

CASE STUDY:

EAST AFRICAN BREWERIES

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INTRODUCTION

East African Breweries Ltd. (EABL), Diageo's brewing powerhouse, is the leading producer of alcoholic beverages in the East African region and is also the second-largest listed company on the Nairobi Securities Exchange by market capitalization, at Kenyan Shilling (KSh) 229 billion or approximately \$2.2 billion United States dollars (USD).

With operations in Kenya, Uganda and Tanzania, 42.8% of EABL is owned by Diageo Kenya, 4.6% by Diageo Holdings Netherland's BV, 2.6% by Guinness Overseas. The remaining 50% is split among more than 25,000 shareholders on the securities exchanges of Kenya, Uganda and Tanzania. EABL has a combined installed capacity of 10 million hectoliters (hl) across the region with production at 6 million hl in 2013, representing a 60% capacity utilization.

The company has grown from a single entity with one brewing plant to a regional powerhouse in the alcoholic beverages industry with various breweries across the region. EABL has acquired smaller, less efficient breweries. It has also acquired ownership stakes in other breweries in the region making it the leading entity in the region's alcoholic breweries industry.

The company is also an international exporter of some of its brands with contractual agreements in the United Kingdom and United States. EABL currently operates in the highly competitive alcoholic beverages industry and positions itself as the leading alcoholics beverage producer with a regional market share of 44% as per the FY 2013 Diageo Africa report. The company's focus to continuously meet emerging consumer needs in addition to its alignment to its internal process and other stakeholders enables it to meet the needs of all its stakeholders.

STRATEGY FORMULATION

One of EABLs focus areas is innovating at scale to meet new consumer needs. As a consumer driven business, EABL takes time to

study the market and understand consumer needs and wants. The focus on emerging brews and drinks will be a key factor of EABL's growth. The Business Model Canvas is the proposed approach to formulating the strategy. It is a visual chart with elements describing a firm's value proposition, infrastructure, customers, and finances. It will assist EABL in aligning its activities by illustrating potential trade-offs. The reason we propose the Business Model Canvas is that it will create focus, give EABL flexibility and transparency. It is a hands-on tool that fosters understanding, discussion, creativity, and analysis (*Exhibit 1*).

EABL will need to partner with farmers to supply the raw materials for its products. In addition, the company will partner with distributors, supermarkets, restaurants, bars and liquor stores to ensure its products are widely available to consumers. EABL will ensure that all its activities are cost-effective in a bid to provide quality products at reasonable prices to the consumers.

Through use of aggressive marketing and advertising, EABL will reach all spheres of its consumers and ensure availability of products through effective distribution channels. EABL will also provide a platform of engagement with its customers on its website and on social media to identify any issues and new business ideas. All these activities will enhance its business and increase its revenues.





STRATEGY ANALYSIS

HYPOTHESIS

The current focus is innovation to meet current consumer needs. In this area of focus, EABL will focus on developing emerging brews that meet consumer needs. With the loss of lives of Kenyans from drinking illicit brews, EABL is working on a product that will be low cost to meet the needs of the cost sensitive market.

We shall test two hypotheses:

1. *Production of sorghum-based brews will increase revenues for EABL and increase penetration to the cost sensitive market by 5% by 2017.*
2. *Introduction of low-alcoholic energy drinks and focusing on the millennial demographic will increase revenue by 3%.*

HYPOTHESIS 1: PRODUCTION OF SORGHUM BREWS WILL INCREASE REVENUE BY 5% BY 2017

ASSUMPTIONS

Reduction of taxes on sorghum products thus increases demand of these products. Reduction of taxes on sorghum products will reduce operating costs and thus increase revenues.

VALUE TEST

Introduction of sorghum brews creates value for the low-end, cost sensitive consumer who previously drank illicit brews. These illicit brews had the risk of death or blindness. Use of locally available products such as sorghum also creates value for the farmers.

EXECUTION TEST

Use of locally available products such as sorghum ensures sustainability of the sorghum drink. Sorghum is a plant that is not seasonal. Raw materials will be constantly available. EABL has partnered with farmers to supply hybrid sorghum for the production of its Senator Keg brew.

SCALE TEST

The sorghum drink is capable of being scaled all over the country as low-end consumers are available in all counties and towns in Kenya. Use of motorbikes could be utilized to distribute the drinks to even remote areas of the country.

DEFENSIBILITY TEST

EABL has long term contracts with farmers for the production of sorghum and the government is invested in the training and development of hybrid sorghum. EABL's research-led focus on developing high yield seed varieties aligns with regulatory agencies. This will ensure they provide only the highest seed quality to their farmers. This partnership gives EABL an edge in the sorghum production.

