

PRODUCT PORTFOLIO PLANNING AT ESTONIA'S SAKU BREWERY

Jordan Mitchell prepared this case under the supervision of Professor Michael Pearce solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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INTRODUCTION

In early 2004, Cardo Remmell, chief executive officer (CEO), and Karin Sepp, marketing director of Saku Õlletehase AS (Saku), were discussing their product portfolio plan. Located outside of Tallinn, Estonia, in the small town of Saku, the brewery had seen the domestic sales of its beer fall from the prior year and had experienced a two-year erosion (in value) from 48 per cent to 42.5 per cent of market share in its domestic beer brands. During the same period, the company had made gains with its other alcoholic beverages, such as long drinks and cider, and with its non-alcoholic beverages, such as bottled water and juices. Since late 2001, the company also had the rights to resell three well-known international beer brands — Guinness, Kilkeny and Carlsberg — as well as a previous agreement to sell two major soft drink brands — Pepsi and 7Up. While increases in the imported beer and long drinks were encouraging, Remmell and Sepp wondered what they could do to stem the decline of their flagship brand — Saku Originaal. Furthermore, they saw the opportunity to take advantage of the 3.5 million Finnish tourists that visited Estonia and who were familiar with the Saku name. Shipping Saku Originaal 100 kilometres north to Finnish shores would also be made easier by Estonia's accession into the European Union (EU) in May 2004. However, Remmell and Sepp had to be careful to avoid cannibalizing sales to Finnish tourists on Estonian soil and had to be mindful of managing the growing product categories.

ESTONIA

Situated east of the Baltic Sea, south of Finland, west of Russia and north of Latvia, Estonia spanned 45,100 square kilometres and had a population of 1.4 million people. Throughout the country's long history, it had seen several occupations by Germans, Danes, Swedes, Poles and Russians. The country was independent from 1918 to 1940, and in 1940, it became part of the Soviet Union as one of the 15 Soviet republics. During the Soviet occupation, all of the country's enterprises were handed over to state control. In 1991, Estonia regained its independence, and the country quickly adopted liberal policies and transformed the nation to a democratic society. Many observers believed Estonia to be the quickest nation

of the former Soviet Union to integrate free-market mechanisms into the country's economy. Former state-run enterprises were transformed to publicly traded companies on stock exchanges in Tallinn (the nation's capital) and in other European countries. Estonia sought to adopt technology and was the first country in Europe to implement a virtual parliament with the government convening over a secure website. Technology was an important focus for the country, and by early 2004, it was not uncommon to pay for parking slots or coffees over mobile handsets. Exhibit 1 shows more facts about Estonia.

THE ESTONIAN BEVERAGES MARKET

Beer consumption in Estonia was estimated at about 67 litres per capita, with the total market staying flat at 95 million litres in 2003. One of the major changes in the Estonian beer market was the increase of imported beer market share moving from four million litres to 4.5 million litres in 2003. Beer (referred to as 'õlu' in Estonian) was predominantly sold in bottles (either plastic or glass) and cans, accounting for 91 per cent of the market, while draught beer made up the remainder. Industry observers believed that draught beer was declining, as the sale of bottled ciders and beers were becoming more popular in the hotels, restaurants and cafeterias (HORECA) sector. In addition, breweries were increasingly discounting the average price of cans by offering multi-packs of premium beer, which were largely aimed at tourists from Finland. Because the tax on beer in Finland was much higher, retail prices in Estonia were 40 per cent lower than in Finland. This price difference encouraged Finnish tourists to stock up during their visits. The beer market was divided between light pilsners and heavier stronger beers with higher alcohol content.

Many of the other beverage segments in Estonia were experiencing growth: cider, long drinks, bottled water and soft drinks. The cider market had grown, year on year, more than 20 per cent since 2000. It amounted to 4.7 million litres with consumption estimated at three litres per capita, and growth for 2004 was estimated to be more than 20 per cent. Long drinks, which were bottled or canned mixed alcoholic beverages, had seen dynamic growth, soaring 30 per cent to seven million litres. Long drinks were expected to continue their strong growth pattern for the next year or two, before reaching a saturation point in the market.

The bottled water segment climbed to 30 million litres, growing eight per cent with per capita consumption estimated at 25 litres while soft drinks grew five per cent accounting for 50 million litres and per capita consumption at 35 litres. Some industry observers felt that the bottled water segment was outpacing soft drinks, as consumers increasingly opted for water instead of soft drinks. The primary growth in the soft drink segment was from cheaper, local brands. To add to the pressure on the soft drink market, energy drinks with high doses of caffeine were becoming more widespread in the country, with an estimated 500 thousand litres being consumed and growth rates estimated at more than 30 per cent.

BEER CONSUMERS IN ESTONIA

While once considered an unsophisticated choice of beverage, Estonians' attitude towards beer had changed significantly since the Soviet days. During the 1990s, Estonian beer manufacturers, led by Saku, slowly changed the image of beer by improving the quality and by targeting women in advertising campaigns — something unheard of a decade earlier. Once the quality had been improved sufficiently, Estonians became intently loyal to local brews. However, by early 2004, consumers were attracted by the onslaught of imported beer brands, such as Heineken and Carlsberg.

