

HEINEKEN BREWING INDUSTRY IN BRAZIL

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Abstract

The present article investigated the Dutch brewing industry Heineken, operating in Brazil. After the acquisition of the Kirin Brasil in 2017, Heineken jumped its production from 20 million hectoliters to 50 million hectoliters, becoming the second largest brewery company in Brazil, behind of ABInbev (owner of popular brands such as Skol, Brahma, Budweiser, Stella Artois, Corona, Miller, among others). Heineken was founded in 1863 by Wandscheer Heineken in the city of Amsterdam, Netherlands. Currently operates in approximately 140 facilities, employing near 90,000 people around 70 countries. In Brazil, Heineken started its operations in 2010, after the acquisition of the Mexican FEMSA. This single case study investigated Heineken's activities in the Brazilian market, its challenges, pitfalls, and ultimate performance, since its foundation to the present. Discussion and recommendations for future research complete this work.

KEYWORDS: Heineken, Brewing industry, Brazil

1. Introduction

The present descriptive case study investigated the Dutch brewing company Heineken, and its activities in Brazil, as unit of analysis of this case (Yin, 2009).

Brazil has a long tradition of brewing. Although Heineken's privileged position in the Brazilian beer market, holding the second position since 2017 - after the acquisition of Brasil Kirin, Heineken has been facing challenges regarding the new change of consumers' habits. Craft beers (*cervejas artesanais*, are a boom in Brazil, which a number of factories skyrocketed from 356 to 679, or 91 percent in the last four years (from 2014 to 2018), in the middle of a financial crisis (G1, 2018).

Beer is defined, as “an alcoholic drink made from yeast-fermented malt flavoured with hops” (p.1). In Brazilian Portuguese, it is called *cerveja*, according to the English Oxford Dictionary (2018). The word *beer* comes from:

Old English *beor* "strong drink, beer, mead," cognate with Old Frisian *biar*, Middle Dutch and Dutch *bier*, Old High German *bior*, German *Bier*; a West Germanic word of much-disputed and ambiguous origin. (...) Probably a 6c. West Germanic monastic borrowing of Vulgar Latin *biber* "a drink, beverage" (from Latin infinitive *bibere* "to drink," from PIE root **po(i)-* "to drink"). (...) Spanish *cerveza* is from Latin *cervesia* "beer." (Online Etymology Dictionary, 2018,p.1)

According to the Kirin Global Beer Report 2017, Brazil is the third country in global consumption, with 12,654 thousand kl consumption, with 6.8 percent of the total market share, as depicted in Figure 1, as follows:

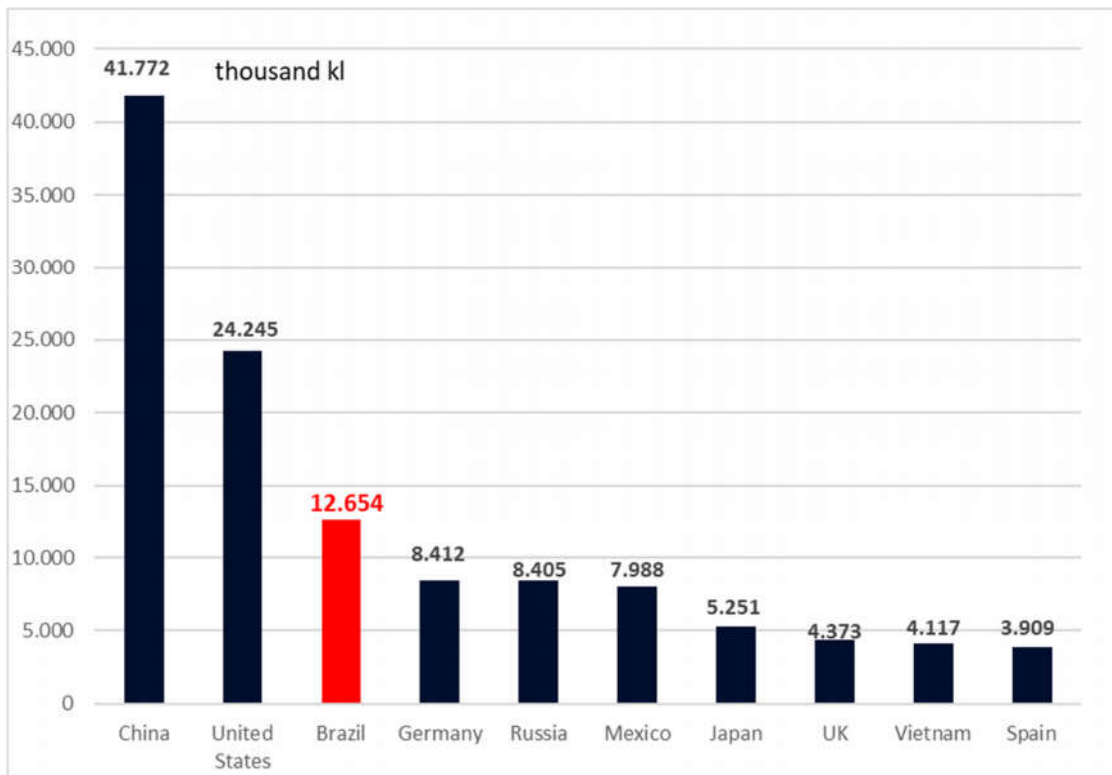


Figure 1 World Consumption. Source: Global Beer Report 2017

Figure 2 depicts the global market share by world region, as follows:

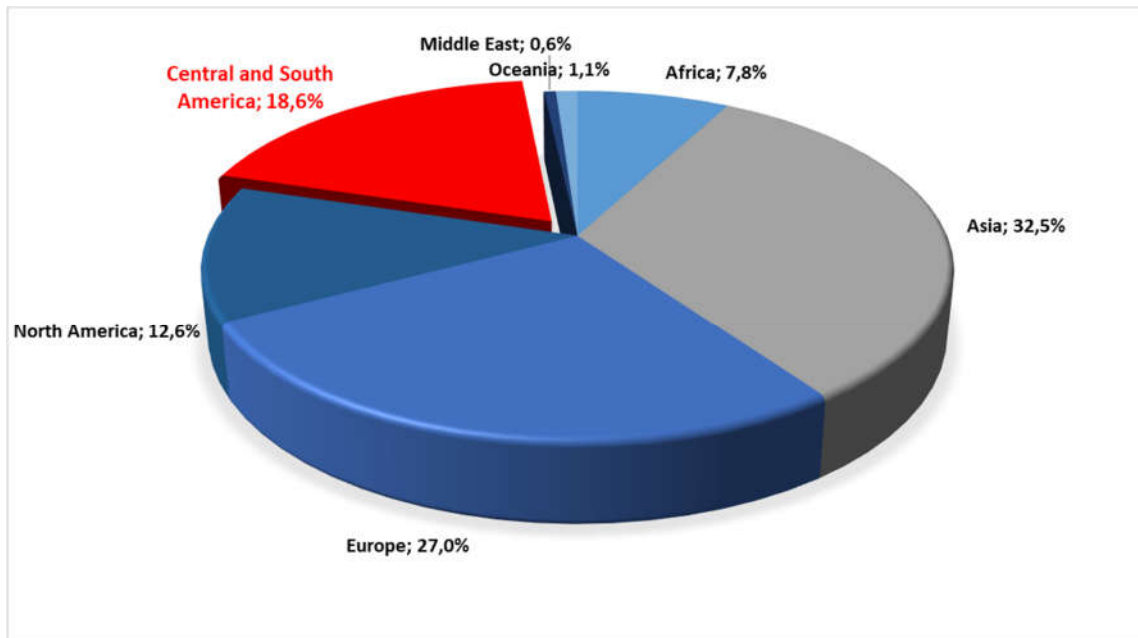


Figure 2 Market Share by region. Source: Global Beer Report, 2017

Figure 3 depicts the global beer production, which shows Brazil as the third largest country in beer production, as follows:

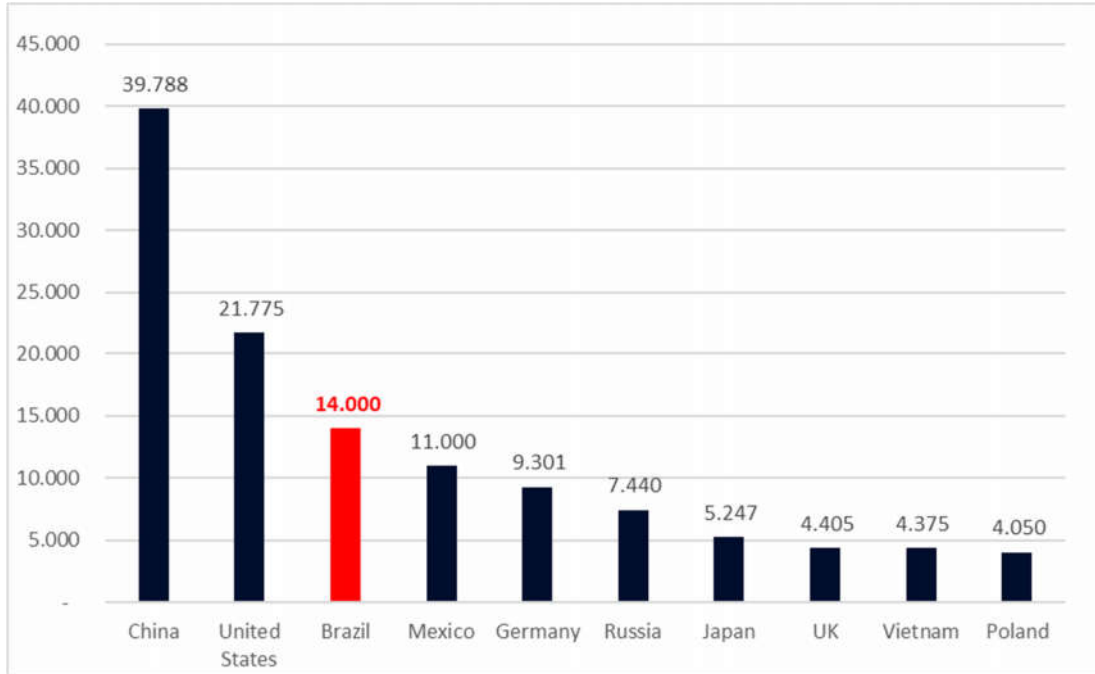


Figure 3 Global beer production 2017. Source: Global Beer Report, 2017

Therefore the importance of the Brazilian market in the Global beer scenario. Brazil has a long tradition in beer consumption and local production.

Figure 4 depicts the beer consumption in Brazil. Observe that beer in Brazil is consumed approximately 24 times more than the second alcoholic beverage (*cachaça*), as follows:

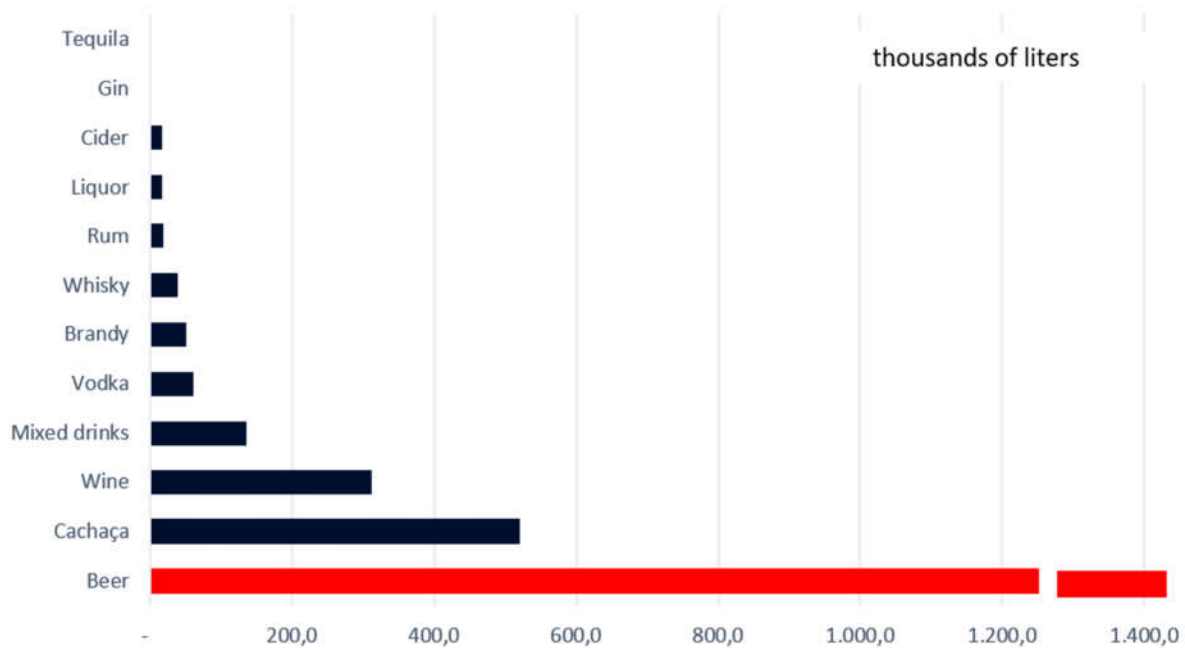


Figure 4 Brazilian consumption per type of beverage. Source: Euromonitor, 2018.