TEST ASSUMPTIONS

Reduction of taxes on sorghum products will reduce operating costs and thus increase margins. This is confirmed from EABL's FY 2015 and FY 2016 Annual Reports. With the recent review of the excise tax, EABL witnessed significant demand growth in this segment of its emerging business. Reduction of taxes on sorghum brews will increase demand. This is confirmed from FY 2016 EABL Annual Report that Senator Keg, (the sorghum brew) had tripled its growth in the year. It had a positive 16 % growth.

As per a KPMG report on consumer goods, the key drivers for growth in Kenya are strong population growth, growing middle class, educated labor force, dynamic private sector, regional leader - possibilities for regional expansion, and relatively well-developed retail infrastructure. This should motivate EABL to ensure its products are widely available.

HYPOTHESIS 2: INTRODUCTION OF ENERGY DRINKS FOCUSING ON MILLENNIALS WILL INCREASE REVENUE BY 3%

ASSUMPTIONS

Introduction of low-alcoholic energy drinks focused on the millennial demographic will increase revenues by 3 %; this demographic (21-33 years old) is more open to purchasing drinks in cans than other age groups. Creating consumer awareness among both millennials and the older demographic highlighting the beneficial aspects of cans versus bottles will further enhance their willingness to purchase.

VALUE TEST

Low-alcoholic content drinks may not create value especially for the large component of youth that are interested in enjoying an alcoholic

drink. The proliferation of bars in many neighborhoods in the various towns makes cans not too attractive as the youth will be interested in their socialization circles in bars. Bottles would be the preferred packaging.

EXECUTION TEST

The low alcoholic products will be produced in cans to appeal to the young, urban middle-class consumers. EABL has diversified a bit into canned products with the current mainstream beers such as Tusker. It has also created cans for some of its emerging products such as Smirnoff ICE which is a popular drink for women. EABL has the capability and capacity to develop a low-alcoholic energy drink that will appeal to the youth.

SCALE TEST

A product that is healthy with low-alcoholic content and high-energy would appeal to older consumers. Youth want to have the stronger effect that alcohol provides. As a healthy drink, it would appeal to health-conscious consumers all over the county. It could even be scaled outside the country. The product might be appealing to other consumers but not youth.

DEFENSIBILITY TEST

Quite a number of healthy drinks are available in the market and would pose a challenge to such a product. It would therefore be necessary to abandon such a product as it might not increase revenues as anticipated.

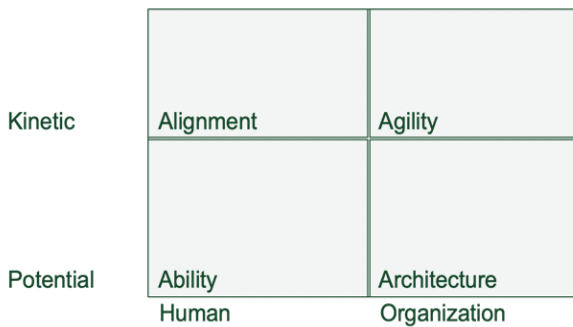
RESULT

In view of these tests, EABL should move to increase production of sorghum brews.

STRATEGY IMPLEMENTATION

EABL's move to increase production of emergent brews will follow the following model of implementation.

THE 4A MODEL OF STRATEGY EXECUTION



ALIGNMENT

In its simplest form, organizational strategic alignment is lining up a business' strategy with its culture. It is a process that requires management to change and align its vision for the company with that of its leadership goals, different departments, culture and individual staff members.

Corporate culture is particularly enabled as a strategic asset when there is consistency across the organization in values, policies, practices, and strategies. The two prevalent forces shaping corporate activity and results: strategy and culture. The strategy path defines what needs to be done; the culture path emphasizes how things are normally done. The best companies maintain an alignment between the two paths.

EABL has strived to create alignment in their values of being passionate about consumers. It focuses on consumer needs. EABL knows that low-end consumers are partaking of illicit brews and being blinded or killed. EABL's curiosity and consumer insights drive its growth. EABL is open to challenges and responds quickly to the opportunities it creates. EABL took advantage of the tragedy and misfortunes of death and blindness that affected Kenyans who took illicit drinks by creating the Senator Brew.

EABL has achieved alignment of its strategy with its primary focus being the East African markets where it continues to grow and relentlessly gain market share. As per EABL's financial year results of 2016, EABL experienced a growth of 115% of the emerging products such as the Senator Keg brew.

As per the FY 2016 results, EABL raised standards for its distributors and expanded its outlets. With the use of motorcycle salesmen, EABL was able to penetrate remote areas to deliver its products.