The largest consumer group was men aged 36 to 50 years old, followed by men 18 to 35 and women 18 to 35 years old. The high influx of Finnish tourists also swayed the market, as the low price of beer in Estonia compared to Finland prompted Finns to stock up when away on vacation. The ease of travel between Helsinki and Tallinn was aided by ferry services taking between one and two hours and costing between €15 and €40, depending on the time of day and speed of the ferry. Apart from connections between Finland and Estonia, frequent ferry crossings were available between Sweden and Estonia taking approximately eight hours. Often labeled as “beer rallies,” it was not an uncommon sight to see Finns and Swedes armed with boxes of alcohol to take home. Emor, an Estonian market research company, conducted a survey that found 78 per cent of Finnish tourist purchased alcohol to take back with them, with two-thirds of all Finnish tourists visiting Estonia at least every six months.¹

The most common occasions for consuming beer included in a bar or public establishment (40 per cent of the time), during a festival (10 per cent), on a ferry between Estonia and Finland or Sweden (10 per cent) and at home (40 per cent). Apart from entertaining guests, watching television or accompanying a meal, beer at home was also consumed in the traditional Estonian sauna.²

SAKU'S HISTORY

Although historians believed that brew kitchens had existed alongside the Kaala River in the small town of Saku for centuries, the Saku Brewery officially started producing beers in 1820, under the guardianship of Count Karl Friedrich von Rehbinder (see Exhibit 2 for historic photographs of company). Attracted by the clean flowing river, the Count built a manor beside the brewery. In 1849, the manor and brewery were purchased by the Baggio family, and by the 1870s, the Baggos had updated the brewery's processes and beer quality by converting it to a modern industrial steam-fired brewery. Along with the production changes, the Baggos took the brewery from being a small-scale operation producing for the local town only to a company equipped to sell in Tallinn and the rest of the country. The brewery suffered a major setback during the war between Estonia and Russia and was later nationalized by the state in 1940, when Estonia came under Soviet rule. During Soviet times, Estonia played a key role providing foodstuffs and beverages for the entire union and served as the site for brewing experiments. In 1985, the Gorbachev government introduced a policy aimed at reducing alcohol consumption, which froze all future investments in the plant. By the late 1980s, the Soviet Union initiated a number of reforms allowing state-run enterprises greater flexibility in their operations. Cardo Remmell, who joined the company in 1983, as a construction manager, and was later promoted to managing director, recounted the late 1980s through to the privatization in 1991:

There were some of the first reforms around this time, and it allowed us to go to Finland and look at other breweries. And, we saw a lot of differences. We had about 10 purchasing managers and one salesperson and there they had it the other way around — one purchasing manager and 10 sales people. We had a lot of problems finding materials and locating suppliers within the system. We couldn't get what we needed. So, we were looking for people to invest in us. The goal was to supply for Estonia. There were no real brands developed. There were the old Soviet brands, but the quality was just not acceptable.

¹*“The favorite products of Finnish cross-border shoppers are alcohol, sweets, clothes and tobacco products,” Emor, www.emor.ee, March 30, 2005, accessed April 17, 2005.*

²*Gatherings are common in saunas in Estonia, Finland, Sweden and Russia, taking place either in one's home or at a cottage in the countryside.*

In 1991, Estonia became an independent nation, and 60 per cent of Saku was sold to the Baltic Beverages Holding (BBH) group with the remaining 40 per cent control being retained by the newly formed Estonian government. BBH was controlled 50 per cent by the Swedish beverages company Prips and 50 per cent by the Finnish brewer Hartwall. In making the transition from a state-owned enterprise with a set production schedule to a private company that needed to supply to demand, Saku sought training and expertise from Prips and Hartwall. Remmell recalled:

First of all, our job was to reconstruct the brewery and turn out a quality product. It was a strange time, there were no rules. I didn't know my authorization level. So, I got permission from the government afterwards. It was really just a big mess. With Hartwall and Prips, we got solid investment and marketing know-how. [To staff Saku] we looked for Estonians that had worked in other countries. Then, we found young people that we thought had the capability and trained them at a branding school in Norway and in Sweden. There was a lot of motivation to make it work. We had to find professionals to do the jobs and we had to make quick changes. It probably took two to three years to start to speak a common language.

Remmell and the rest of Saku's management, along with the foreign investors, improved the product quality and took the results to a market research panel — the first of its type ever conducted in Estonia. The brewmasters were sent for training in Denmark, and the foreign investors updated the facilities to a modern brew facility. After selecting the beer on its taste and appropriate color and imaging, the name Saku Originaal was selected, with blue as the brand's signature color. The company was on a mission to change the image of beer from Soviet times, as Estonians and Russians believed beer to be a low-quality beverage that lasted only seven days and had a deplorable smell over the preferred alcoholic drink of choice — vodka. Remmell reflected on the efforts to change the image of beer: "At first, we tried to promote beer to women. Because women didn't drink beer too much in Soviet times. It had a really bad smell. So, with Saku, we improved the quality and then we opened the door to ladies."

Kristina Siemen, public relations manager for Saku, gave her rationale of how Estonia was able to quickly grasp consumer advertising, "Estonia is different. During Soviet times, we had Finnish television and we were actually troublemakers for the Soviets. We had the images of the West. We knew a bit about marketing and we knew what the image of a brand was."

