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SOUTH AFRICAN BREWERIES IN TANZANIA

On a sweltering summer day in January 1999, Danie Niemandt, general manager of South African Breweries' (SAB) operations in Tanzania thought to himself, "A day like this calls for a cold beer." Danie had just received word that East African Breweries Limited, in which Guinness had a 47 percent ownership stake, was opening a new brewing plant in Tanzania. SAB and Guinness were competing fiercely in markets throughout eastern Africa, and Danie knew that this latest move by his rival was in response to SAB's recent foray into Kenya, one of Guinness' strongest African markets. Over the course of the previous five years, SAB had been the only significant brewer with production facilities in Tanzania; now, with the launch of this new brewery, Guinness would be much better equipped to compete with SAB. The new environment for SAB in Tanzania mirrored a trend in the global beer market in which the world's largest beer brewers expanded outside their domestic markets in an effort to build strong global brands and grow their revenues. This expansion created a more competitive environment, particularly in developing markets, where beer consumption was expected to grow much faster than in developed markets. Several years ago, SAB had determined that expansion into these fast-growing markets would be a fundamental component of its business strategy, and the company aggressively established operations in markets in Africa, Central Europe and Asia. The success of SAB's international strategy would now depend on the ability of general managers like Danie to meet successfully the new competitive threat in their local markets.

SOUTH AFRICAN BREWERIES

SAB was the fourth largest brewer by volume in the world with 48 million hectoliters of beer produced in fiscal year 1999 (see **Exhibit 1**). The company operated in twenty-one markets throughout Africa, Central Europe and Asia. The company was the largest beer brewer in Africa, producing 30 million hectoliters and accounting for over half of all beer consumed on the continent.¹ In addition to its core beer operations, the company had a diversified portfolio of businesses that included interests in wine and spirits, non-alcoholic fruit beverages, bottling and distribution operations, and hotels and gaming (see **Exhibit 2**).

¹ Jabulani Sikakhane, "Charles Glass Goes to London," *Financial Mail*, September 4, 1998, p. 48.

Research Associate Michael Guigley prepared this case under the supervision of Professor Joel Podolny as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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The company's origins in South Africa dated back to the early 1880s when founder Charles Glass brewed Castle beer and sold it to gold miners in Johannesburg and diamond miners in Kimberley. Glass sold his fledgling brewery in 1895, after which it was registered in London as The South African Breweries Limited. Two years later, SAB was one of the first companies to be listed on the Johannesburg Stock Exchange. From this capital base, the company grew steadily and expanded its operations throughout South Africa. In 1956, a merger with domestic competitors Cape Breweries and Union Breweries established SAB as the leading brewer in the South African beer market. In the late 1970s, government restrictions on capital flow out of the country and international economic sanctions against South Africa's then-apartheid government limited the company's ability to expand its beer operations outside its domestic market. Thus, the company diversified its investments into non-beer businesses such as clothing retail, supermarkets, and hotels and gaming. SAB later unbundled these non-core businesses, and by the late 1990s the company had refocused its operations around its beer activities.

SOUTH AFRICA BEER INDUSTRY

There was a saying that "all one needs to know about South Africa is beer, braai, rugby, and soccer". The country's affinity for beer dated back to the brewing of traditional sorghum beer by its earliest indigenous inhabitants. In 1997, 25 million liters of beer were sold in South Africa. These beer sales generated 8.1 billion rand (around \$1.8 billion) in total sales and accounted for 80 percent of the volume and 46 percent of the total value of all alcoholic beverages sold in South Africa.² South African beer consumption was among the highest within developing countries (see **Exhibit 3**). Low-income groups consumed the most beer, so the low price "mainstream beer" segment dominated the overall market. Despite an overwhelming share of the market, however, the mainstream beer segment experienced slow revenue growth due to slowing consumption growth during the 1990s. Higher priced "premium beer" was a much smaller, but vitally important, segment of the beer market. The premium beer segment was no more than 5 percent of the total beer market,³ but its annual growth in 1998 was 35 percent.⁴ The premium beer segment targeted higher-income consumers who were less price sensitive but more brand conscious in their choice of beer. To meet the varied tastes of their consumers, brands proliferated in the premium beer segment. Dozens of imported brands, including Amstel, Heineken, Guinness, and Windhoek, competed with domestic brands such as Carling Black Label, Castle Milk Stout, and Dakota Ice, for a share of the premium beer segment.

Beer companies in South Africa developed sophisticated distribution systems to serve the different needs of two classes of beer retailers—the "traditional" retailers (liquor retail outlets, restaurants, hotels, bars, and nightclubs) and the "informal" retailers. Under the traditional distribution structure, companies brewed and packaged beer at the brewery site and trucked it to a regional depot. The regional depots delivered the beer directly to high-volume customers: liquor retail outlets, hotels, and major restaurants. For the brewer's small or medium-sized customers, such as small shops or local pubs, regional depots supplied beer to a network of independent local distributors who served as pick-up points or delivery services for low-volume customers. These local distributors then supplied the beer, along with other alcoholic beverages and carbonated soft drinks, to retail outlets.

² 1998 *Beverage Business Yearbook*, Ramsey, Son & Parker (Pty) Ltd, p. 97.

³ David Furlonger and Jabulani Sikakhane, "A Bigger Share of Thirsty Gullets," *Financial Mail*, October 22, 1999, p. 6.

⁴ South African Breweries plc, "Annual Report to Shareholders," March 31, 1999, <http://www.sab.co.za/investor/annual99> (July 9, 2000).

Beer companies developed another tier in the distribution network to service the informal “shebeen” retailers. Shebeens took their name from an Irish term used by early gold miners to describe unlicensed outlets serving alcoholic beverages.⁵ The shebeens were established in response to prohibition laws that made it illegal for blacks to buy or sell any alcoholic beverage other than sorghum beer. Despite this prohibition, shebeens did a healthy trade in beer and they became a significant factor in the commercial beer market. In 1962, the government partially repealed its prohibition and made it legal for blacks to buy (but not sell) beer and liquor, but the shebeens continued to conduct illicit business in the beer trade. In the mid-1990s, although the government began to grant licenses to shebeens to legally serve alcoholic beverages, most continued to operate as unlicensed outlets (often in order to avoid paying taxes). It was estimated that two-thirds of the beer consumed in South Africa was sold through shebeens and that between 100,000 and 500,000 shebeens operated in South Africa.⁶

Although shebeens were numerous, they were sporadically and remotely located; in some places, five shebeens could be found on a single street, while in other places a single shebeen would serve a village of thousands. A typical shebeen served as a social center in the community; it was run out of a private home or a small stand-alone premise, and would sell clear beer, sorghum beer and soft drinks. People stopped in at the shebeen for a drink after work, to socialize with friends, and to enjoy music and dancing. In the 1960s, many of South Africa’s most prominent black musicians performed in shebeens because they were restricted from performing in public arenas.