EABL reported in FY16 results that EABL upgraded its sales force automation tools, improving accountability, insights generation, performance, asset management, monitoring and evaluation. EABL is reported to have an amazing people-management program for all line managers, which is now adopted globally by Diageo. All these activities enable the company to align itself both internally and externally.

As a consumer-driven business, EABL takes time to study the market and understand consumer needs. EABL is constantly investing in innovating its brands to stay current with dynamic consumer trends. This goes hand-in-hand with its vision to be the most celebrated business in Eastern Africa.



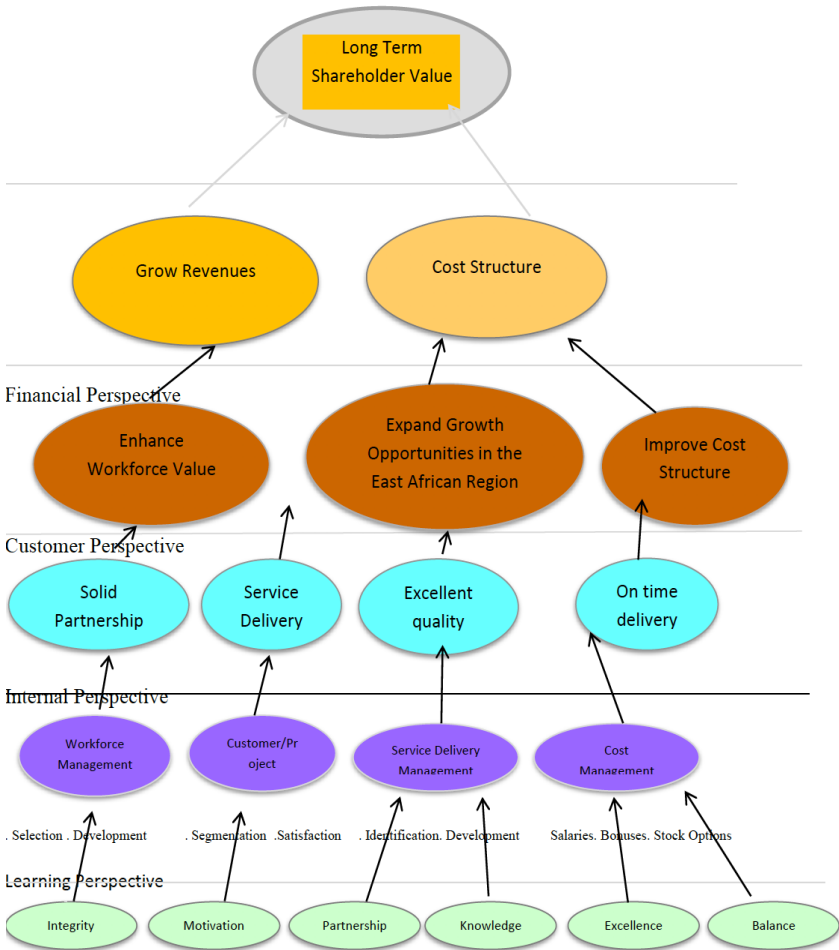
ABILITY

EABL has been known to invest heavily in talent acquisition and retention. As per its FY15 report, the company rolled out the fifth edition of Pathway of Pride (POP5), a cultural transformation initiative.

POP5 trains and builds capacity of employees and contractors in understanding its corporate governance principles and to help them embed ethical standards in their daily activities.

The focus of the training is to reinforce the power of doing the right thing by its employees from both the demand and supply side of the business when faced with tough or routine ethical choices in their course of duty.

STRATEGY MAP



EABL also has an Amazing Line Manager (ALM) program, which rolled out to all business units in 2015. The focus is to ensure EABL's line managers have the right skills to be able to motivate, train, coach and lead their teams in a manner that brings out the best in them. The initiative supports its managers to maximize their own potential, continuously improve their leadership capabilities, and become ALMs.

EABL's Early Career Programs, a three-year development program targets fresh graduate employees that are brought into the business. This program equips them in both functional and leadership capabilities.

The Future Leaders Program (FLP) targets the best talent for postings overseas to give them global exposure. Growing Leaders Program (GLP) targets top performers at the senior management level and prepares them for future board positions. It has served the company well and its graduates have been promoted into critical roles in the company. Diageo Leadership Performance Program (DLPP) targets senior directors and aims at unleashing their full potential.

All these talent-management programs increase EABL's potential to ensure a vibrant workforce that is able to deliver on the value propositions promised by the company.

