Global market review of premium beer – forecasts to 2013

2007 edition

Just-drinks

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*Prices correct at time of publication.

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About the author

Michael Mayers has run his own research and marketing consultancy for over 24 years. He has worked as a consultant and managed projects for many clients within the drinks industry, business information publishers and the UK government, and is a full member of the Market Research Society, an accredited consultant on the UK government's National Consultants' Database and a member of the Independent Consultants' Group (ICG).

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Introduction

This report is just-drinks' third edition of the global market for premium beer. With three readings of this sector at different points in time, we are in a position not only to update the analysis from our previous two reports but also to examine the trends that have taken place over the past 18 months.

As with previous reports, we have gathered information from sources in the public domain and from discussions with leading international brewers and industry experts, and in doing so we have been able to create our own primary market data for global and regional premium beer markets.

The forecasts contained within the 2004 and 2005 reports have been revisited and revised in the light of new information and further extended to 2013.

Variations between the data shown in this report and the two previous reports occur only where more up-to-date information has been obtained.

Chapter 1 Executive summary

Definition

This report shows that there is no precise universal definition of premium beer. But while the term is more of a marketing concept, there are some defining characteristics, not least higher alcoholic strength.

The UK's British Beer and Pub Association, for example, puts packaged lager into four classes based on alcohol content or ABV (Alcohol By Volume). Premium beers come under Classes III and IV while standard and low alcohol beers come under Classes I and II. Classes III and IV are defined as follows:

- Class III – premium lagers of xxx% to xxx% ABV
- Class IV – super-strength lagers of xxx% ABV and above

But more important than alcohol content, especially outside the UK, is the status that premium beer brands confer upon their consumers through their superior quality and image attributes. Their higher price is an image attribute that helps to justify and reinforce their premium position.

However, the fact that premium beer is to a large degree a marketing concept creates problems in trying to monitor trends in sales data over time and between regions. The concept is not constant. It is dynamic and changes between years and between regions and countries.

The sales data shown in this and in the previous reports include both the off-trade (i.e. retail sales) and the on-trade (sales through hotels, pubs, clubs and restaurants).

Key findings

- The trend towards considerable rationalisation of the global beer market over the last decade has continued into 2007.
- The leading international brewers have continued to buy up local brewers in major beer markets such as China, India, Brazil, Mexico and Russia.
- They have also been merging with each other or forming strategic alliances.

Chapter 2 Definition

What is premium beer as compared with standard beer? The problem is that there is no precise definition that is universally applied by the industry.

According to Wikipedia, *"Premium lager is a name sometimes used by brewers for products they wish to promote, there being no legal definition for such a product, but it is usually applied to a flagship product".* The article goes on to describe how new subdivisions are appearing such as 'sub-premium' and 'super-premium'. These are terms used by Anheuser-Busch for example to describe low-end Busch beer and high-end Michelob beer.

The British Beer and Pub Association, the UK's principal industry association, puts packaged lager into four classes based on alcohol content or ABV. Premium beers come under Classes III and IV, while standard and low alcohol beers come under Classes I and II. Classes III and IV are defined as follows:

- Class III – refers to premium lagers of xxx% to xxx% ABV
- Class IV – refers to super-strength lagers of xxx% ABV and above

However, while higher alcohol content or ABV is one factor that distinguishes premium beers from standard beers, it is not the only one, particularly outside the UK. Even more important is the status that premium beer brands confer upon their consumers through their superior quality and image attributes. Their higher price is an attribute that helps to justify and reinforce their premium position in comparison with standard beers.

In short, while premium beers are generally higher in alcoholic strength than standard beers, the term is more of a marketing concept than a precise product definition.

The absence of global definitions creates problems in trying to monitor trends in premium beer sales over time and between regions. The concept is not constant. It is dynamic and changes between years and from country to country.

Chapter 3 The leading international brewers

Introduction

As in earlier reports, this report examines how leading brewers build premium beer by establishing brand values which make the premium positioning acceptable to consumers. Indeed the clever aspect of the premium beer concept is that the premium price itself enhances the brand by conferring status upon its consumers.