For beer brewers, distribution to the shebeens presented a unique set of challenges. Shebeens had limited capacity for storage or refrigeration facilities (if any at all) and thus were usually supplied through frequent deliveries of small volumes of beer. The beer was delivered by small truck or, in areas with inadequate road infrastructure, by bicycle. For shebeens that lacked refrigeration facilities, the beer was delivered with a cooler and ice. Along with beer, shebeens would often receive branded point-of-sale marketing materials from brewers such as posters, glasses and light fixtures.

New Market Opportunities Attract New Competitors (1962–1990)

On August 15, 1962, the South African government repealed legislation that prohibited the purchase of beer and liquor products by blacks, fueling an explosion in the demand for beer. This surge in demand attracted several competitors to the South African market, but SAB retained its leading domestic market share. In the early 1970s, Intercontinental Breweries launched domestic operations and competed vigorously with SAB until it was taken over by SAB in 1979. International sanctions against the South African apartheid government in the 1980s forced the withdrawal of foreign beer brewers; by the time foreign brewers reentered the South African market in the early 1990s, SAB had solidified its market position. Throughout the 1990s, SAB maintained a 98 percent share in its home market in the face of competition from 170 imported beer brands and assorted domestic microbrews. The company’s major competitors included Guinness, Heineken, Namibia, and sorghum beer.

Guinness

⁵ South African Breweries plc, “Making Beer, Making Friends,” p. 59.

⁶ Ted Keenan, “Erwin’s Brew Droops,” *Finance Week*, June 18-24, 1998, p. 14.

Guinness was owned by Diageo PLC, a UK-based food and drinks group with operations in spirits and wine, packaged food, beer and quick service restaurant industries. Diageo was formed in December 1997 through the merger of GrandMet and Guinness. Some of Diageo's brands included Smirnoff, Johnnie Walker, Pillsbury, Häagen-Dazs and Burger King. For the fiscal year ended June 30, 2000, Guinness had £2.2 billion (\$3.5 billion) in revenue. Guinness was distributed in 150 markets worldwide and was active in 10 African countries. In 1992 Guinness entered South Africa, where its Guinness brand was brewed and distributed by SAB under license from Guinness until 1999 when the arrangement was terminated.

Heineken

Heineken, a Netherlands-based beer company, was the third largest brewer in the world by volume. For the fiscal year ended December 31, 1999, Heineken had NLG 15.8 billion (\$15.3 billion) in revenue. Heineken was the world's most global brewing company, with operations in 170 countries. The company's Heineken brand was the top-selling brand in Europe and the top imported brand in the United States. In 1991, Heineken entered the South African market. Heineken's Amstel brand was brewed and distributed by SAB under license from Heineken International, while its Heineken brand was imported directly from Holland and distributed by SAB.

Namibia Breweries

Namibia Breweries was the leading beer brewer in Namibia, a country lying on South Africa's northern border. Namibia Breweries was the leader among imported beer brewers in South Africa, and it was estimated that its brands accounted for three-quarters of all imported beer (1.4 percent market share overall).⁷ Namibia Breweries' Windhoek Lager was the leading import beer brand in South Africa and, beginning in 1999, it distributed Guinness in South Africa.

Sorghum Beer

Sorghum beer was the most competitive alcoholic beverage alternative to clear beer. Sorghum beer was a traditional African brew made from sorghum and/or maize—types of grain widely available throughout Africa. The origins of sorghum dated back to the earliest traditional African custom of brewing sorghum as an offering to ancestors, elders or honored guests. Sorghum was still consumed to preserve traditional customs or as an inexpensive alternative to other alcoholic beverages. An estimated three-quarters of sorghum beer consumption was from home-brewed product; of the remaining portion of consumption attributable to market sales, only 20 percent of total market sales was from industrially brewed product.⁸

SAB DOMESTIC STRATEGY – FOCUS ON OPERATIONAL EXCELLENCE

In response to the competitive threat in its domestic market in the 1970s, SAB formulated a strategy of "operational excellence". SAB's goal was to put affordable beer within arm's reach of all consumers by means of efficient beer production and distribution. The company benchmarked its operations against those of the world's largest beer brewers and set as its objective to be among the top five brewers in the world in every operational measure. The company invested significantly in its production facilities and deployed the best technology throughout its breweries to automate beer production and packaging processes. As a result of the improvements, the company was among the world's most efficient brewers (see **Exhibit 4**).

⁷ 1998 Beverage Business Yearbook, loc. cit.

⁸ 1998 Beverage Business Yearbook, loc. cit.

SAB's improved efficiency allowed the company to lower the real cost of beer each year for over twenty years. From the late 1970s to the late 1990s, the real price of SAB's beer had fallen by half.⁹

In the early 1990s SAB developed an information system for tracking beer product through the entire chain from brewery to retail outlet. The system tracked output from the brewery, the mix and quantity of product to be shipped from the brewery, the destination of the shipment (customer or regional distribution center), the driver that delivered the shipment, and the time at which the shipment was expected to arrive at its destination. For the shebeens and other small outlets, the company usually relied on a network of independent distributors to deliver its product and maintain customer contact. Many of these distributors were former employees who, with the assistance of the company, had become entrepreneurs with their own delivery businesses. The company's distribution network efficiency drove its delivery cycle time down to seven days, a cycle time faster than that of any of its domestic competitors. The faster cycle time reinforced the company's emphasis on product quality and freshness through frequent product turnover at the retail level.