The next section presents the methods used in this research.

2. Methods

This is a qualitative, inductive, interpretive, multiple methods study, involving extensive archival research, direct observation, and single case study, which unit of analysis (Yin, 1988) is Heineken Brazil. This research is limited to the Brazilian beer market, excluded other beverages (Heineken also produces bottled water – *Schin*, in Brazil).

3. Background

Heineken was founded in Amsterdam in 1864. In 1873, created the company HBM (Heineken's Bierbrouwerij Maatschappij). For a newcomer, Heineken did well in the International Maritime Exposition in Paris, winning the *Medaille d'Or* (gold medal) in the competition (Heineken, 2018).

Curiously, Alfred Henry “Fred” Heineken (Heineken CEO from 1971 to 1989 - grandson of Heineken’s founder, Gerard Adriaan Heineken), along with his driver were kidnapped from November 9 to 30, 1983. They were released in exchange for the payment ransom of approximately 15.7 million euros (35 million Dutch Guilders, at that time). Their captors were eventually arrested and served in prison terms for their crimes. In 2015 the kidnapping became a movie, starred by Sir Anthony Hopkins, in the role of Fred Heineken, on “Kidnapping Mr. Heineken” (Heineken, 2018).

The famous green bottle appeared for the first time in 2013, when Heineken discontinued the brown bottle, which had been used for more than one century (Heineken, 2018), as depicted in Figure 5, as follows:



Figure 5 Heineken's bottles. Source: Heineken, 2018

4. Heineken in Brazil

The Heineken Group entered the Brazilian market in May 2010, after the acquisition of the beer division of the Mexican industry FEMSA Cerveza. In 2017, Brazil acquired Kirin Holding SA, by 2.2 billion BRL (approximately 800 million USD). Today is the second largest producer in the Brazilian beer market (Heineken, 2018).

First, Brazilian Schincariol was acquired by Japan's Kirin Holdings Company, in 2011. Then, Brazil Kirin was created in 2012. At that time, the Japanese group paid about US \$ 3.9 billion for Schincariol. The Japanese Kirin Holdings Company, was founded in Yokohama, Japan, in 1885. Kirin beer exists since 1888. Later, Brazilian Kirin was acquired by Heineken in 2017 (Heineken, 2018).

The Group generates more than 13 thousand jobs and has 15 breweries located in Alagoinhas (BA), Alexânia (GO), Araraquara (SP), Benevides (PA), Blumenau (SC), Campos do Jordão (SP), Caxias, Igarassu (PE), Igrejinha (RS), Itu (SP), Jacareí (SP), Manaus (AM), Pacatuba (CE), Ponta Grossa (PR) and Recife (PE).

Heineken is also the owner of the following brands: (a) Heineken, (b) Sol, (c) Kaiser, (d) Bavaria, (e) Bavaria 0.0%, (f) Xingu, (g) Amstel, (h) Kirin Ichiban, (i) Schin, (j) Schin 0.0%, (k) No Grau, (l) Devassa, (m) Baden Baden, (n) Eisenbahn and (o) Glacial. The non-alcoholic portfolio includes soft drinks, juices, energy and water such as (a) Water Schin, (b) Itubaína, (d) K Energy Drink, (e) Schin Tônica, (f) Skinka soda and (g) Viva Schin (Heineken, 2018).

Heineken is headquartered in São Paulo state (southeastern Brazil), in turn, subsidiary of the Dutch Heineken NV, the largest brewer in Europe, the second concerning profitability and the third in volume. In total, Heineken runs more than 170 breweries in 70 countries (Heineken, 2018).

According to the Ministry of Agriculture, Fishing and Supply, the state of Rio Grande do Sul has the highest number of brewer industries in Brazil, with 142 facilities, followed by São Paulo, 124, Minas Gerais, 87, Santa Catarina, 78, Paraná, 67, Rio de Janeiro, 57, Goiás 21, Pernambuco 17, Espírito Santo 11, and Mato Grosso, 11 (Marcusso & Müller, 2017).

The Brazilian-Belgium ABInBev is the largest brewery industry in Brazil. Heineken is the second one. AB InBev, SABMiller, Heineken, Carlsberg and China Resources Breweries, together hold more than 50% of the beer market in the world (Exame, 2016).