ARCHITECTURE

EABL's organizational structure and processes are continuously aiding its strategies. EABL has instituted high-level information technology infrastructure to ensure flexible communication systems. EABL has instituted processes that ensure its products are distributed to the consumers in a timely manner.

As per the FY2015 Annual Report, EABL has a route-to-consumer (RTC) process which is one of their strategic focus areas. A lot has gone into the design, planning and implementation of the RTC project and it has increased timely availability of its products to its consumers.

EABL's commitment to local raw materials sourcing goes beyond ensuring supplies to forging sustainable partnerships with farmers and the agribusiness community. Working with technical and academic research institutions, EABL's research-led focus on developing high-yield seed varieties aligns with regulatory agencies to ensure they provide only the highest seed quality to its farmers.

AGILITY

According to Yves Dov (2014), Strategic Agility is the ability to continuously adjust and adapt strategic direction in core business as a function of strategic ambitions and changing circumstances, and create not just new products and services, but also new business models and innovative ways to create value for a company. EABL has been constantly innovating its products to meet the changing demands of its customers. EABL has also improved in its processes to meet the changing demands of customers and reduce its operating costs.

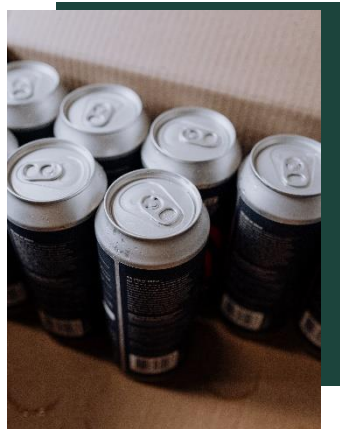
EABL has continued to be innovative since its existence. It began with the production of Tusker brand and has introduced other brands such as Guinness, Tusker Malt, Pilsner, White Cap, Allsopps, and Bell brand names. In spirits, it has introduced Johnnie Walker, Smirnoff, Richot, Bond 7, and Waragi brands. EABL also introduced non-alcoholic drinks under Malta Guinness and Alvaro brands.

In a bid to capture the lower market segment, EABL introduced sorghum-based alcoholic drink Senator Keg which was innovated to curb the inherent demand for illicit cheap brews. This emerging brew has been quite successful and has seen the growth of business by 16 % as per EABL's FY2016 Annual Report.

EABL used to produce glass through its subsidiary Central Glass Industries in 1987. However, following high business costs, EABL exited the glass business in 2015. This allowed EABL to focus on its core business and reduce its debt. The company has innovated with the use of metal cans for packaging, which has improved distribution in retail outlets. This indicates the company's ability to adapt to changing circumstances.

CONCLUSION

EABL is a thriving business that continues to grow and expand within the region. Despite disruptions occasioned by entry of other players, EABL has managed to wade off the competition by introduction of emergent brews to cater for its various customer segments.



EABL's horizontal diversification into emergent brews has paid off with a growth of 115% in that sector. It is evident from its financial reports in the last two years, that EABL has continued to grow in sales and revenues and thus profits, despite the challenges that have been faced by the company. The company remains a brewing powerhouse in the region, a clear indication that its various strategies have paid off.

The delivery of the strong results year in and out is made possible by the company's commitment to people. EABL continues to invest in robust leadership and capability programs for its emerging and senior leaders. This commitment to human development will guarantee a strong talent pipeline and improve its market competitiveness and business sustainability. EABL has embarked on a cultural transformation journey of its people in order to support their long-term business performance.

As per its FY2016 Annual Report, EABL's business achieved growth in all markets apart from South Sudan. It recorded performance improvement in spirits, premium beer, and Ready-To-Drink (RTD) segments leading to growth in six out of its eight product categories. Kenya delivered marginal growth of 3% in net sales driven by innovation in the RTD category, and improved performance in premium beer and all spirit segments.

EABL's performance has been driven by strengthening its premium core brands, innovating to meet new consumer needs, building its route-to-consumer, driving down cost and investing in talent. The company's continuous investment in talent gives it an edge over its rivals. EABL has a highly skilled human capital that is focused on ensuring that their products are of high quality through research and partnerships with the farmers.

EABL's distribution network is quite robust. Its partnerships with distributors ensure efficiencies in its distribution network as it trains them in best customer service and selling skills. In his address at the 2013 Africa Conference, Charles Ireland, the Managing Director, noted that EABL's brewery in Kenya was the second largest in Africa. It is the most efficient brewery in Diageo World for conversion of costs. These help to align the business with its capabilities, thereby increasing their profits.

