

Molson Coors tapping into Asian markets

By 2015 1 in every 4 beers will be consumed in China

KRISHNAN (KANDY) ANAND is president of Molson Coors International of Molson Coors Brewing Co. Most recently he served as president of Coca Cola's Philippine Business Unit and prior to this position was vice president of Coca Cola's Global Revenue Growth Management and Commercial Leadership. For 15 years prior to Coca Cola Anand served in various senior marketing strategy roles with Unilever in India. Currently he is a board member of AFC Enterprises, Inc. Anand holds an MBA from the Indian Institute of Management.

Beer would probably not be the first beverage you'd associate with China, where tea is a cultural pastime. Nevertheless, the country's beer drinkers represent a fertile market and one that is growing at a heady pace. This makes it a magnet for foreign breweries that have seen their domestic markets show signs of fatigue during the recent global economic recession.

"China is the biggest and yet fast growing beer market in the world," said Kandy Anand speaking at a Robert Reynolds Distinguished Lecture hosted by the University of Colorado Denver's Business School, the Institute for International Business and the Center for International Business Education and Research (CIBER).

Anand explained that the Chinese market is big based on the volume produced by its 1-plus billion population and not because of how much beer individual drinkers imbibe. In fact, with per capita consumption hovering around 31 liters, China does not even rank among other beer-drinking populations (see sidebar top of page).

"Per capita consumption is important because it draws a picture of what's going to happen in the long term," said Anand. As people continue to develop their taste for beer, the long-term potential is huge in the emerging markets

of Asia as well as in Africa, Middle East, Eastern Europe and Latin America. These regions have grown in volume from 48 percent in 1995 to 66 percent in 2010 (see chart below).

The chart also shows how the market has shifted in the past 15 years, flattening in Western Europe and North America while exploding in emerging Asia, China in particular. So despite the fact that beer drinkers in China have yet to step up to the bar in the same numbers as their counterparts in developed countries, the trends are indisputable.

For Molson Coors Brewing Company, the result of a 2005 merger between Molson of Canada and Coors of the US, the trends are important, Anand said. "Because 90 percent of our business comes from North America (US, Canada) and 10 percent from the UK." If the brewery was to grow, it had to go where the growth was occurring. Although the company was selling abroad, those sales represented a tiny share of Molson Coors' revenue.

Which is why in 2008 Molson Coors, the United States' 5th largest brewer by volume, established the Molson Coors International (MCI) business unit and tasked it with the mission of the company's brands into new global markets.

Hot, flat and crowded

To paraphrase author/columnist Thomas L. Friedman, the global beer market is hot, flat and crowded: hot where opportunity is flourishing, flat where opportunity is waning and crowded all over.

How crowded?

Per capita beer consumption*

Country	Liters
1. Ireland	155
2. Germany	119
3. Austria	106
4. Belgium	98
4. Denmark	98
5. United Kingdom	97
6. Australia	89
7. United States	85
8. Netherlands	80
9. Finland	79
10. New Zealand	78
11. Canada	70
12. Switzerland	57

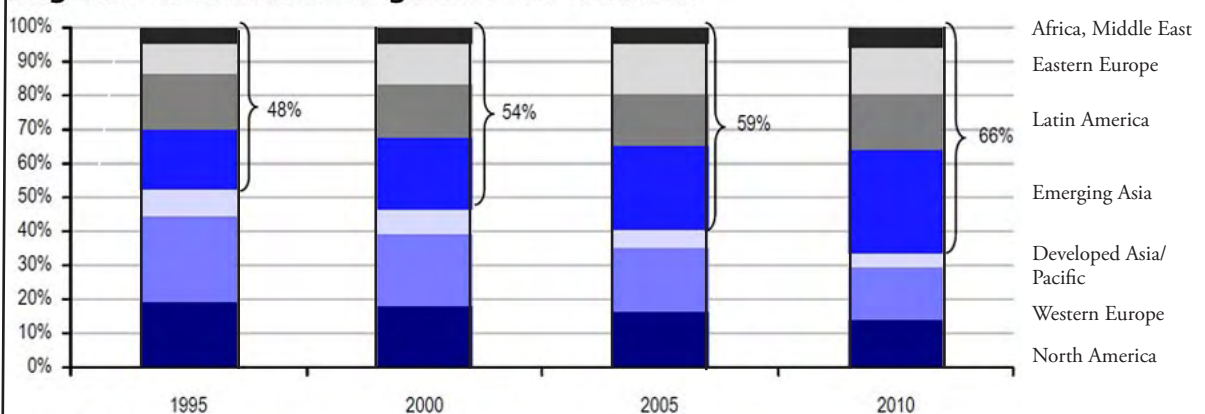
*Liters of beer consumed per person per year - Source: NationMaster.com

At 158.6 liters per year, the Czech Republic is the top beer consuming country according to Wikipedia.