By 1996, Saku had listed its shares on the Tallinn Stock Exchange, and the Estonian government sold its remaining share in the company. In 1999, Prips sold its share in the BBH group, and Carlsberg bought into BBH. BBH increased its ownership to 75 per cent and was the majority owner. Exhibit 3 shows some key facts about BBH.

SAKU'S PRODUCTS

Saku Originaal was the trademark brand of Saku's stable of product offerings. It had been rated as Estonia's best-known beer brand with unaided response of 60 per cent of the country's adults. Approximately 65 per cent of all Estonian beer consumers had consumed Saku Originaal in the last six months. Saku's complete portfolio of beer brands commanded 42.5 per cent market share.

Saku Originaal's most loyal consumers were middle-aged men. Consumers in this target audience like to think of themselves as being younger than their chronological age, so Saku Originaal's advertising tended to feature consumers aged 18 to 35. Promotional activities centered around light-hearted and active images.

One consumer survey found that words such as, “tasty, quality, original, tradition, relaxation, ordinary, trust, reputation, snow, sauna and secure,”³ were associated with the Saku Originaal brand. Saku touted the tag line, “brewing for you!” and considered itself to be a “mood creator.” To foreigners, the brand Saku had become synonymous with the country so much so, some Finns endearingly referred to Estonia as “Saku Country.” Exhibit 4 shows some of Saku’s advertisements.

Saku Originaal was priced at Kr20⁴ (€1.28) per bottle, which was a mid-range price in the market place. For cans, Saku Originaal retailed at Kr16 (€1.02), and the packs of 12 cans sold for an average of Kr200 (€12.78). Prices at restaurants, bars and clubs ranged between Kr30 (€1.92) and Kr60 (€3.83). Exhibit 5 shows Saku’s financial highlights.

More than half of Saku Originaal was sold in hotels, restaurants or cafeterias, with the remainder being distributed through supermarkets, kiosks and other stores. Exhibit 6 shows a breakdown of Saku’s distribution, sales and gross margin by division and product.

Other Saku Beer Brands

To appeal to other segments, Saku produced several other brands aimed at specific markets: Saku Rock, a beer aimed at younger consumers; Saku Tume, a dark beer popular in the winter; Saku Sorts, a bock-beer and Saku Valge, a premium wheat beer for distinguishing tastes. In 2003, the company launched two extra strong beers, Presidendi Pilsner and Presidendi 8, in plastic containers. The company was also the first in the country to launch a low-alcohol product, Saku Originaal Light.

Saku promoted its stable of brands through sponsorship of music concerts, events and the Estonian gold medalist in cross-country skiing, Andrus Veerpalu. In preparation for the onslaught of increased tourism with Estonia’s accession into the European Union, Saku had licensed the Saku Rock name to a private company to build a state-of-the-art hotel in the harbor of Tallinn, directly in front of the ferry links. While the promotion for the hotel did not come out of Saku’s advertising budget, Saku had been doing additional promotions and advertising to take advantage of the increased exposure. Exhibit 7 shows pictures of the Saku Rock Hotel.

Marketing Three World-Famous Brands: Carlsberg, Guinness and Kilkenny

In October 2001, Saku had signed an agreement with Carlsberg and Guinness to act as the exclusive distributor of Carlsberg, Guinness and Kilkenny in Estonia. Initially, the company had high hopes, stating in the 2001 annual report, “In the long range we intend to increase the share of Carlsberg, Guinness and Kilkenny to 40 per cent of the Estonian imported beer market.”⁵

Saku wanted to take advantage of Estonians increasing desire to consume global brands. Remmell commented:

Eighty per cent of our revenue comes from domestic beer brands. Of course it’s attractive to introduce new brands and take well-known brands from other places. The key question

³Aile Lillepalu and Katri Pokats, “Evaluation of Branding Strategies among Selected Estonian Food and Beverages Producers,” *Stockholm School of Economics*, Riga, August 2004, p.21.

⁴Kr12.5 = US\$1.

⁵Saku Annual Report, www.pruul.ee, p.6, December 31, 2001.

is the market size. You have to evaluate the niche and ask what is the value of that niche? You can't waste your money on your own brands or other owners. To launch something new, you need investments and we don't have clear rules. Can it be successful? It takes a lot of human resources as well. So deciding about new products, you always have ambitions, but what if you're not able to hit your targets?

In launching the three brands at once, Saku set a target of two per cent of the overall market for Carlsberg and one per cent for both Guinness and Kilkeny. The company supported the launch with out-of-home advertising, such as posters and giveaways in pubs and bars. Prices of Carlsberg were Kkr30 (€1.92), in line with Heineken, and prices of Guinness and Kilkeny were at a premium of 20 per cent more than other imports. Carlsberg was available in all of the channels, whereas Guinness and Kilkeny were limited to HORECA distribution points.