Underlining that premium beer is a somewhat loosely defined term, when SAB Miller was asked to give an estimate of the proportion of total beer sales accounted for by premium beer, which the previous report estimated to be xx%, the company said: *"Our current estimate is slightly lower than this (closer to xx%). However, this may be due to the brands we categorise as premium rather than a fundamental disagreement about the size of the category."*

But while companies may differ over the precise size of the category, there is consensus that it is the most dynamic sector of the market.

The top players and their premium brands

The prevailing trend towards rationalisation and consolidation in the global beer market, mentioned in the 2004 and 2005 reports, has continued unabated. Leading international brewers have been acquiring local brewers, notably in high-population countries such as China, India, Russia, Brazil and Mexico, while recent years have also seen a number of mergers between major players and the formation of strategic alliances.

The biggest consolidation of 2004 took place on 27 August when the Belgian giant Interbrew, then the world's third largest brewing company, merged with the Brazilian company AmBev, the fifth largest brewer in volume terms at that time, to form InBev. This company has become the world's largest brewer in volume terms, having overtaken the US giant, Anheuser-Busch.

Chapter 4 Major companies' marketing strategies

The previous edition of this report observed that the principal marketing strategies of the leading international brewers is to seek to justify the higher prices that consumers pay for their premium brands. This remains true in 2007.

However, while these companies recognise the importance of having global premium brands in their portfolios it is clear they also see value in local premium brands. This is underlined by the acceleration of acquisitions of local brewers and partnerships/licensing relationships with local brewers, particularly in large population markets such as China, India, Russia, Brazil, and Mexico where local brands are well established and popular.

What seems to be new is a growing recognition on the part of leading international brewers of the need for premium brand differentiation. Our discussions with the major players and their own statements indicate their desire to gain consumer insight in order to help develop clear identities for their brands. Some refer to such concepts as consumer-focused innovation and others recognise the need for product innovation.

Thus while each of the leading players has its core international premium brands, there is a trend towards creating premium brand portfolios designed for particular regions and for the different markets within each region.

Graham Mackay, CEO of SABMiller, sums up the reasoning behind this strategic trend in the company's 2006 annual report:

"The worldwide trend towards premium brands makes the segment the fastest growing in the global beer market. Within this segment it's the international brands that are growing most rapidly at nearly four times the rate of the beer market as a whole. To compete in this segment, we have a portfolio of international brands, each with its own distinctive personality and attributes."

Graham Mackay goes on to point out:

Chapter 5 Market trends 2000-2006

The principal assumptions upon which our data estimates were based on in the previous edition of this report were:

- The sales of premium beers in volume terms had increased fairly rapidly between 2000 and 2006 whilst the total beer market was relatively static;
- Premium beer sales including super-premium accounted for around xx% of total beer sales in 2000 and by 2006 they accounted for xx% by volume;
- Premium beers are between xx% and xx% more expensive per unit price than standard beers.

From our latest analysis we believe that these assumptions held true in 2006. SABMiller believes that the premium sector accounts for xx% not xx% of the total beer global market. However, we have seen other figures that tend to support our estimate of xx%. What matters is that all the global and regional figures shown in this and subsequent sections are estimates. Their importance is less in their absolute values but in the trends that are shown for the period 2000 to 2006.

Estimated global premium beer sales

According to just-drinks estimates, total global sales of premium beer reached US$xxxbn in 2006, representing growth of xxxx% from 2000.

Premium beer sales, including super-premium, accounted for around xx% of total beer sales in 2000, and by 2006 they accounted for xx% by volume.

Table 21: Global sales of premium beer by value 2000-2006

	2000	2001	2002	2003	2004	2005	2006	% change 2006 over 2000
US$bn	xx	xx	xxx	xxx	xxx	xxx	xxx	xxxx

Source: just-drinks estimates, based on industry interviews, company reports and internet sources

Chapter 6 Premium beer consumers

While some leading international players see their premium consumers as being young, affluent adults, other major companies believe their premium brands appeal to a broad range of people, with affluence and education forming part of the demographic makeup of their target market.