SAB's distribution strategy facilitated the segmentation of customers into various categories and enabled the company to customize the product mix and volume of stock as well as the timing and frequency of deliveries for its customers. Customers were separated into two types: those with predominately on-premise consumption (shebeens, pubs, and restaurants) and those with off-premise consumption (liquor stores, small shops). These two categories were further segmented into various niches with dedicated sales and distribution services. This customer segmentation strategy gave SAB information on changing demand trends and consumption patterns for its products and aided the company in the development and launch of new products. As an example, the company leveraged its information on consumer preference for a non-beer alcoholic alternative in the launch of Solanti's Spice, one of its most successful brands in the alcoholic fruit beverages segment. Within three months of launch, Solanti's Spice achieved monthly unit sales of over four million units and was on track to capture a 10 percent market share in the alcoholic fruit beverages market.¹⁰ The company's distribution network and customer segmentation strategy were considered a key competitive advantage in the industry; companies such as Coca-Cola and Heineken used SAB for the distribution of their products rather than build competing distribution networks.

The company also invested aggressively in worker training to improve the overall skill level of its workforce. SAB dedicated five percent of its annual payroll to training and development, and it built a Training Institute outside Johannesburg to offer a variety of programs for employees across all levels and functions. The Training Institute programs included: beer tasting competitions and training programs for beer tasters, international qualifications programs in brewing and packaging for brewery employees, intensive sales training programs for all sales reps, multi-disciplinary programs for district managers, and executive development and management programs for executive managers. The company's average of 6.8 employee training days per year was among the highest in the beer industry and was competitive with that of leading companies across several industries.¹¹

⁹ "Why SA Breweries Takes First Place in the Second League," *The Economist Newspaper Ltd.*

¹⁰ South African Breweries plc, "Annual Report to Shareholders," March 31, 2000, p. 16.

¹¹ David Furlonger and Jabulani Sikakhane, "Company Teeming With Talent," *Financial Mail*, October 22, 1999, p. 29.

SAB ENTERS TANZANIA

During the 1990s brewers in developed markets worldwide faced intense competition and stagnant consumption growth in their domestic markets. A wave of consolidation among brewers in developed markets concentrated greater market share in the hands of the largest players (see **Table 1**). With growth and acquisition opportunities limited in their domestic markets, brewers sought to expand their operations globally to gain new sources of revenue growth, diversify their operations and build global beer brands. Brewers from developed markets focused on developing markets in Latin America, Africa, and Asia, where beer consumption and profitability were projected to grow at much faster rates than in developed markets (see **Exhibit 5** and **Exhibit 6**).

Table 1: Global Brewer Consolidation

	1994	2000 est.
Top 5 Share	22%	34%
6-10 Share	15%	14%
11-20 Share	12%	10%

Source: Merrill Lynch Research Report on Ambev (September 15, 2000).

SAB management observed the trends in the global market and decided to position the beer business for expansion and growth rather than sell it to another one of the global beer brewers. The company sold its interests in retailing, supermarkets, and other non-core businesses and focused on investment in the core beer business. Like the major brewers in the developed markets, the company decided to acquire operations outside its home market to compete globally in the beer industry. The company set the goal of establishing itself among the top three global brewers by volume through expansion into high growth markets abroad.

In the 1980s, SAB established operations in Swaziland and Lesotho, but each of these countries was within the borders of South Africa and did not constitute a true global expansion. From the 1970s to the 1990s, SAB could not expand abroad because of apartheid government policies that limited foreign direct investment by South African companies. Apartheid (meaning “separateness”) was a philosophy to maintain the cultural identity, economic and political power of the white South African minority through segregation and separate economic development of the country along strict racial lines. As the South African government’s apartheid policies became increasingly oppressive and violent towards the majority black South African population, the international community levied economic sanctions against the country. These sanctions further isolated South African companies like SAB from the international business community and all but eliminated opportunities to invest or partner in projects outside of South Africa. In 1991, the potential for South African political reforms led to an end of international economic sanctions against South Africa. However, political uncertainty and continued racial violence in the country made international companies wary of accepting investments from South African companies. Moreover, countries throughout the African continent sympathized and supported the black South African majority’s attempts to gain a greater share of political and

economic power. In this climate of isolation and uncertainty, the Tanzanian government cautiously approached SAB as a potential joint venture partner in Tanzania Breweries, the government's failing national brewery.

Historically, the Tanzanian government had controlled the production, marketing and distribution of beer in Tanzania. The country's lone domestic beer producer, Tanzania Breweries, was first established in the 1930s and formally incorporated in 1960. In 1967, the government nationalized the company and took over management of the operations. Despite a population that was 35 percent Muslim (Muslim religion prohibits the consumption of alcoholic beverages), the company performed consistently well until the mid-1980s, when mismanagement and deteriorating equipment affected beer quality and limited production volumes. By the early 1990s, it was clear that the government needed a private partner to rejuvenate Tanzania Breweries. In 1993, the government approached SAB to invest in and manage the ailing national brewer. Tanzania Breweries' operations included two beer brewing plants, an interest in a distillery and liquor bottling company, a sorghum beer brewing plant, and several nonproductive assets (such as housing) that had been purchased by previous management for personal use. SAB agreed to invest \$22.5 million in cash and equipment in return for a 50 percent equity stake in the brewer. The investment marked SAB's first move outside southern Africa and would be an early test of the company's international expansion strategy.

TANZANIA IN THE 1990S

In 1964, the United Republic of Tanzania gained its independence after nearly eighty years of colonial rule. From 1964 to the mid-1980s, the Tanzanian government pursued an economic policy of socialism and self-reliance based on collective agricultural ventures known as the *ujamaa* (community) villages and mandated the nationalization of all private industry. These policies led to general improvements in living standards through the 1970s. In the 1980s, however, the economy suffered under misguided government policies and official corruption; by 1986 the country was forced to undertake a massive economic restructuring in an agreement between the government and the International Monetary Fund (IMF). By the mid-1990s, Tanzania was engaged in a process of recovery and restructuring. The economy was heavily dependent on foreign aid; in fiscal year 1994, foreign aid (in the form of grants and loans) financed over 40 percent of total government expenditures. Much of this foreign aid was provided by the IMF, which imposed stringent economic reforms on Tanzania as a condition of continued foreign aid. These reforms led to government liberalization of the agricultural sector, privatization of national industries, and the encouragement of foreign direct investment through tax incentives for companies setting up operations in the country. By 1998, GDP per capita had risen to \$256, an average annual growth of 13 percent over 1994. Despite this improvement, the country still was ranked as the world's fifth-poorest nation in terms of real GDP.¹²

Tanzania's poor infrastructure presented significant challenges to companies setting up operations in the country. Highways between Namanga, Arusha, Moshi and Himo, and between Dar es Salaam and Morogoro, were generally in good condition; however, in 1990 only 25 percent of roads overall and 10 percent of roads in rural areas were in good condition.¹³ (See **Exhibit 7**). The railroad infrastructure consisted of two lines—one line ran between Dar es Salaam and neighboring Zambia, and another ran from Dar es Salaam to the central and northern

¹² *Economic Intelligence Unit Country Profile 1999-2000* (The Economic Intelligence Unit, June 30, 2000), p. 15.

