

February 2012

**Thirst for growth:
Helping companies to
compete in the rapidly
changing beverage sector**



Maximizing growth opportunities

Beverage companies are looking at a number of areas in order to maximize growth: leveraging consumer insights, focusing on rapidly expanding emerging markets and looking for acquisition opportunities.



“Beverage leaders are talking about regulatory and environmental concerns. But their biggest issue is demand and the impact that’s having on volume growth. That’s why so many companies are focusing on two areas – innovation and emerging markets – to plug the gap.”

Steve Wills
Co-Global Beverage Leader
Consumer Products Consumer Products
Ernst & Young LLP



Key takeaways

- ▶ Consumer shopping habits are changing. Beverage companies need to capture those insights to maximize growth opportunities across all market segments.
- ▶ Emerging markets present significant opportunities – and complexities. Companies need to adapt products to suit local tastes, wallets and buying preferences.
- ▶ Acquisitions or joint ventures allow companies to enter or strengthen their position in emerging markets. At the same time, emerging market companies are establishing themselves as global players in their own right, looking for opportunities to acquire local competitors and developed world businesses.

In developed markets, where the age profile is rising and population levels are in decline, global beverage companies have been looking to increase scale, leverage purchasing and operational synergies, fill portfolio or market gaps and generate efficiencies. In emerging markets, the search for growth is accelerating, driven in part by the booming population and the rapidly expanding middle class. The increasing prominence of digital media is a factor everywhere.

Leveraging consumer insights to reignite growth

To grow, companies need to understand the changes in the consumer landscape and bring greater focus to their marketing efforts.

New demographic groups are being identified as companies try to capture changing consumer behavior. In the developed world, companies are targeting the ‘bifurcated consumer’ – split between cash-poor value-seekers and richer purchasers interested in innovative premium products. But age is also becoming a more significant factor. While young, fast-adopter consumers who live online gravitate toward products that reflect their values, the more numerous older and richer demographic is demanding quality, but in smaller quantities, at different times and from different outlets.

The challenge for beverage companies is to leverage these insights to identify the core brands which have the greatest relevance and maximize growth opportunities at every level across economy, mass and premium markets. While some companies are reworking the same core product across different market segments, others are focusing on emerging entry-level products to draw in new consumers, or adapting existing brands into new geographic territories. This includes widening product appeal by identifying new drinking occasions or tailoring products to the needs of specific consumer segments.

Focusing on rapidly-growing emerging markets

Emerging markets are seen as holding the key to future growth for beverage companies: of the one billion people projected to enter the middle class by 2020¹, two-thirds will come from emerging

economies such as the BRIC grouping (Brazil, Russia, India, China) and other fast-expanding territories including Bangladesh, Indonesia, Mexico, Pakistan, Turkey, Vietnam and Africa.

“India, which has seen a rapid proliferation of city bars and nightclubs in recent years, is fast shedding its inhibitions about alcohol. This has caught the attention of the global players with multinational alcohol beverage companies, redeploing from shrinking markets in the developed world, having identified India as one of the most attractive markets for investment.”

Ashish Nanda
Supply Chain, Consumer Products
Ernst & Young India

What attracts beverage companies to emerging markets?

- ▶ 82% of the world’s population live there
- ▶ 92% of the world’s births occur there
- ▶ GDP growth is 4%-5% higher than developed markets
- ▶ **One billion** people will enter the middle class by 2020: two-thirds will come from emerging markets
- ▶ 70% of global GDP will come from emerging markets in the next 10 years

“The rising affluence and high levels of aspiration amongst Asian consumers is expected to continue to drive the growth of the international spirits segment in the region.”

Gilbert Ghostine
President of Asia Pacific
Diageo²

“Consumer insights that are relevant in one category are also relevant in the other. Understanding how consumers make their beverage alcohol choices across both categories broadens our perspective and makes us more effective in our consumer and customer marketing.” – Nick Blazquez, President, Diageo Africa³

Targeting growth through acquisition

Developed world companies are looking to enter or strengthen their position in emerging markets with acquisitions and joint ventures. At the same time, emerging market companies are establishing themselves as global players in their own right, looking for opportunities to acquire local competitors, and developed world businesses.

In spirits, there is significant scope for further consolidation. The new trend is a major focus on brand. Companies are less likely to go shopping to fill a gap in their portfolios – such as buying a gin or a bourbon. Instead, they are targeting valuable or iconic national and global brands. In contrast, the wine subsector offers less scope for consolidation and many beer companies are looking at divestments to help reduce debt. In non-alcoholic beverages there is increasing bottler consolidation and global soft drinks companies have been making acquisitions to extend their portfolios into perceived ‘healthy’ segments which offer value added growth opportunities.

1 Indonesian Middle Class Recycle Wealth Back into Domestic Economy, NowPublic.

2 “Diageo brings world’s best bartenders to India for its World Class final as Asia luxury booms”, Diageo, July 2011, www.diageo.com, accessed 8 August 2011.