Alcoholic Beverages

Outside of beer products, Saku marketed a cider line called Kiss, which was targeted towards young women in their early 20s, as an alternative to beer. Kiss had 24 per cent of the cider market in the country. The company also promoted a line of long drinks, such as vodka, pre-mixed gin and tonic and the newly inaugurated Ice Tequila drink. The popularity of long drinks had been growing, and Saku's market share was estimated at 13 per cent in this segment. Remmell emphasized the importance of marketing responsible drinking in this high-alcohol segment and how the low price of vodka led to substitution:

Our issue is we are a beer country. There is cheap vodka, which is part of government policy and regulation. I think it's too cheap. So low alcohol versus high alcohol and I think we need to make the prices to alcohol level equal. Alcohol is a problem. We need to show young people the difference between right and wrong. The alcohol policy is not well developed. We've tried to make a start through promoting self-regulation and understanding behavior. We want to say that beer can be a part of life, but we don't want people to treat it just as alcohol . . . Beer is a topic that everyone wants to say something about right through from the prime minister to everyone else. Everybody likes to talk about beer. And, the alcohol policy is important for the government. The challenge is to separate . . . the heavy users and those that want to enjoy a social drink.

Non-Alcoholic Beverages

In the water segment, Saku had licensed the name Vichy Classique in sparkling water and marketed still water under the name Montavit. The company had approximately 15 per cent of the segment. Approximately 75 per cent was sold through supermarkets and kiosks, and 25 per cent was sold through hotels, restaurants and cafeterias.

Saku had the license for the registered trademarks, Pepsi, 7Up and Zingo, an orange-flavored soft drink. Estonia was dominated by Coca-Cola products, so even with Pepsi, Saku held about four per cent of the country's overall soft drinks market. Sales on soft drinks were comparable to sales on water, with nearly 70 per cent being sold through supermarkets and 30 per cent being sold through hotels, restaurants and cafeterias.

COMPETITION

In 1991, when Saku was privatized, two other Estonian beer-producing institutions were re-instated, including Tartu Õlletehas (Tartu) and Viru Õlu (Viru), which, as of 2004, held 35.4 per cent and 10.2 per cent of the beer market respectively. Other domestic breweries included Pärnu, Karksi, Viru-Nigula and Saaremaa, with a combined share of five per cent of the market. Exhibit 8 shows the market shares of major competitors by segment.

A Le Coq (Tartu)

The central competitive threat in the domestic beer domain was A Le Coq, a brand launched in 1999 by Tartu. The A Le Coq brand dated back to 1807, when a Belgian tradesman established a brewery in London, England. Tartu Brewery itself had history planted in Estonia since 1826, and like Saku, updated its simple brew kitchen to a modern facility in the 1870s. When Estonia became independent, Tartu looked to launch a product to compete with Saku. Olvi, another major Finnish brand, had purchased Tartu in the mid-1990s and worked on reconstructing the facility and developing a quality beer. A le Coq promoted its mission of, “A Le Coq makes you feel good,” and actively promoted Estonia’s national football and basketball teams. Besides the stable brand, A Le Coq premium, the company was the country’s sole distributor of Heineken (commanding three per cent share of the overall market). The brewery also offered a slew of other brands including Alexander, Buckler, Porter, Diesel and Turbo Diesel. In products outside of the beer market, Tartu marketed two gin-based long drink brands, Fizz ciders (a brand established by its parent Olvi), Aura non-alcoholic fruit juices, Aura bottled water, Arctic sports drinks, lemonade and other soft drinks.

Remmell talked about his biggest domestic competitor:

When we launched in 1991, first was the quality. Tartu first tried to copy us on marketing but had not upgraded their quality. So, what happened? They had this big volume and then it dropped. Then, in 1999, they launched A Le Coq. Then, all of sudden, people had to choose between blue [Saku] and red [A Le Coq]. It’s one good learning point. We had a first mover advantage and what I learned is the chance to be alone and if you have it, it can be great. If you’re alone, you decide what to do and the consumers may not necessarily like it too much. Then, a competitor moves in and gives the consumers what they want. And, with A Le Coq, they use the brand in the same way, they analyzed our target group, found out what they liked and what they didn’t and started marketing to them.

Viru

Viru was Saku’s other domestic competitor. Founded in 1975, Viru started as a collective farm by producing one sole brand — Ziguli beer — and during the 1980s, the company expanded into several other brands: Riia, Moskva and Kudne. In 1992, the Danish brewery Harboes Bryggeri A/S became the majority shareholder. As of 2004, Viru had a range of beer products, such as Bear Beer, under license from its parent, as well as Estonian brands, such as Toolse, Frederick, Palmse and Talveolu. The company produced and marketed a line of no-name soft drinks and non-alcoholic fruit drinks under the banner Kingsway, and a new line of energy drinks, called Hustler.

Imports

Besides the imported brands under license, such as Hieneken by Tartu and Carlsberg by Saku, a number of other imported brands competed for market share. The imported segment was led by the Finnish company Koff, which commanded six per cent of the overall market and Olvi, which had three per cent. Some industry observers felt Koff's market share had more to do with Koff's advertising in Finland and its inexpensive prices in Estonia aimed at Finnish tourists.

THE CHALLENGE: FORMING A PLAN

Remmell and Sepp had helped to kickstart the transformation in the Estonian beer market in 1991. Thirteen years later, Saku was in a much different position. It had a complete portfolio of products in six different product categories.

