of either raw packaging materials or the actual packaging material, i.e. cans, bottles, and boxes, are threatened by companies of the brewing industry. These threats from the brewers are that they can and do create their own facilities for the purpose of making packaging materials, sometimes ruling suppliers out all together.

**A Moderately Weak Bargaining Force by Buyers:**

Buyers in this industry include off-premise and on-premise outlets. However, with a large amount of wholesalers in the industry, breweries are able to choose with whom they want to do business with, and this in turn dilutes the power of the buyers. On the other hand wholesalers in this market are also able to choose from whom they want to buy their products and this in turn gives the some but not a lot of power. One of the key factors that allow some of the wholesalers in the market to exert some power is the establishment of exclusive rights to sell specific brands in their respective area. This is important because once these wholesalers entire these exclusive contracts with brewers, the brewer can not get to other wholesalers in the area.

**A Highly Weakened Threat by Potential Entrants:**

Potential entrants to the brewing industry face many difficult barriers to entry by those already in the industry. The bigger brewers of the industry have fantastically achieved great economies of scale. This has become apparent by the capacities of their breweries. This has not only happened at their breweries but also at their packaging facilities. Another of the weakening forces to new entrants is the already strong brand recognition realized by existing firms. This brand recognition is a hard achievement to combat for
new entrants because they face putting there products on the market with no name or word-of-mouth at all. Along with difficulties in making a name for themselves, new entrants have to face serious problems with gaining the capital to supply such large scale operations like the existing companies in the industry. To add to these new entrants also face dire costs in advertising to get their name out and they have to deal from scratch with all the wholesalers nation-wide.

**A Moderately Strong Force of Substitute Products and Services:**

The beer industry is faced against an immense amount of substitutes for its products. This is mostly from other alcoholic beverages such as liquors and wines; nonetheless, non-alcoholic beverages still play a roll in taking away market share in the general beverage industry. With relatively no switching costs whatsoever customers can easily change their preference on what they want to drink, or sell.

**A Strong Force from the Intensity of Rivalry Amongst the Industry Competitors:**

With six main competitors in the industry pushing each other around, it’s easy for a company to get tossed around in the mix. This would especially happen from the bigger bullies of the group – Anheuser-Busch and Miller. These two companies with roughly 55% of the market share can really flex their muscles money and advertising-wise against the smaller competitors. Along with extensive advertising for competition among competitors for existing market share, competitors face against each other the trends of new beer products in which they must comply or otherwise lose part of the pie. For those who just comply; however, they still lose out on the money because of the other companies who take a proactive approach by starting the latest trends in beer.
Expected Driving Forces in the Future and Strategic Groups

One could expect that the driving forces that will change the brewing industry between 1985 and 1990 to be much of the same. They will be much of the same in that products put out by either the same key competitors or possibly new breweries will increase in taking away market share from other brewers. However, one can also say that the industry will still be barred heavily to new and potential entrants because of the heavy costs incurred by the brewing industry from capital requirement to advertising fees. Also with the extensive rivalry amongst existing competitors one can see that the breweries will want to keep raps on new trends, entrants, and more efficient ways of distribution. Strategic groups in this industry seem to only exist in a few circumstances. In one circumstance it is the relationship between wholesalers and brewers with their exclusive product sales. One could see a rise in this area so that brewers will not want to switch to new entrants in the whole-selling market. The other circumstance that could happen more in the future is breweries buying out others in the case of Stroh and Schlitz.
PORTER'S FIVE-FORCE MODEL

- Threat of Potential Entrants
- Intensity of Rivalry Among Industry Competitors
- Threat of Substitute Products and Services
- Bargaining Power of Suppliers
- Bargaining Power of Buyers

The diagram illustrates the five forces that shape competitive conditions in an industry, each impacting and being impacted by the others.
Appendix 1 Brewing Industry Forces Model

FORCE: Threat of Potential Entrants

- Economies of scale achieved by larger brewers (weak)
- Brand recognition among existing firms (weak)
- Large amounts of capital required to meet demand for larger quantity production (weak)
- High advertising costs associated with maintaining or starting brand recognition (weak)
- Strong relationships between existing brewers and wholesalers (weak)

FORCE: Bargaining Power of Buyers

- 4,500 wholesalers nation-wide (weak)
- Somewhat large extent of brewers to choose from (moderate to low)
- Establishment of exclusive rights to sell specific brands (moderate)

FORCE: Bargaining Power of Suppliers

- Abundant amount of agricultural producers, all with relatively same product (weak)
- Aluminum can and glass bottle production and packaging facilities could be setup by top brewers (weak)
- Raw materials needed for packaging are undifferentiated (weak)

FORCE: Threat of Substitute Products and Services

- Other alcoholic beverages: wines, liquors, etc. (strong)
- Non-alcoholic beverages (moderate)
FORCE: Intensity of Rivalry Among Industry Competitors

- Six main key competitors in industry, listed in market share order: Anheuser-Busch, Miller, Stroh, Heileman, Coors, and Pabst (strong)

- Past and expected beer consumption at a rate less than one percent, leads to fight for existing market share among competitors (strong)

- Expansion of product lines in attempt to adjust to super or ultra-premium and light beers (moderate)

- Extensive advertising among key competitors (strong)
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<tr>
<th>Key Success Factors of Brewing Industry</th>
<th>Significance of Key Success Factors</th>
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<tbody>
<tr>
<td>1. Availability of product to customers</td>
<td>In order to remain competitive, brewers in this industry must make their products readily available or accessible to their customers (wholesalers, etc) or they will otherwise go with the other key competitors.</td>
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<td>2. Innovation of new products</td>
<td>The development of new products that may create a new demand or retain repeat customers is always a key to success when in competition with others companies that do the same.</td>
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<td>3. Stand-out advertising</td>
<td>When everyone’s advertising in an industry is the same, it’s easy for companies to get lost in the mix and have there advertising dollars do almost nothing. However, by staying on top with new and interesting ways to promote a product people remember that product better.</td>
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<td>4. Customer loyalty</td>
<td>An important competitive advantage which ensures that customers will be less likely to switch to another company for a similar product.</td>
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<td>5. Adjustability to demand</td>
<td>The ability to maintain and tweak capacity to either lower output in times of lower demand or raise output in times of higher demand is a key to keeping revenues that would otherwise go to other companies.</td>
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<td>6. Efficient distribution channels</td>
<td>Costs of distribution in this industry need to be logically looked at. If firms in this industry carry significant costs from distribution which are then reflected in their prices to customers, then customers will choose the competition.</td>
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<td>7. Being ethical and maintaining a good name/position</td>
<td>By taking good ethical stances on issues, a company maintains a good name through its suppliers, customers, and employees. When a company has this position it doesn’t face all the factors of lawsuits and missed opportunities through the people it deals with.</td>
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