

GLOBALIZATION INFLUENCES IN CZECH BREWING

PROJEVY GLOBALIZACE V ODVĚTVÍ PIVOVARNICTVÍ V ČR

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Anotace:

Příspěvek se zabývá českým pivovarnictvím a analyzuje klíčové globalizační vlivy projevující se v tomto odvětví. Základem je koncept G. Yipa (1995), přičemž příspěvek identifikuje hlavní projevy těchto sil v českém pivovarnictví včetně jejich možného průběhu do strategií pivovarů. Příspěvek je součástí řešení výzkumného záměru PEF MZLU v Brně č. MSM 6215648904.

Klíčová slova:

globalizace, pivovarnictví, globální strategie, vzájemná závislost, úspory z rozsahu

Abstract:

The paper focuses on the Czech brewing industry and analyzes the key globalization influences applicable to this industry. Concept of Yip (1995) is applied identifying the key influence of these forces in the Czech brewing including their possible projections into strategies of breweries. The paper is a part of solution of the research plan of FBE MUAF in Brno, No. MSM 6215648904.

Key words:

Globalization, Brewing, Global Strategy, Interdependence, Economies of Scale

INTRODUCTION

Current turbulent developments of international business environment are generally referred to as results of globalization. The competition is a result of dynamics of strategic manoeuvring amongst global and innovative competitors (Tichá, 2002). It is a result of rapidly growing intensity of rivalry based on quality and pricing, it is a result of a strong competition. It is competing leading to formation of new know-how, to formation of competitive advantage or to protection or building a new product or new market. Market stability is endangered by short production cycles, short period of new products' introduction, new technologies, frequent unexpected entry of new players, radical changes of market borders, but also new definitions of the market. In other words, the environment can be characterized by an ever growing level of uncertainty, dynamics, heterogeneity of competitors and a strong competitive rivalry.

This paper orientates on globalization, its aspects and main drivers in brewing industry. It describes the main tendencies, drivers, results and influences of globalization process in the brewing industry in the Czech Republic.

OBJECTIVES AND METHODS

Evaluating influences of globalization can be certainly done using a number of approaches. These can include for example the standard STEP analysis, Porter's diamond, etc. In this paper, we will come from the concept presented by Yip (1995), who identifies four main forces of globalization (see Figure 1). Objective of the paper is to identify the key projections of these forces in the Czech brewing industry, their influence, and also their possible impact

on business strategies of breweries – including suggestions of what breweries can do in order to exploit the positive effects of globalization and prevent the negative ones.