Recently, Saku had seen its market share drop, against strong domestic competitors, such as A Le Coq, and the onslaught of imported beer, such as Koff, Olvi and Heineken. While Saku was in a good position to compete in all segments of the beer market, Remmel and Sepp wondered how to plan the next few years. They were keen to take advantage of shipping Saku Originaal north to Finland, even though they were acutely aware of the difficulty in supporting an international expansion. As well, would they risk Saku's domestic sales, since four million litres were purchased by Finns on holidays in Estonia? Remmell smiled as he thought about the latent opportunity with some of the nearby markets:

Our brand is a big opportunity, because the prices of Finnish beers are high. As well, Saku is a fairly common first name in Finnish. In fact, one day I remember walking in the town square, and I saw a Finnish tourist, and he had the jersey that said Saku Koivu, the famous hockey player, and he was holding a bottle of Saku beer in his hand. I smiled and thought it worked well together. But, to expand into other markets, that's more difficult. See when putting a brand in another country you need to create a story for it. That is expensive for us. There's a clear advantage to go into Finland for us, because we get so many Finnish tourists. However, we're seeing many other people visit Estonia like the Swedish, and it's much cheaper for us to introduce it to the tourist first. But, that's just an idea right now. But the timing is not right. We need to focus on our domestic market. We don't know what will happen with Russia and the taxes on exports. We were known in the old days for supplying all the food and beverages to the rest of the state.

CONSIDERATIONS TO THE PRODUCT PORTFOLIO

Remmell, Sepp and the rest of their team had several considerations when planning their product portfolio. The company's flagship brand was decreasing, and they were confident that exporting Saku to Finland would stem some of the decline. However, they were also worried that this action would cannibalize the domestic sales made to Finns while on holidays in Estonia.

While growth in the cider and long drinks market had been unabated for the past two years, they were certain that growth rates would start to flatten out as the market reached a saturation point. What should be done with this line of products?

In the growing bottled water and soft drinks segment, Sepp and Remmell were disappointed with Saku's performance against the rest of the market, considering it was currently occupying fifth place in bottled water and had a low market share in soft drinks.

Siemen talked about the current opportunity with Saku's portfolio of brands:

Our aim is to be the leader and innovator in the beer market. It's a mature market and beer consumption is not increasing. So, we're looking for new potential. For example, we launched the cider in 2000 and long drinks in 2001. With ciders, we have doubled sales over our expectations and with long drinks we've tripled sales. Water is also growing. This is really the start of a new era with more brands!

Remmell bridged the transformation in 1991 to current day:

[The transformation] was very exciting. If we didn't change there wouldn't be much hope. And, the main driving force was increasing the standard of living for everyone. We're not there yet, but we're certainly on the right road.

What would be the transformation for the future?

Exhibit 1

FACTS ABOUT ESTONIA

Population	• 1,355,604 (2003 census)
Age structure	• 0-18 years: 24.5% (male 169,869; female 161,620) • 18-35 years: 21.0% (male 143,336; female 141,681) • 36-50 years: 20.9% (male 134,847; female 148,447) • 51 years and over: 33.6% (male 176,644; female 279,160)
Median age	• Total: 38.8 years • Male: 35.1 years • Female: 42.1 years (2004 est.)
Population growth rate	• -0.66% (2004 est.)
Sex ratio	• At birth: 1.06 male(s)/female • Under 15 years: 1.06 male(s)/female • 15-64 years: 0.91 male(s)/female • 65 years and over: 0.49 male(s)/female • Total population: 0.85 male(s)/female (2004 est.)
Ethnic groups	• Estonian 65.3%, Russian 28.1%, Ukrainian 2.5%, Belarusian 1.5%, Finn 1%, other 1.6% (1998)
Languages	• Estonian (official), Russian, Ukrainian, Finnish, other
GDP	• Purchasing power parity - \$17.35 billion (2004 est.)
GDP - real growth rate	• 4.7% (2004 est.)
GDP - per capita	• Purchasing power parity - \$12,300 (2004 est.)
GDP - composition by sector	• Agriculture: 4.9%, Industry: 30.3%, Services: 64.8%
Inflation rate (consumer prices)	• 1.3% (2004 est.)
Labor force	• 654,000 (2004 est.)
Labor force - by occupation	• Agriculture 11%, industry 20%, services 69% (1999 est.)
Unemployment rate	• 10.1% (2004 est.)
Industries	• Engineering, electronics, wood and wood products, textile; information technology, telecommunications
Exports	• \$4.075 billion f.o.b. (2004 est.)
Exports - commodities	• Machinery and equipment 33%, wood and paper 15%, textiles 14%, food products 8%, furniture 7%, metals, chemical products (2001)
Exports - partners	• Finland 21.9%, Sweden 12.5%, Russia 11.4%, Germany 8.4%, Latvia 7.4%, Lithuania 4% (2003)
Imports	• \$5.535 billion f.o.b. (2003 est.)
Imports - commodities	• Machinery and equipment 33.5%, chemical products 11.6%, textiles 10.3%, foodstuffs 9.4%, transportation equipment 8.9% (2001)
Imports - partners	• Finland 15.9%, Germany 11.1%, Russia 10.2%, Sweden 7.7%, Ukraine 4.3%, China 4.2%, Japan 4.1% (2003)
Currency	• Estonian kroon (Kr/EEK)
Exchange rates	• Krooni per U.S. dollar - 13.8564 (2003), 16.6118 (2002), 17.4781 (2001), 16.9686 (2000), 14.6776 (1999)

Source: CIA World Fact Book, www.cia.gov, accessed January 15, 2005 and Statistics Estonia, <http://pub.stat.ee/>, accessed November 8, 2008.