¹³ *Ibid.*, p. 17.

regions of Tanzania. The railway system was in poor condition and railway cancellations were common. In addition, weather played havoc with the railway schedule. Rail freight from Dar es Salaam to Mwanza (a distance of over 1,000 kilometers) could take five to six days under good circumstances. The same freight could take up to three weeks during the rainy season. Telephone and utility services were erratic at best in the urban areas and nonexistent in much of the rural region. Tanzania was one of the most populous countries in Sub-Saharan Africa (32.3 million people in 1998), but 88.5 percent of its population was rural.¹⁴ Since much of this rural population was employed in subsistence farming or small cash-crop agriculture activities, the economy was heavily dependent on agriculture (see **Exhibit 8**). Tanzania had only a small pool of educated, skilled workers – in 1995, adult literacy levels were estimated at 30 percent.¹⁵

TANZANIA BREWERIES LIMITED

In 1994, Danie Niemandt, a general manager with twenty years' experience at SAB, including ten years as a general manager of regional operations in South Africa, was sent to Tanzania to head Tanzania Breweries. As he reviewed the operations at the plant, he could see that "the company was in bad shape and it was visible from every respect. The company was a patient that had been in an accident and was bleeding very badly. We needed to do something quickly to stop the bleeding or else the patient was going to die on us." However, the cash-strapped company could not afford to halt operations to make the changes needed in production, distribution, and marketing.

The standard process of beer production was a simple one of "basically time, process, and inputs" (see **Exhibit 9**). However, when SAB took over Tanzania Breweries it discovered a beer brewing process that was best described as haphazard. Regular breakdowns were experienced at each stage of production. The company farms did not produce a sufficient quantity of barley and maize to supply the brewing plants, and the quality levels were seldom high enough for beer production. The company imported most of its raw materials and paid high taxes on the imports. In addition, the country's poor infrastructure caused constant delays and disruptions in the delivery of raw materials to the brewing plants, which led to frequent interruptions in beer production and the use of lower quality products to substitute for missing grains. A lack of high quality water also contributed to inconsistencies in the quality and taste of the beer, as well as inconsistent cleaning of the machinery and the bottle containers. The brewery equipment was poorly maintained; most of the equipment was operated at a fraction of expected capacity, and several machines were inoperable. The plants experienced frequent electrical outages and were not equipped with generators to supply their own power. As a result, temperature control and regulation was lax in the brewing process and led to significant quantities of unusable product. It was estimated that process losses (from unusable product and shrinkage) were in excess of 30 percent at the company's two breweries, as compared to 10–12 percent in a standard brewery and 8 percent at a well-run brewery. Favorable relationships and "sweetheart deals" between brewery management and outside companies also contributed to inefficient and costly operational procedures. In one case, a brewing plant trucked malt beer 100 kilometers away to a "wet depot" with facilities for bottling and packaging the beer even though the plant could have done this on-site and shipped it to the area at a lower cost.

¹⁴ Ibid., p. 14.

¹⁵ Ibid., p. 15.

The distribution network in Tanzania suffered from an insufficient supply of beer and significant overcapacity in the distribution channel. The brewing plants did not produce adequate supplies of beer and several distributors had not received deliveries for months. Distributors often came to the brewing plant to purchase beer directly. As Danie recalled:

My first working day I arrived at the company and there was a queue of people waiting to see the then-general manager who was rationing the beer. People would come in, they would explain to him that they were distributors and that they had the capacity to sell 10,000 crates a month but that they could not get enough beer. He would sign a chit that would allow them to go into the brewery and buy 500 crates of beer.

Political patronage from the prior government-managed operation had created significant overcapacity in the distribution network. Businesses required little more than a letter from a government official to become a licensed distributor, and the company management did little to manage the quantity or quality of its distributors. The company's two breweries supplied beer to 30 depots, which in turn supplied beer to over 1,000 appointed distributors.

Table 2: South Africa and Tanzania Beer Distribution

	Number of breweries	Production volume (mm hl)	Depots	Distributors
South Africa	7	25	41	<500
Tanzania	2	>0.5	30	1,000

Source: SAB company sources

The frequent breakdowns in the distribution network made it a common occurrence for private individuals to find alternative ways to buy beer. Individuals resorted to political connections or bribery to get approval from low-level government officials to purchase beer for private consumption. Government regulations did not require the company to sell exclusively to licensed distributors. As a result, people often went directly to the brewery to “persuade” the manager to sell them beer. The beer they received, while inexpensive, was of inconsistent and suspect quality at best. The image of cheap, low quality beer was reinforced by the packaging—often the beer was shipped in unlabeled, dirty bottles with loose, unsecured caps. Despite a historically strong “Safari Lager” brand name, consumers usually referred to the beer by the source brewery (e.g., “Dar es Salaam beer”).

The Turnaround

Danie determined that the company's first priority was to boost beer production. He brought technicians from South Africa to work with local artisans to fix damaged brewery equipment and establish a regular maintenance schedule. Inoperable machines were replaced with second-hand equipment from breweries in South Africa. He brought in brewers from South Africa to review the brewing process with their Tanzanian counterparts. In the first year, production volumes increased 15 percent and beer quality was improved significantly. Still, the company continued to produce at about a third of market demand, so it built a third brewery in Mwanza. The

additional capacity, along with continued operational improvements at the existing two breweries, yielded a three-fold increase in production volume over the next five years.