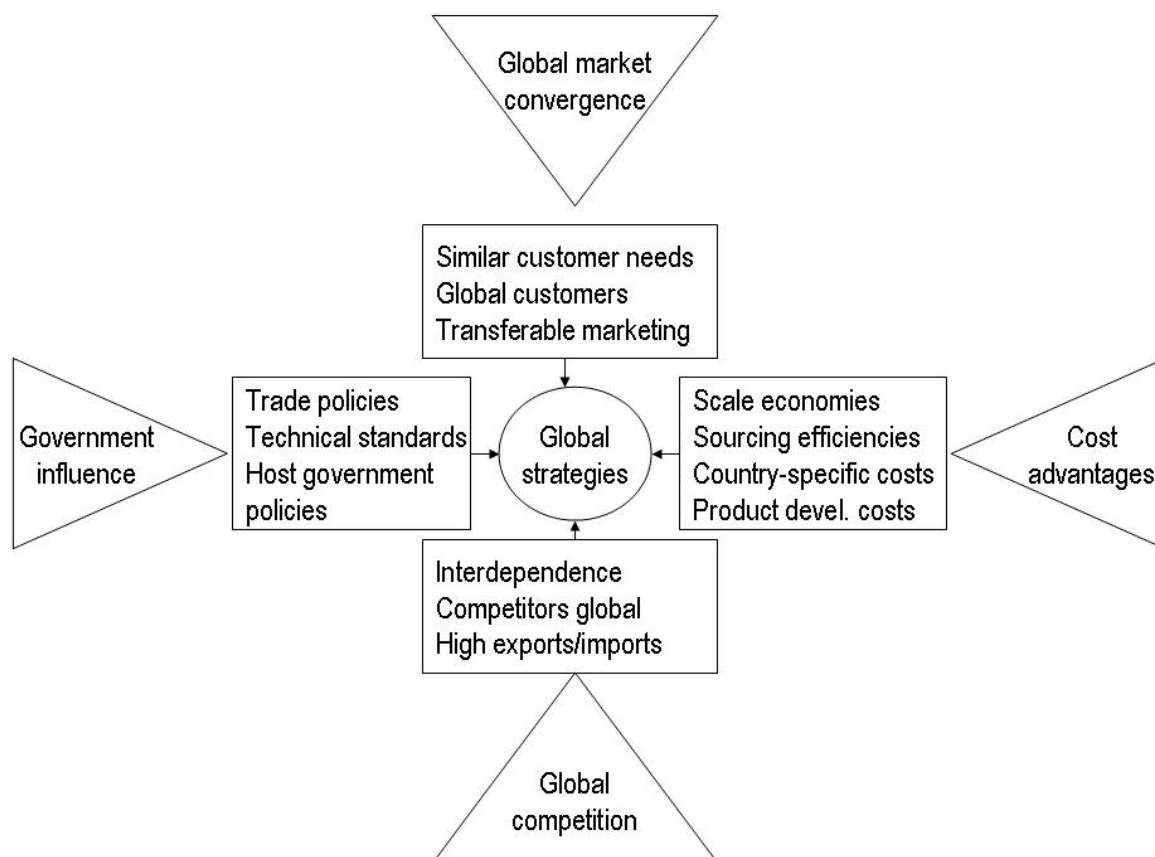


Figure 1: Main forces of globalization (Yip, 1995)

The concept of Yip (1995) comes from the assumption that it may be possible to identify a number of structural drivers of change, which are forces likely to affect the structure of an industry, sector or market. It is important to consider that it will be combined effect of some of these separate factors that will be so important, rather than the factors separately – just as it is in the case of environmental influences in general.

RESULTS AND DISCUSSION

Global Market Convergence

Similar Customer Needs

There is an increasing convergence of markets worldwide. In some markets, customer needs and preferences are becoming more similar as is the case of soft drinks, personal computers, etc. In spite of specific national traditions connected with beer in certain countries (in terms of trade and consumption), there are some features, which are becoming more and more similar – especially the use of distribution channels and their share on total sales. This can be seen in Czech brewing, where we can notice a slight shift from tapped beer to the bottled beer – becoming very similar to the structure of consumption in other developed countries (see Table 1).

Table 1: Share of bottled beer on total beer production in the Czech Republic in 2002 – 2005 (VÚPS, 2006)

Year	Bottles [thous. hl]	Total [thous. hl]	Share of bottles [%]
2002	8 223	18 178	45.24
2003	8 568	18 548	46.19
2004	8 695	18 753	46.37
2005	9 020	19 069	47.30
Index 2005/2002	109.69 %	104.90 %	104.55 %

Transferable Marketing

Marketing policies, brand names, and advertising may all be developed globally. This tendency is also apparent in the Czech brewing industry, where multinational groups owning Pilsner Urquell, Prague Breweries, Starobrno, and others use the same advertisement spots as in other European and world countries. This comes from similarity of customer needs, similarity of product, and from using the same marketing partners in more countries.

Global Customers

In brewing industry we can not speak about global customers as defined by Yip (1995), but on the other hand we could see global customers as travelling customers with the same needs and preferences, expecting the same or at least similar product on the road. It is obvious that travelling customer exists hand in hand with increasing revenues of travel agencies.

Cost advantages

Scale economies

Economies of scale connected with globalization mostly come from the possibility to use local units for production of different brands of beer without the necessity to transport the beer to distant areas.