We have observed that targeting young affluent adults is becoming more important in less developed and less affluent countries and regions, while in more developed markets companies are increasingly seeking to build mainstream appeal for their premium brands.

For example, premium brands in China are about two to three times the price of other beers. In China, the premium beer segment is said to account for about x% of the total market. Premium beer is sold in non-returnable, superior packaging and so incurs higher capital, operating and material costs. Therefore premium beer is confined to the young affluent Chinese living in urban areas.

In contrast, SABMiller relaunched its premium brand Miller Genuine Draft in North America in the fourth quarter of 2006 with a new positioning targeted at *“mainstream sophisticated consumers seeking to trade up to affordable luxury”.*

Another example is Heineken’s new brand Heineken Premium Light which was launched in the US in February 2006. Heineken said at the time:

“We’re offering domestic light beer drinkers the option to ‘trade up’ to an easy-to-drink product that carries the image and the cachet of Heineken’s premium brands’ status.”

Diageo said that their premium beer brands continue to broaden their consumer appeal through effective advertising campaigns and targeted placement.

On the other hand, InBev takes the view that meeting consumers’ needs requires a portfolio of many brands across the price spectrum. A key

Chapter 7 Product innovation

In the December 2005 edition of this report we stated:

"In the highly competitive market conditions of the premium segment of the beer market which is recognised by the industry as being the one sector which has growth, the leading brewers are under pressure to be innovative. In particular they have to keep introducing new products that justify their premium prices in terms of their product quality and image."

Not only does this statement still apply in 2007, but market conditions have become even more competitive, making such innovation all the more vital.

The leading players are increasingly recognising the importance of basing innovations on consumer insight, which has spawned innovations such as lower-calorie light premium beers and new draught beer systems for the home.

A good example of one of Heineken's innovative new products is Heineken Premium Light. This was imported into the US in 2007. Heineken describes it as follows:

"More than xx unique liquids were developed and tested before the final recipe was chosen for the new premium product. Heineken Premium Light is brewed with the special Heineken horizontal method creating a uniquely smooth and refreshing taste. With only xx calories and xxxg of carbohydrates, it still maintains some subtle flavour notes of Heineken Lager Beer."

Heineken's DraughtKeg Beer Tender is yet another example of paying attention to consumer needs. This is an appliance that enables consumers to consume draught Heineken premium beer at home. The appliance keeps the x-litre keg at the right temperature and in optimal condition for a period of three weeks after the first beer has been dispensed.

In February 2006, InBev launched Peeterman Artois in the UK. This is described as a x% lager *"with all the attributes of a premium lager".* Steve McAllister, director of take-home for multiples at InBev UK, told the grocery journal *Checkout*:

Chapter 8 Key factors that influence the demand for premium beer

In our previous editions of this report, just-drinks observed that there appears to be consensus among industry experts that the following factors interact to influence consumer demand for premium beer:

- Population trends and developments
- Global economic outlook
- Legislation and regulations
- The competitive activities and marketing strategies of the leading international brewing companies *(discussed in detail in the previous chapters of this report)*

This report has already dealt with the major companies' marketing strategies at some length in Chapter 3. Therefore we begin with a review of global population trends.

Population trends and developments

In a report published in 2006, the US Global Change Research Information Office observed that the world population will grow significantly, despite falling fertility.

"There is a most striking paradox in global population trends: on the one hand we have had a rapid decline in fertility for over two decades in many developing countries – not to mention the already very low fertility in most highly developed nations; on the other hand we will certainly experience a further massive increase of the world population."

According to the World Resources Institute, the world population is still increasing by more than xxm annually. By the year 2025, the projection is that there will be xxxbn people in the world. This is about xx% higher than it was in 2002. By 2050, the global population is projected to reach xxbn people. According to the Institute, *"most of this growth will occur in developing countries".*