Danie streamlined the distribution network, which was viewed as workable in theory, by dramatically thinning out distributors at each level. Within two years, Danie reduced the number of depots from 30 to 7, and he cut the number of distributors from over 1,000 to 150. In addition, he introduced much more stringent conditions for the company's distributors. Distributors were required to maintain a certain mix and quantity of stock and they had to meet requirements for high quality customer service in order to remain in the network.

The company also launched a marketing strategy to resurrect the "Safari Lager" brand name, positioning the brand as "A Tanzanian product that Tanzanians can take pride in." A second brand, Kilimanjaro Lager, was launched in 1995, and it quickly became the second biggest in the market. The company undertook substantial promotional efforts to build and support its main brands. Safari Lager became the sponsor for the country's main soccer league, while Kilimanjaro Lager sponsored several entertainment events around the country. In 1998, the two brands accounted for approximately 70 percent of the company's beer sales and over half the overall market.

The returns to the business were dramatic (see **Exhibit 10**). The company produced three times its original level of volume while cutting its workforce from 4,000 employees to 1,600 employees. Tanzanian Breweries' share of the market grew from 25 percent in 1994 to a peak of over 80 percent in 1998.¹⁶ Tanzanian Breweries Limited became the second company that listed on the Dar es Salaam Stock Exchange in 1998.

Competition

Traditionally the Tanzanian beer market was not a very competitive one due to the small size of the overall market. However, by the late 1990s the market became one of the fastest growing markets in the world, with 28 percent annual consumption growth from 1994 to 1999.¹⁷ A number of global beer companies looked to Tanzania and the east Africa region to establish a foothold on the African continent.

Guinness

In 1998, the Tanzanian government invited East African Breweries to compete domestically with Tanzania Breweries. East African Breweries was backed by Guinness, which competed with SAB throughout Africa. The competition between Guinness and SAB was particularly fierce in East Africa, where they went head to head in Kenya and Uganda. In Kenya, East African Breweries held a 96 percent market share. SAB built a new brewery in Kenya in early 1998 in an effort to capture market share from Guinness. In Uganda, Guinness and SAB each held a 50 percent share of the market.

East African Breweries was not a new player in the Tanzanian market; the company exported its beer from Kenya to Tanzania. Before the entrance of SAB, the company had a 70 percent share of the market, but by 1998 East African Breweries' market share had dwindled to just 15 percent. The company opened a brewery in Moshi, and expected to quickly double its market share to 30

¹⁶ Jabulani Sikakhane, "Scramble for Africa," *Financial Mail*, March 5, 1999, p. 60.

¹⁷ Ibid.

percent. It planned to use the marketing expertise of Guinness to establish a stronger presence in the Tanzanian market. Guinness was widely known as an aggressive marketer from its experience in the European market. The company spent approximately ten percent of its net revenue on marketing, while SAB spent no more than five percent.¹⁸ In addition, East African Breweries had an identifiable brand in Tusker Lager, a product well known in Tanzania and Kenya. With its presence in Kenya and Uganda, Guinness saw Tanzania not just as a key to being the dominant player in the east Africa region, but as one of its most important growth markets overall—Tanzania was one of the company's three fastest growing markets in 1998.¹⁹

Interbrew

Belgium-based Interbrew was the world's second-largest brewer by volume. The company had grown rapidly throughout the 1990s through a succession of thirty acquisitions, and had expanded its operations to nearly one hundred countries worldwide.²⁰ Interbrew exported Stella-Artois from Belgium into the Tanzanian market. Despite little marketing support for the brand, the company had an estimated 5 percent market share with canned beer, which was generally considered less desirable than bottled beer. By 1999, this share had diminished to a very low level.

Heineken

Heineken was one the most active brewing companies in Africa, with a presence in thirteen markets, and was estimated to be the second-largest brewer on the continent by volume.²¹ The company was not a competitor in the Tanzanian market, but it did have a presence in neighboring Congo, Rwanda and Burundi. Danie expected that the overall growth of the Tanzanian market would attract the company's attention. Heineken had built a reputation for aggressive marketing techniques (an estimated twelve percent of net revenue was spent on marketing) and premium pricing to establish its brand presence in other markets, and Danie felt that the company might seek to do the same in Tanzania, especially since it already had a well established distributor—sales volumes were small but consistent.²²

TANZANIAN BREWERIES IN THE FUTURE

It has been said that SAB has a way of turning water into high quality beer that no other brewer can match. The company proved this in Tanzania, where it was able to turn the troubled Tanzanian Breweries into a market leader. With the tremendous growth in Tanzanian beer consumption, however, Danie knew that the market in Tanzania presented a new set of challenges. East African Breweries had entered the domestic market and had regained some of its market share by aggressively marketing its Tusker Lager and Guinness Extra Stout brands. With other global brewers eyeing the east Africa region, the challenge for Tanzanian Breweries to keep its dominant market share would only grow tougher. How should the company respond to the competitive threat posed by East African Breweries? Danie knew that the challenge he faced in Tanzania was one that confronted SAB worldwide. In a number of local markets, SAB's main competition was from strong, global brewers (see **Exhibit 11**). Was the company well positioned to compete with these global players? How would this kind of competition

¹⁸ Ibid.

¹⁹ Jabulani Sikakhane, "Guinness Squares Up to SAB," *Financial Mail*, October 30, 1998.

²⁰ Interbrew corporate website, "Introducing Interbrew", <http://www.interbrew.com/where/index.shtml> (October 26, 2000).

²¹ Jabulani Sikakhane, "Charles Glass Goes to London," *Financial Mail*, September 4, 1998, p. 49.

²² Jabulani Sikakhane, "Scramble for Africa," *Financial Mail*, March 5, 1999, p. 61.

affect SAB's international strategy? Danie could only hope that the company was up to the challenge in Tanzania and elsewhere.

Exhibit 1
World's Largest Brewers by Volume

Company	Home Market	Beer Volume (in mm of hectoliters)	Market Share (%)
Anheuser-Busch	US	158	12.0
Interbrew	Belgium	97*	7.4
Heineken	Netherlands	72	5.5
South African Breweries	South Africa	56*	4.3
Ambev	Brazil	56	4.3
Miller	US	53	4.0
Carlsberg	Denmark	44	3.4
Scottish & Newcastle	United Kingdom	36	2.7
Asahi	Japan	35	2.7
Kirin	Japan	32	2.4

* Volume figures adjusted for the pending Interbrew acquisitions of UK-based Bass PLC and Whitbread PLC and the SAB acquisition of Czechoslovakia-based Ceske.
Source: Canadean Ltd.