Sourcing efficiencies

Efficiencies in procurement especially concern using the same raw materials bought in global markets, experience in communication with marketing partners (and being their “global customer”), etc. These measures project into lower costs, but also into a loss of specificity for local customers.

Country-specific costs

Firms producing in the Czech Republic in comparison with other developed countries have lower labour costs, which can be seen as an advantage for possible exports of beer. As far as imported beer does not have a very good position in the Czech market, this is not a major advantage for global competitors.

High product-development costs

Product-development costs are not high in brewing, and therefore this force can not be seen as a possible source of important global influences in brewing in general, neither in Czech brewing market.

Government influence

Trade policies

Integration of the Czech Republic into the European Union simplified exports of Czech beer in other European markets, which is used as an advantage by many Czech brewers. Simplification of imports, on the other hand, did not bring major changes to the market, and the domestic production still prevails – imported beer not overreaching 1 % of the total consumption (VÚPS, 2006).

The only specific influence of trade policy of government in the Czech brewing is the tax advantages for small independent breweries, which can be seen as their protection against the global giants. Small breweries can reach up to 50 % advantage in the consumption tax depending on their annual production.

Technical standards

There are no significant country-specific regulations in terms of technical standards, in the Czech Republic.

Host-government policies

Even though Czech governments are continuously trying to attract foreign investments, it does not particularly concern the Czech brewing. Foreign investors can not count with specific advantages, when trying to establish themselves in the Czech market.

Global competition

Interdependence

Global competition is becoming increasingly evident in many fields, not excluding the Czech brewing. Its development even pushes the globalization forces further on. Even though operation on global scale can deepen mutual interconnections between particular branches and operations, this can not be seen as an important influence in Czech brewing.

Competitors global

Global nature of the corporations owning three of the six biggest Czech brewers (see table 2) confirms Yip's (1995) premises of global competition – these corporations compete on many world markets, which increases their interaction, and influences the measures they take in this competition.

Table 2: Beer production of the 6 biggest groups and their share on the total production in 2005

Brewery (owner)	Production [hl]	Share on Total
1. Pilsner Urquell (SABMiller)	8 432 156	44.22 %
2. Staropramen (InBev)	2 968 841	15.57 %
3. Budweiser Budvar	1 091 303	5.72 %
4. Drinks Union	921 298	4.83 %
5. PMS Přerov	916 307	4.81 %
6. Krušovice (Dr. Oetker)	872 000	4.57 %
Top 6 total	15 201 905	79.72 %
Czech Republic Total	19 069 451	100.00 %

Source: Vacl (2005) and own calculations

High exports/imports

Foreign trade can significantly influence the situation in the Czech brewing industry. As far as Czech beer has a very good image in the world markets (and is often the only Czech product

people know), and beer exports are growing, exports can compensate possible problems in the home market. Exports in 2005 were the highest in the history of Czech brewing, and amounted for more than 3 million hectolitres (more than 15 % of the total production). Positive influence of exports can be noticed based on the share of exports on total production of some – even small – breweries. For example brewery in Jihlava, with the total production of about 85 thousand hectolitres exports more than 60 % of its production, and brewery in Nová Paka (total production of less than 30 thousand hectolitres) exports more than 50 % of its total production.

CONCLUSION

Performed analysis suggests the key globalization influences to include similar customer needs and transferability of marketing, economies of scale and sourcing efficiencies, interdependence and high exports, and trade and other government policies. These can result in identification of similar demands of customers in various national markets, and thus exploitation of common features of marketing strategies, growing power of multinational brewers in particular markets based on scale economies, strengthening position of Czech beer in foreign markets, and careful application of regulative measures of the government. Majority of global influences support the power of large brewing groups and threaten the small breweries in the Czech market. These, on the other hand, can build on specific customer demands, low product development costs, relative independence and export opportunities, and government support in the form of a lower taxation.

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