5. Discussion: challenges and pitfalls

Heineken was recently accused at Pernambuco state (Northeastern Brazil), of dumping with regional beer brands:

In a lower court decision, Heineken was obliged to supply beer to the Mediterranean by guaranteeing profit margins to the distributor of 27.5% for returnable products and 17.5% for disposables. Heineken appealed to the Court of Justice of Pernambuco, but the plaintiff Stênio Coêho, of the 6th Civil Chamber of the Court of Justice of Pernambuco (Valor Econômico, 2018, p.1).

The situation began when Heineken acquired Brazil Kirin, in 2017. There are long-term lawsuits in the Brazilian Justice regarding the former owner. Heineken acquired 12 factories and increased its beer production from 20 to 50 million hectoliters (Valor Econômico, 2018). Nevertheless, inherited Brazilian Kirin's liabilities.

The changing of beer habits consumption in Brazil is a new challenge since the craft beers started to fiercely dispute the preference of the Brazilian consumers, which fast craft beer industries' growing is depicted in the following Figure 6:

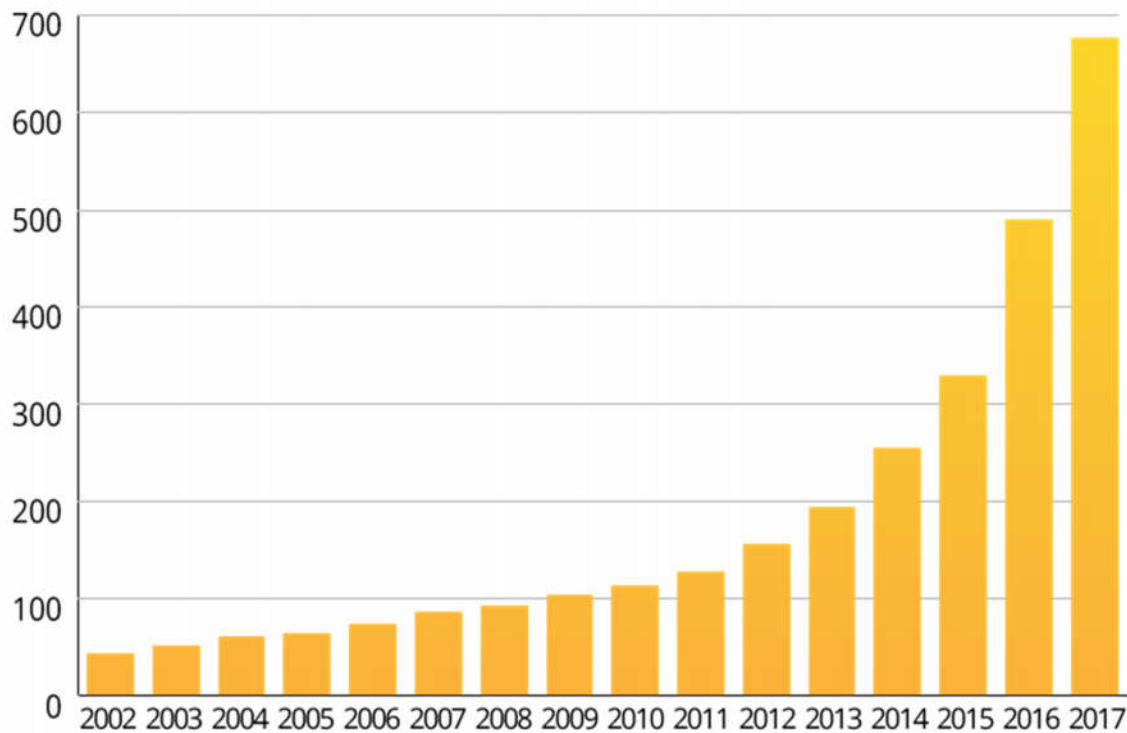


Figure 6 Craft beer industries in Brazil (2002 to 2017) . Source: Ministry of Agricultures, Fishing and Supply, 2018.

6. Discussion

In spite of changing habits of beer consumers in Brazil, the fact is that Brazilian do consume a large amount of beer as shown in Figure 4. The conclusion is that the Brazilian consumer has much to gain with this competition between ABInbev, which represents the traditional Brands (Brahma, Skol, Antarctica, among other), Heineken and the fast-growing craft beers. Both companies decided to investing in the acquisition of craft beers, such as Eisenbahn, from São Paulo, acquired by Heineken. It is possible in the future that Heineken mergers with ABInBEV, in turn, the result of mergers and acquisitions. This research is limited to the Brazilian beer market. Other countries should be investigated in separate.

For future research, it is encouraged the case visitation as well as the investigation of Heineken financial performance in the Brazilian beer market as well.

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