Exhibit 2

South African Breweries Business Interests

Beer South Africa

SAB Limited, the South African beer operation and flagship company of SAB plc, began operations in 1895. In 1999, the company had 98 percent market share in the South African beer market. Beer South Africa's operations included the company's seven breweries, a comprehensive distribution network, and investments in South African Breweries Hop Farms (Pty) Limited and Southern Associated Malsters (Pty) Limited.

SAB International (SABI)

SABI had extensive brewing interests in Africa, Central Europe, and Asia. SABI's operations included thirty-eight lager breweries, thirty-four sorghum beer breweries, and five soft drink bottling plants.

Other Beverages

The Other Beverages division comprised:

- ABI, the largest bottler and exclusive distributor of Coca-Cola and Schweppes products in South Africa;
- Appletiser SA, an international producer of natural, non-alcoholic sparkling fruit juices and bottled water;
- TBI, a South African commercial sorghum beer producer and distributor; and
- Distillers Corporation and Stellenbosch Farmers' Winery, two major manufacturers and distributors in the South African wines and spirits sector.

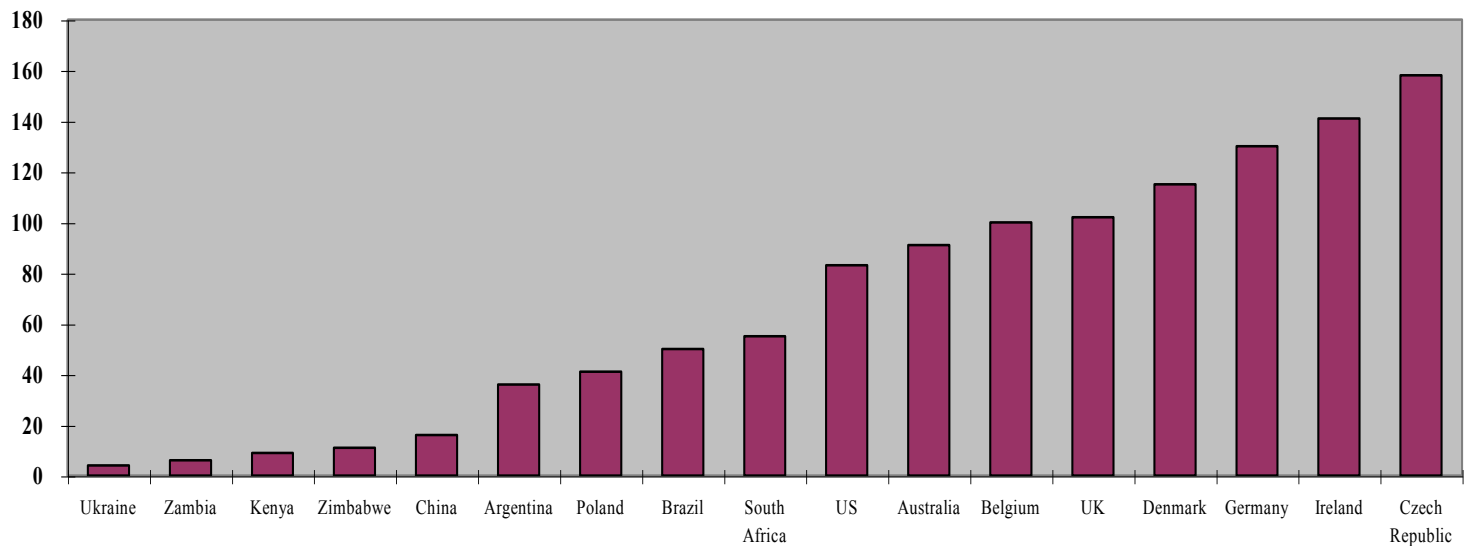
Hotels and Gaming

SAB's hotel interests were held through its wholly-owned subsidiary, Southern Sun, one of the largest hotel operators in Africa with 75 hotels and 12,581 rooms. Southern Sun also had interests in the expanding South African gaming industry through interests in casino and gaming operators Tsogo Sun, Monyaka Gaming, and Sun International.

Source: South African Breweries plc Annual Report, 31 March 2000.

Exhibit 3 Beer Consumption by Country (per Capita)

liters per capita



Source: World Drink Trends 1998: NTC Publications Ltd/ERC Statistics International PLC

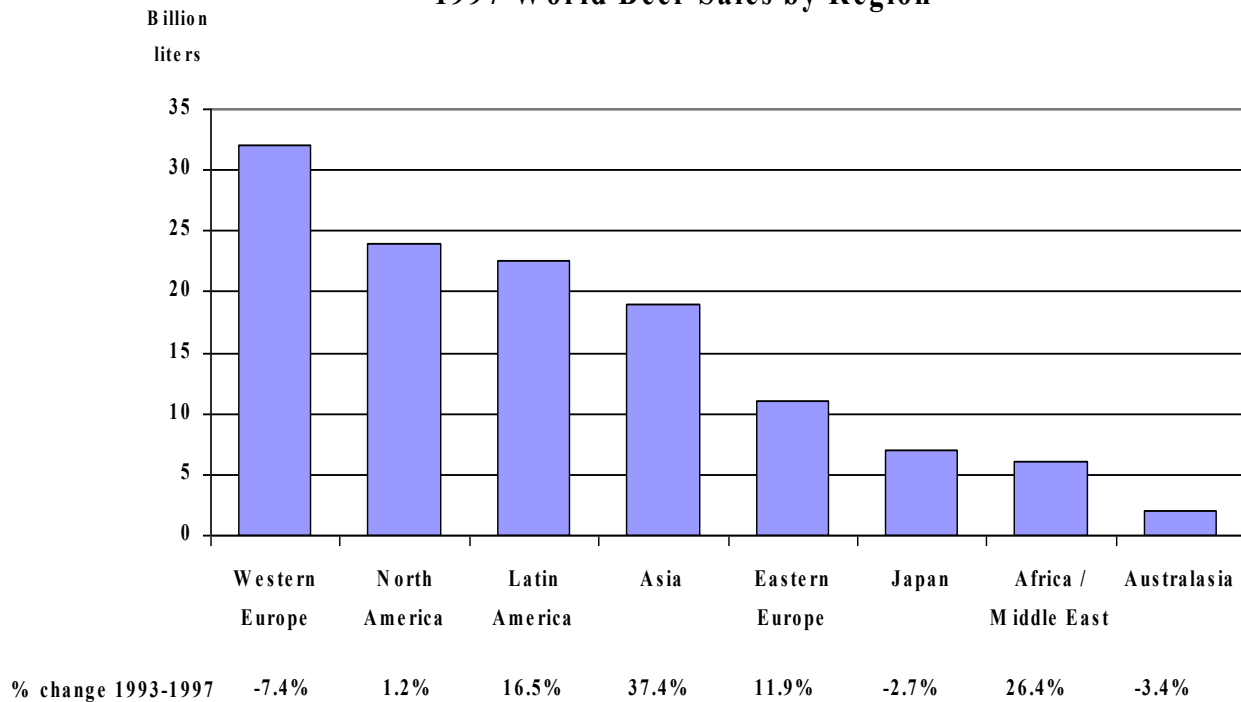
Exhibit 4
Global Beer Brewers EBITDA Margins and Revenue per Hl (1999)