Exhibit 2

SAKU'S FACILITIES



Drawing of Saku's Factory, 1870s



Exterior of Factory, Today



Saku Originaal Delivery Truck



Saku Entrance



Kaala River, Saku

Source: Company files.

Exhibit 3

FACTS ABOUT BALTIC BEVERAGES HOLDING

"Baltic Beverages Holding AB (BBH) is a 50:50 owned joint venture between Carlsberg Breweries A/S and Scottish & Newcastle plc. BBH operates 18 breweries in six countries in Eastern Europe, including Russia where it is the market leader with a 33 per cent market share."⁶

	Russia	Ukraine	Baltics	Kazakhstan
Market Position	1	2	1	1
Market Share	33%	22%	43% EST 43% LIT 45% LV	21%
Key Brands	Baltika Yarpivo Nevskoye Arsenalnoye Uralskiy Master Volga Don Voronezhkoye	Slavutich Luiuske Baltika Arsenal	Saku Originaal Rock Aldaris Utenos Suyturyys	Irbis Derbes Baltika Alma-Ata

BBH	2003	2002
Personnel	15,000	14,000
Total sales volume, millions	3,135	2,911
Net Sales, € millions	1,161	1,237
EBITA, € millions	264	328

Source: BBH web site, www.bbh.se, accessed January 15, 2005.

Carlsberg — Carlsberg Breweries is the fifth biggest brewing group in the world, with nearly 29,000 employees, annual beer sales of 82 million hectolitres and operations at 103 sites in 49 countries. Carlsberg Breweries and Carlsberg A/S are headquartered in Copenhagen, Denmark. Carlsberg owns a strong portfolio of global, regional and national brands, including one of the world's most international beer brands, Carlsberg.

Scottish & Newcastle — Scottish & Newcastle has market-leader positions in 14 countries in Europe and Asia and exports beer to more than 60 countries around the world. In 2002/2003, S&N sold 4,790 million litres of beer. S&N employs 20,000 people and is headquartered in Edinburgh, U.K. S&N portfolio includes three of the top 10 beer brands in Europe: in addition to BBH's leading brand Baltika, it embraces the French number-one beer Kronenbourg and the internationally popular Foster's.⁸

⁶"BBH Results for Full Year," www.scottish-newcastle.com, February 10, 2004, accessed January 15, 2005.

⁷BBH Website, www.bbh.se, accessed January 15, 2005.

⁸Ibid.

Exhibit 4

SAKU ADVERTISING AND BRAND IMAGES

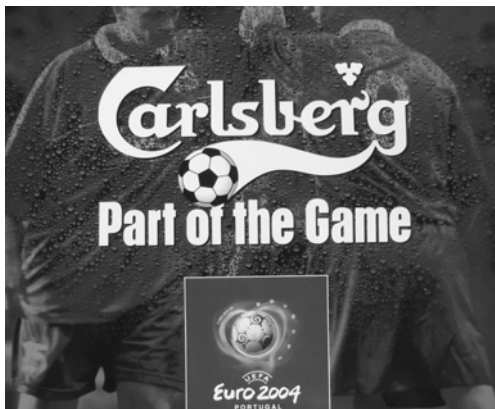


Saku Original Advertisements and Images



Saku Rock Images

Exhibit 4 (continued)



Carlsberg Ads



Kiss Cider: "Refreshingly Exotic Cider"



Saku Gin: "Unusually Traditional"



Vichy Water



Limps Soft Drink: "Catch the Sun"

Source: Company files.

Exhibit 5

SAKU'S FINANCIAL HIGHLIGHTS
(in € 000s)

	2002	2003
Total Revenue	28,289	29,661
Expenses		
Changes in inventories of WIP & Finished Goods	62	29
Materials, consumables and supplies used	10,505	11,830
Advertising	2,647	3,285
Other operating expenses	5,836	3,883
Personnel expenses	3,443	3,329
Depreciation and amortization expense	2,774	2,954
Other expenses	452	300
Total Expenses	25,719	25,610
Profit from Operations	2,570	4,051
Financial income and expenses	(89)	(60)
Profit for the Period before Tax	2,481	3,991
Income Tax Expense	281	491
Net Profit for the Period	2,200	3,500
Basic EPS	0.28	0.44
Diluted EPS	0.28	0.44
Trade Receivables	1,857	2,256
Inventories	7,572	7,264
Total Assets	27,566	27,836
Trade Payable	1,277	782
Total Liabilities	5,112	4,438
Total Equity	22,454	23,398
Net Change in cash and cash equivalents	(1,079)	1,197

Source: Saku Annual Report, pp. 11-15, December 31, 2003.

Exhibit 6

DISTRIBUTION AND SALES BY DIVISION

SALES

	2002	% to Total	2003	% to Total
Saku beers	22,581	79.8%	23,563	79.4%
Imported beers	688	2.4%	1,189	4.0%
Saku mineral water	119	0.4%	105	0.4%
Imported mineral water	1,281	4.5%	1,381	4.7%
Other Saku alcoholic drinks	884	3.1%	2,007	6.8%
Imported soft drinks	1,138	4.0%	1,110	3.7%
TOTAL	26,691	94.4%	29,355	99.0%
Other Revenues	1,598	5.6%	306	1.0%
Total Revenues	28,289	100.0%	29,661	100.0%

GROSS MARGIN

	2002	% to Sales	2003	% to Sales
Saku beers	3,952	17.5%	4,241	18.0%
Imported beers	144	21.0%	273	23.0%
Saku mineral water	10	8.5%	8	8.0%
Imported mineral water	192	15.0%	221	16.0%
Other Saku alcoholic drinks	203	23.0%	502	25.0%
Imported soft drinks	211	18.5%	211	19.0%
TOTAL	4,712	17.7%	5,457	18.6%

Source: Saku Annual Report, p.29, December 31, 2003.