"Our competitors used to have a 30 percent share of foreign markets; now that share is 63-64 percent. There is lots of movement in the new and emerging markets," said Anand. "Companies are buying each other up, merging and consolidating" and creating industry giants. At the other end of the spectrum, he said, are small micro breweries which contribute about 20 percent of the volume. "I think everyone in the middle is going to get squeezed and we're going to end up as an industry with a few big players and a lot of small contenders."

In addition to foreign brewers looking to push their brands to the top, "countries have their own brands," said Anand, citing

Regional contribution to global beer volumes



Source: UBS estimates

China's Snow beer which has a 25 percent market share. "Why would drinkers switch loyalties to an imported brand from a long-established domestic one?" The answer is to provide a quality product, get it on store shelves and in bars; after that, it's up to the beer drinkers to decide its fate, he said.

There are various ways to enter an international market, said Anand. "You can build market share or buy it. Building it, by exporting to China out of the US or UK, wasn't feasible. We needed a greater focus on distribution channels, local teams on the ground to push growth and production facilities to ensure freshness for local consumers."

Growth strategy

After years of researching the China beer market, Molson Coors determined that the time was right to establish a presence in the country. Among the factors they considered were the growing upper and middle classes with an income structure that allowed for discretionary spending on things such as imported beer. So earlier this year Molson Coors made a \$40 million investment to acquire a controlling interest in a joint venture with Si'hai Beer Co. in Chengde, China.

This is a small investment when compared to other foreign brewers in China. Belgian-based Anheuser-Busch InBev invested several hundred million dollars in China this year. The world's largest brewer, AB InBev has been in the Chinese market since 1997 and now has more than 35

breweries in 11 provinces.

This does not change MCI's strategy which is based on prudence. "The growth strategy is to make a relatively modest initial investment in brewing capacity at one facility and then expand as sales grow," said Anand.

The Chengde facility will be brewing Coors Light, which is already being marketed in China and enjoying reasonable success. The joint venture is expected to substantially increase market share for the company's flagship brand.

India

Like China, India is an emerging market with huge potential though its per capita consumption is only 0.8 liters per annum. The factors that make China so attractive are also at play in India: a young and growing middle class and a mega population. But that's where similarities end.

Whereas China is overrun with competitors, India is burdened with regulations. "Every state has its own laws; it's like doing business with 29 individual countries, said Anand. But the growth rate is hard to ignore: the Indian beer market is growing at a compound annual growth rate (CAGR) of 12 percent and is forecast to grow to 50 million hectoliters by 2020, which would put it in the top 10 beer markets globally.

It's these numbers that brought MCI to India in June of this year with a \$35 million offer to purchase a controlling stake in Cobra India. Now known as Molson Coors Cobra India, the joint venture in-

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cludes a manufacturing facility in Bihar with a capacity of 2.5 million cases and a stable of established brands consisting of Cobra Premium, King Cobra Superior and Iceberg 9000.

Anand is bullish about his company's prospects in India. Looking down the road 3-4 years, he expects that Molson Coors will be the No. 3 brewer in India with a market share of 5-10 percent.

Clearly, the emerging markets will be the source of growth and revenues for the beer industry in the coming decade. MCI's strategy is to capture a fair share of this business; it has a 5-year plan to double its growth every three years.

MCI's goal is to become the growth engine of Molson Coors, said Anand. "By 2016 the international component should represent 15 percent of the Molson Coors business enterprise.

"We want to contribute meaningful EBITE (Earnings Before Interest & Taxes) to the company." ♦

IN ORDER to expand Molson Coors brand portfolio outside of its major markets (US, UK, Canada), Molson Coors established Molson Coors International (MCI) in 2008. It is comprised of three primary regions – Asia, Europe, Latin America & the Caribbean, as well as select new-market opportunities. MCI is headquartered in Denver, Colorado with more than 400 employees working in offices across the US, Europe, Asia and Latin America.

Molson Coors International Brands

Asia

American Samoa, China, Hong Kong, India, Japan, Philippines, Taiwan, Vietnam

Latin America & Caribbean

Aruba, Bahamas, British Virgin Islands, Cayman Islands, Costa Rica, Mexico, Netherland Antilles, Panama, St. Maarten, US Virgin Islands

Europe

Austria, Canary Islands (Spain), Cyprus, Denmark, France, Germany, Greece, Iceland, Italy, Malta, Norway, Portugal, Russia, Spain, Sweden, Switzerland, Turkey

Middle East

United Arab Emirates

Coors Light, Coors Banquet, Coors NA, Zima, Grolsch, Sol, Molson Coors Cobra India

Coors Light, Coors NA, Blue Moon

Coors Light, Carling, Caffrey's, Caffrey's Premier, Worthington's, Coors NA

Coors Light, Coors NA, Carling, Caffrey's