Company	Consolidated EBITDA Margin	Beer EBITDA Margin	Revenue per Beer Hectoliter (in US\$)
Ambev	22.1%	25.2%	\$35.3
Anheuser-Busch	26.2%	30.1%	80.5
Brahma	28.0%	27.0%	35.4
Carlsberg	9.7%	12.8%	60.2
Coors	13.6%	11.8%	78.9
Foster's	24.9%	29.7%	70.8
Grupo Modelo	28.2%	28.2%	81.5
Heineken	17.9%	19.9%	84.6
Lion Nathan	22.7%	29.1%	67.8
Molson	14.2%	18.7%	122.6
San Miguel	15.5%	12.9%	62.2
Scottish & Newcastle	18.5%	18.3%	112.3
South African Breweries	22.2%	37.6%	69.6

Source: Merrill Lynch Research Report on Ambev (September 15, 2000).

Exhibit 5 Global Beer Consumption

1997 World Beer Sales by Region



Source: EuroMonitor

Exhibit 6
Global Beer Industry Profits

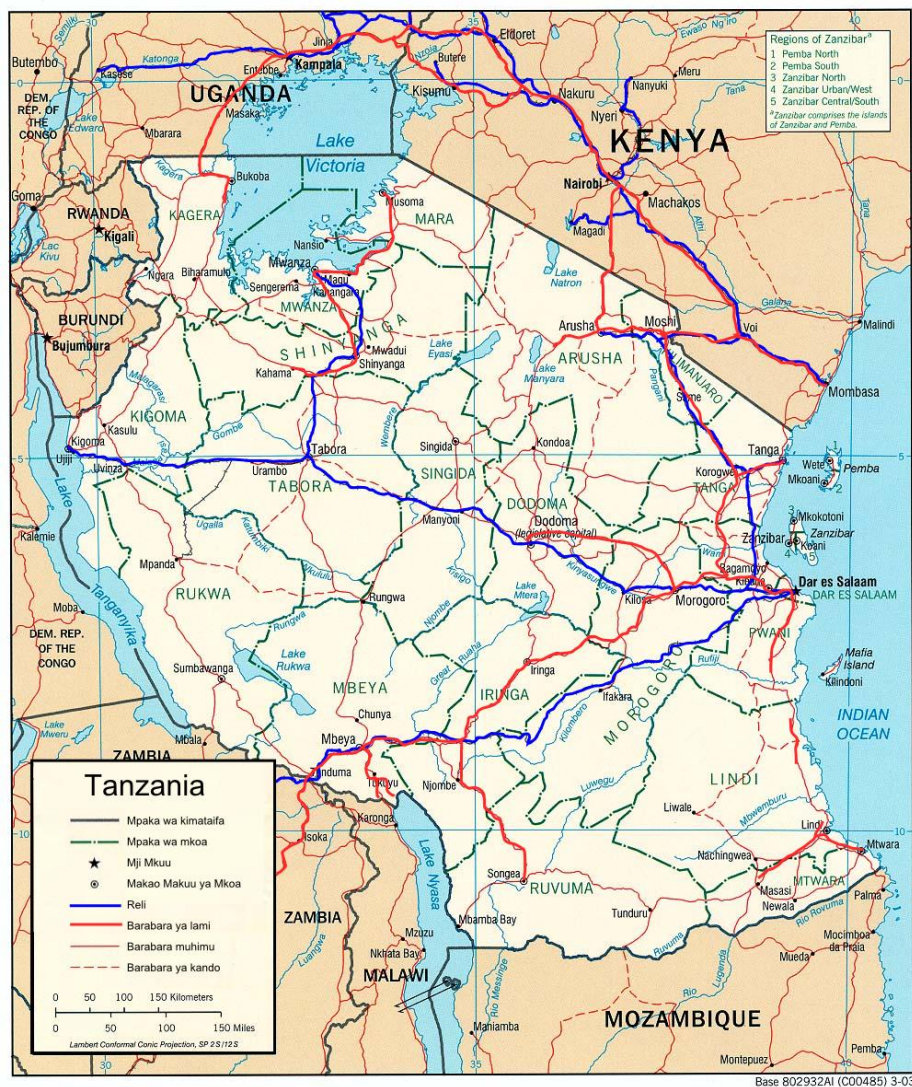
Global beer industry profits* (US \$billion)

Region	1998 (estimate)	2010 (forecast)
Western Europe	7.0	8.5
North America	5.0	5.5
Latin America	2.0	4.5
Asia	2.0	6.5
Africa	1.0	1.5
Eastern Europe	0.5	2.0
Total	17.5	28.0

* Profits defined as earnings before interest, taxes, depreciation and amortization (EBITDA)

Source: McKinsey Quarterly 1999, Number 1

Exhibit 7 Tanzania Country Map



Source: "Courtesy of the University of Texas Libraries, The University of Texas at Austin,"
http://www.lib.utexas.edu/maps/africa/tanzania_pol_2003.jpg

Exhibit 8 Tanzania Gross Domestic Product Statistics

All figures in Tanzanian Shilling (Tsh) except where noted.