Exhibit 6 (continued)

SALES AND GROSS MARGIN BY PRODUCT

SALES					GROSS MARGIN			
	2002	% to Total	2003	% to Total	2002	GM %	2003	GM %
SAKU BEERS	22,581		23,563					
Saku Originaal	18,607	82.4%	18,733	79.5%	3,238	17.4%	3,334	17.8%
Saku Rock	1,739	7.7%	2,356	10.0%	306	17.6%	441	18.7%
Saku Sorts	452	2.0%	353	1.5%	88	19.5%	67	19.0%
Saku on Ice	294	1.3%	424	1.8%	53	18.0%	79	18.6%
Saku Valge	632	2.8%	707	3.0%	127	20.1%	148	21.0%
Saku Tume	248	1.1%	165	0.7%	45	18.2%	30	17.9%
Saku Hele	158	0.7%	118	0.5%	30	19.1%	23	19.3%
Saku Originaal Light	452	2.0%	589	2.5%	72	16.0%	97	16.5%
Saku Presidendi	-	0.0%	118	0.5%	-	0.0%	22	18.3%
TOTAL	22,581	100.0%	23,563	100.0%	3,959	17.5%	4,241	18.0%
IMPORTED BEERS	688		1,189					
Carlsberg	468	68.0%	880	74.0%	95	20.3%	194	22.0%
Guinness	186	27.0%	285	24.0%	43	23.0%	74	26.0%
Kilkenny	34	5.0%	24	2.0%	7	20.0%	6	24.0%
TOTAL	688	100.0%	1,189	100.0%	145	21.0%	273	23.0%
SAKU MINERAL WATER	119		105					
Montavit Carbonized	67	56.0%	58	55.0%	6	8.4%	5	8.0%
Montavit Still	52	44.0%	47	45.0%	5	8.7%	4	7.9%
TOTAL	119	100.0%	105	100.0%	10	8.5%	8	8.0%
IMPORTED MINERAL WATER	1,281		1,381					
Vichy Classique Carbonized	666	52.0%	732	53.0%	100	15.0%	116	15.9%
Vichy Classique Still	615	48.0%	649	47.0%	92	15.0%	105	16.2%
TOTAL	1,281	100.0%	1,381	100.0%	192	15.0%	222	16.0%
OTHER SAKU ALCOHOLIC	884		2,007					
Saku Gin	690	78.0%	963	48.0%	161	23.3%	231	24.0%
Kiss Ciders	159	18.0%	943	47.0%	37	23.0%	252	26.7%
Other	35	4.0%	100	5.0%	6	18.0%	19	19.0%
TOTAL	884	100.0%	2,007	100.0%	204	23.0%	502	25.0%
IMPORTED SOFT DRINKS	1,138		1,110					
Pepsi	512	45.0%	344	31.0%	97	19.0%	66	19.3%
7Up	489	43.0%	244	22.0%	87	17.8%	44	17.9%
Zingo	137	12.0%	333	30.0%	26	18.9%	64	19.2%
Limps	-		111	10.0%	-	0.0%	22	19.8%
Kali	-		78	7.0%	-	0.0%	15	19.7%
TOTAL	1,138	100.0%	1,110	100.0%	210	18.5%	211	19.0%
TOTAL	26,691		29,355		4,720		5,457	

Exhibit 6 (continued)

ADVERTISING SPEND BY BRAND

	2002	2003
	% to Total	% to Total
SAKU BEERS		
Saku Originaal	38.0%	34.0%
Saku Rock	5.0%	7.0%
Saku Sorts	1.0%	1.0%
Saku on Ice	5.0%	4.0%
Saku Valge	1.0%	1.0%
Saku Tume	2.0%	2.0%
Saku Hele	1.0%	1.0%
Saku Originaal Light	3.0%	3.0%
Saku Presidendi	0.5%	0.5%
TOTAL	56.5%	53.5%
IMPORTED BEERS		
Carlsberg	18.0%	20.0%
Guinness	3.0%	3.0%
Kilkenny	3.0%	1.5%
TOTAL	24.0%	24.5%
SAKU MINERAL WATER		
Montavit Carbonized	1.0%	1.0%
Montavit Still	1.0%	1.0%
TOTAL	2.0%	2.0%
IMPORTED MINERAL WATER		
Vichy Classique Carbonized	1.0%	1.0%
Vichy Classique Still	1.0%	1.0%
TOTAL	2.0%	2.0%
OTHER SAKU ALCOHOLIC		
Saku Gin	4.0%	5.0%
Kiss Ciders	8.0%	9.0%
Other	0.5%	0.5%
TOTAL	12.5%	14.5%
IMPORTED SOFT DRINKS		
Pepsi	1.0%	0.5%
7Up	1.0%	0.5%
Zingo	1.0%	0.5%
Limps		1.0%
Kali		1.0%
TOTAL	3.0%	3.5%
TOTAL	100.0%	100.0%