3 Diageo: Africa Webcast – 14 April 2011.



How Ernst & Young can help

Ernst & Young's strong industry knowledge positions us well to help clients execute on their growth strategies. We have a proven record of helping businesses all over the world to create opportunities for growth – and knowledgeable local teams to support strategic moves in all key markets. We can advise on:

- ▶ Market prioritization and market segmentation
- ▶ Growth opportunities in emerging markets
- ▶ Transaction due diligence
- ▶ Transaction tax
- ▶ Merger integration and valuation
- ▶ R&D program management and innovation
- ▶ Monetizing assets

Transaction support

Ernst & Young is a leading advisor on beverage transactions, with a network of 6,500 transaction professionals in more than 90 countries. We have been involved in many of the largest consumer products M&A deals in recent years. We offer in-depth understanding of beverage industry issues, businesses and local dynamics to boost our clients' competitive edge on deals.

“Our investment in the beverage sector underlines our position as a Big Four organization with great subject-matter insight in this area and enables access to a market-leading global network of sector professionals. This investment has been key in enabling us to win engagements and to deliver market-leading services and insights.”

Simon Gillings
Beverage Sector Specialist, Transactions and Due Diligence
Ernst & Young LLP

Our closely integrated teams are highly experienced in serving clients across different cultures, languages and regulatory systems. We are ready to advise on the full transaction lifecycle including:

- ▶ Pre-transaction feasibility and structure
- ▶ During-the-deal due diligence and valuation, including brand valuation
- ▶ Negotiations and closing
- ▶ Post-acquisition support, including post-purchase price allocation
- ▶ Tax structuring and capital markets transactions
- ▶ Internal audit effectiveness
- ▶ Legal entity rationalization

Examples of successful projects

Maximizing a beverage growth strategy for India

Our client wanted to fine-tune its growth strategy for India to operate more effectively within its commercial, regulatory, political and cultural environment. Our work included assisting the multinational brewing company in reviewing the overall Indian environment, with a specific focus on cultural and regulatory trends. Recommendations for improvements included several key suggestions that would enable the client to optimize its investments in India, such as rationalizing its production facilities to match future growth, and working on improving the effectiveness of its marketing campaigns.

Changing the game through collaboration and know-how commercialization

We worked with a global consumer products company to determine whether it could boost growth by monetizing its business know-how, in particular its approach to maximizing manufacturing productivity. Given that a typical plant for this company generally runs at 80%-85% reliability compared with the industry norm of 50% or below, both company management and Ernst & Young professionals were convinced it should be possible to licence the knowledge to non-competitors very profitably. Ernst & Young invested two years in the project and saw the client and the first licensee realize value two or three times greater than anticipated levels. The team has now evolved the concept to learn from the licensee's experience to further improve the product.

Supporting a strategic acquisition in South Asia

We worked with a consumer products company to help ensure the smooth acquisition of a significant local company in South Asia that would help provide a platform for future growth. We provided financial and due diligence services to support the purchase price – mobilizing a cross-border team including transactions support, transactions tax, financial reporting and valuations. Local market transactions and accounting knowledge was vital to the successful conclusion of the deal – providing comfort around the financials and essential support to the business development team.





Here are some of the publications through which we share our experience and insights on the consumer products sector. For copies please contact:

Lucy Rose

+44 20 7591 0714

lrose1@uk.ey.com



Consumer Products Deals Quarterly offers a quarterly update on consumer products deals.



Understanding risk analyses the top 11 risks to global consumer products companies in 2011.



Transacting in emerging markets is an overview of six key steps to transacting successfully in emerging markets.



Growing in Africa reviews the four areas of strategic focus that companies need to get right to capture the opportunities in Africa.



Thirst for growth: Helping companies to compete in the rapidly changing beverage sector – new Ernst & Young publication to be released soon.

Ernst & Young

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 152,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit www.ey.com.

How Ernst & Young's Global Consumer Products Center can help your business

The global recession has reset the consumer products landscape. Value-seeking consumers, intensified competition, increased commodity costs and growth opportunities in emerging markets are driving change. Consumer products companies now need to be leaner and more agile, with a relentless focus on execution. If you lead a consumer products business, you need to anticipate trends, identify implications and make informed decisions that support your business goals. Our Global Consumer Products Center enables our worldwide network of over 13,000 industry-focused assurance, tax, transaction and advisory professionals to share powerful insights and deep sector knowledge with businesses like yours. This intelligence, combined with our technical experience, can help you accelerate and improve your execution. We can help you to realize the full value of your transactions, improve customer and brand profitability, drive down costs and build an agile and resilient supply chain. If you want to compete powerfully in your market, we'll help you achieve your potential today and tomorrow.

© 2012 EYGM Limited.

All Rights Reserved.

EYG no. EN0341



In line with Ernst & Young's commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

02/2012. Artwork by EMEIA MAS.