	1993	1994	1995	1996	1997
Real GDP (in Tsh billion)	1,281.0	1,298.9	1345.2	1401.7	1457.4
Real GDP per capita (in Tsh)	49,664	48,970	49,317	49,970	49,970
GDP by sector (% of total)*					
Agriculture/forestry/fishing	54.8%	54.8%	56.8%	55.7%	N/A
Mining	1.9%	1.6%	1.4%	1.4%	N/A
Manufacturing	7.9%	7.3%	6.7%	6.5%	N/A
Electricity and water	2.1%	2.2%	2.2%	2.1%	N/A
Construction	4.9%	5.0%	3.5%	4.9%	N/A
Tourism/trade	14.7%	14.7%	14.8%	14.7%	N/A
Communications/transport	6.9%	7.2%	7.2%	7.1%	N/A
Financial services	9.7%	9.5%	9.2%	9.3%	N/A
Public administration	4.7%	4.8%	5.0%	4.8%	N/A
Exchange rate (Tsh per US\$)	N/A	509.63	574.76	579.97	612.12
Inflation rate	N/A	32.9%	29.9%	19.7%	16.0%

*Note: Figures may not add to 100 due to imputed bank service charges.

Source: EIU Country Profile, 1999-2000.

Exhibit 9

The Beer Brewing Process

The Brewing Process

Beer brewing involves malting, mashing, lautering, wort boiling, fermentation, maturation, filtration, and packaging. The object of the entire process is to convert grain starches to sugar, extract it with water, and then ferment it with yeast to produce an alcoholic, carbonated beverage.

Malting

Malting prepares barley for brewing. The barley is steeped in water, allowed to germinate and is then kiln-dried in carefully controlled conditions. During this process starches in the barley are made accessible, and enzymes are formed that convert starch into simple sugars during the subsequent brewing process. Special malts, such as crystal (caramel), chocolate (black), and amber malts, can be made by wetting and heating green malt in closed drums at high temperatures. The selection and blending of different malts contribute to the flavor, body, color and aroma of the beer. The malt is then milled (ground) in order to break up the starches in preparation for the mashing.

Mashing

During mashing, the ground barley malt is mixed with maize, rice, wheat flour or other grains and combined with specially conditioned water to create a thick mixture called the “mash.” The use of unmalted grains is common in some countries because they are less expensive sources of starch and can be used to dilute malt color and flavor, yielding fresher, lighter beers. A specified heating process continues the conversion of the starches in the mash into simple sugars. The variation in the time and temperature in the mashing process influences the body and color of the beer and determines the potential alcohol content.

Lautering

The mash is transferred to the lauter tun, which acts as a giant sieve and filter, separating the rich fermentable liquid “wort” from the solid grain. As the liquid drains off the grain, it is sprayed with hot water to recover the maximum amount of fermentable sugars.

Wort Boiling

The wort is brought to a controlled boil to balance the ingredients precisely. Hops are added. The type and quality of hops, and the timing of their addition to the boiling wort, determine the distinctive bitterness and hop aroma of the beer. After boiling, the solids are separated and the wort is cooled.

Fermentation, Maturation and Filtration

Selected brewer's yeast is added to the cooled wort, initiating the fermentation process under controlled temperatures. During fermentation, yeast converts the sugars in the wort into alcohol and carbon dioxide. Beer produced on a large scale in modern breweries is kept free of oxygen (which ultimately spoils beer). The young beer is then transferred to even colder storage vessels, where it matures. After reaching its full potential, the beer is filtered, carbonated and transferred to the bright beer tank.

Packaging

Because beer is best when it is fresh, it is packaged as quickly and efficiently as possible on high-speed lines, in kegs, bottles or cans. Kegged beer is micro-filtered or flash pasteurized before being packaged into metal kegs of 50-liter (in the United States, 15-gallon) capacity and delivered to customers for consumption as draught beer. Bottled or canned beer is first packaged into bottles or cans and then pasteurized to ensure a longer shelf life.

Source: Britannica.com website and company sources.

Exhibit 10
Tanzania Breweries' Financial Statistics

All figures in millions of Tanzanian Shilling (Tsh) except where noted.

	1995	1996	1997	1998	2000*
Turnover	59,777	98,043	119,174	123,538	144,795
Profit before taxes	11,003	15,482	19,024	24,285	31,554
Earnings per share (in Tsh)	52	63	83	104	130
Cash flow from operations	8,098	9,770	17,192	23,700	28,530
Net cash investment for expansion	9,351	3,934	10,519	10,199	5,845

* The period ending March 31, 2000 reflects 15 months of financial results due to a change in fiscal year end.

Source: Tanzania Breweries plc Annual Report to Shareholders, 31 March 2000.

Exhibit 11
SAB International Competitors

Region/market	SAB share of beer market (as of 1998)	Main competitors
Africa		
Angola	(1)	BGI, Heineken
Botswana	95%	None
Ghana	25%	Guinness, Heineken
Kenya	(1)	Guinness
Lesotho	85%	None
Mozambique	90%	Guinness/BGI
Swaziland	95%	None
Tanzania	82%	Guinness
Uganda	50%	Guinness
Zambia	90%	None
Zimbabwe	98%	None
China		
Dalian region (3)	60%	(2)
Jilin region	60%	(2)
Mianyang region	65%	(2)
Shenyang region	N/A	(2)
Europe		
Poland	19%	Carlsberg, Heineken
Romania	16%	Carlsberg, Interbrew
Hungary	N/A	Heineken, Interbrew
Slovakia	14%	Heineken
Russia (3)	12%	Carlsberg, Interbrew
Canary Islands	N/A	
India	(1)	Foster's

(1) Due to the recent launch of SAB operations in Angola, Kenya and India, no meaningful data on market share was available.

(2) Several brewing companies have established operations, or export product, throughout China. These brewers include: Asahi, Anheuser-Busch, Beck's, Foster's, Heineken, Kirin, Lion Nathan, Miller and San Miguel.

(3) Figures for calendar year 1999.

Source: SAB company sources; Carlsberg, Diageo plc, Foster's, Guinness and Interbrew corporate websites.