Exhibit 7
SAKU ROCK HOTEL



Saku Rock Hotel Exterior, Tallinn, Estonia



Saku Rock Hotel Interior

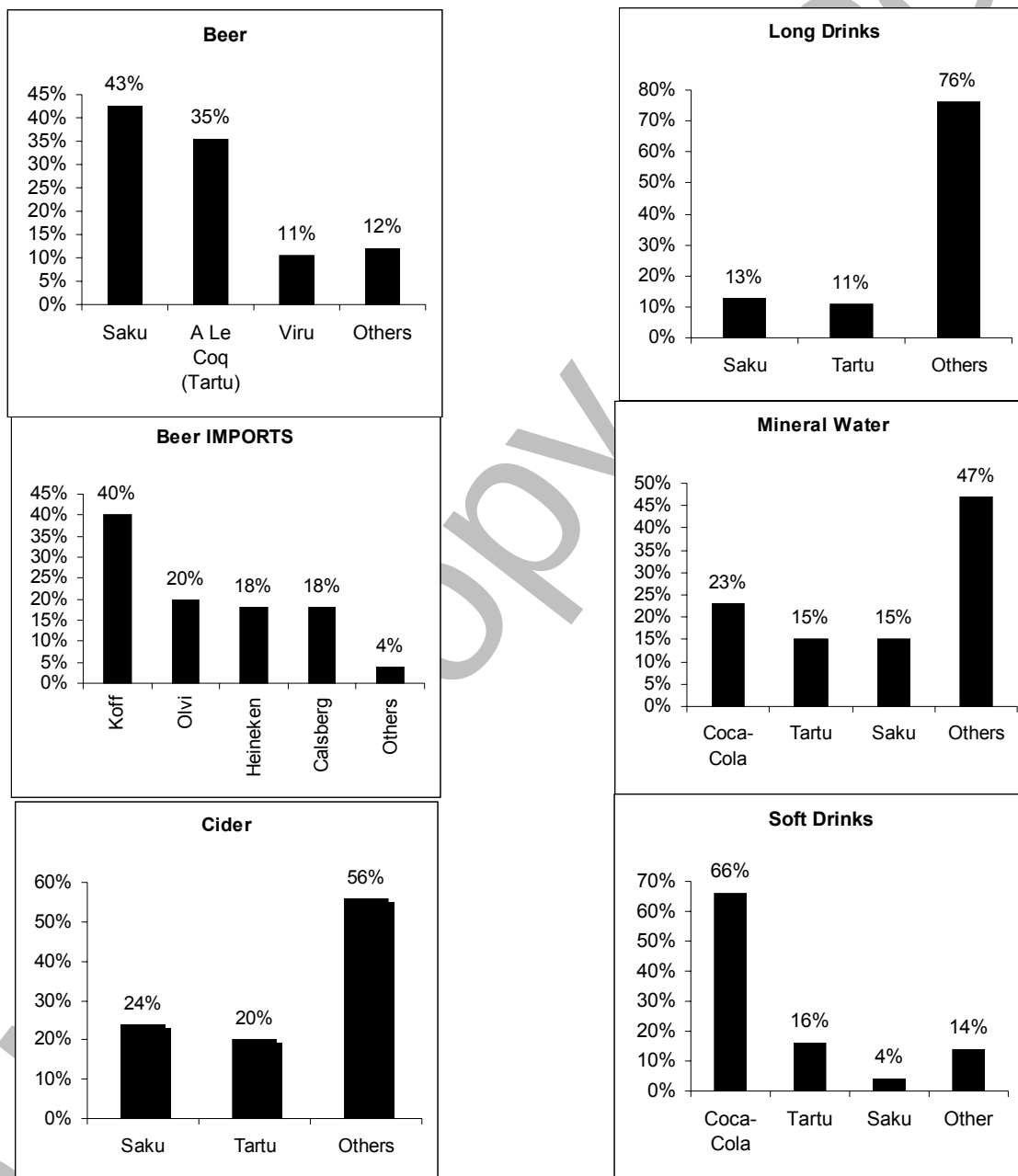


Saku Rock Bar

Source: Case writer.

Exhibit 8

MARKET SHARES (IN VALUE)



Source: Company files; Aile Lillepalu and Katri Pokats, "Evaluation of Branding Strategies among Selected Estonian Food and Beverages Producers," *Stockholm School of Economics*, Riga, August 2004, p.21.

Exhibit 9

SELECTED BEER MARKETS
Sales of Beer (based on 2003)

	Finland	Sweden	Norway	Russia
Volume (million liters)	407.1	483.3	231.0	8,084.1
Value (EUR millions)	2,311.8	1,737.8	1,715.1	8,270.8
Avg. value per liter (EUR)	5.68	3.60	7.42	1.02
Value Split				
Off-trade (Supermarkets, etc.)	51.7%	45.9%	56.3%	80.1%
On-trade (Restaurants, Hotels, etc.)	48.3%	54.1%	43.7%	19.9%
Total	100.0%	100.0%	100.0%	100.0%

Source: Euromonitor, Individual Country Reports, 2008-2009.