It is worth noting that EABL Foundation has continued to impact the communities in the following areas: water, environment, skills for life

and national emergency incidents. The existence of effluent plants at the breweries ensures the safety of the environment among its expansive tree planting exercises. The projects continue to build partnerships with the community which give the company an edge over its competitors.

EABL's marketing strategy, coupled with the many promotional programs to its consumers, increases customer loyalty. Competitors would need to invest more heavily in their marketing strategies in order to beat EABL at this game.

According to EABL's FY 2016 Financial Report, EABL recorded a 12% growth in net sales and 8% growth in profit after tax, due to its processes and alignment with people. It is worthwhile noting that EABL is a formidable business in the alcoholic beverages industry and is continuously reinventing itself to remain the dominant player in the industry.

Although Keroche breweries entered the market with a focus on lower-end products, EABL has remained dominant in the lower segment with the success of its Senator Keg brand. EABL's variety of products cutting across all consumer segments gives it a competitive edge. The company has continued growth over the years. EABL's huge presence in the region also makes it a dominant player as many of its competitors are focused on their presence in different countries in the region. Competitors would need to expand their product range and align their internal processes to the customer demands in order to match up to EABL's prowess in the market.

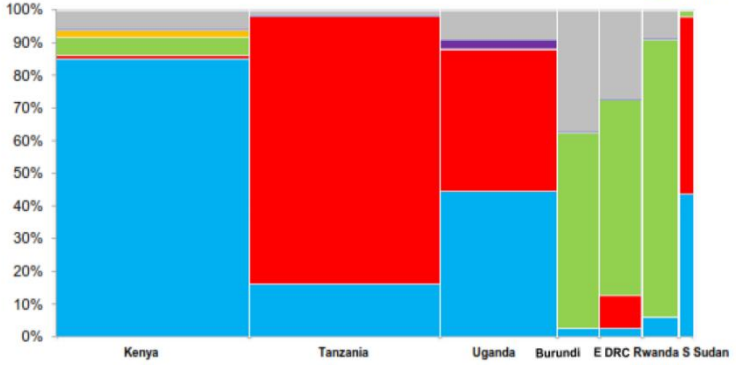


By our analysis, we have a 44% share of the formal East Africa beverage alcohol market

% share of
country net sales

Share of formal alcohol net sales by country 2012

- Key**
- EABL
 - SABMiller
 - Heineken
 - Keroche
 - Parambot



PRIMARY STAKEHOLDERS

Customers	<i>Products and Quality: focus on quality as evidenced by the introduction of Senator Keg in order to counter illicit drinks.</i>
	<i>Focus on customer segments such as women and youth.</i>
	<i>EABL's loyalty programs have endeared itself to its consumers.</i>
	<i>EABL is constantly advocating for responsible drinking among its customers with various advertisements on this.</i>
Staffing	<i>One of the best companies to work for as per Deloitte Talent Management.</i>
	<i>Profit sharing schemes for the employees</i>
Community	<i>Water of Life: EABL's Foundation has teamed up with various agencies in the provision of safe, reliable, and sustainable water supply. This program continues to grow within the region giving solutions such as boreholes, water purification, water sanitation blocks to name a few. The program has benefitted well over 1.5 million people to date.</i>
	<i>Environment: A staff-driven program called E-Green Team that is focused on environmental conservation through tree planting.</i>
	<i>Skills for Life: Since inception in 2001, the Skills for Life program has awarded over 200 university scholarships to bright and needy students across East Africa who excel in their studies yet cannot afford university. The program partners with both private and public universities in the East African region</i>
Suppliers	<i>EABL has strong relationships with Suppliers which ensures that those essential to its operations are sustainable and that contracts are fair and that their business is mutually beneficial.</i>
	<i>EABL's procurement team ensures that purchases represent the best value in terms of cost, quality, service and innovation.</i>
Distributors	<i>EABL's diverse distributor network ensures that its brands are available at all key outlets so that its consumers can access their drink of choice across the region. Distributors are also offered commercial skills and resources to grow their mutual business responsibly and maximize their returns.</i>
Stakeholders	<i>Profitability. EABL is the 2nd largest organization in the Nairobi stock market.</i>

SECONDARY STAKEHOLDERS

Government

Regulation: EABL is always engaging the government on regulatory changes. The introduction of excise duty in 2010 greatly affected sorghum beverages. With continuous engagement between EABL and the government, the duty was revised. As a listed company EABL needs to comply with Capital Markets Authority.

East African Community,
SADC, COMESA

Intraregional Trade: EABL continues to engage with the business community in an effort to have non-tariff barriers removed in order to have free flow of goods within the region.

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Ms. Abwavo is a Human Resources and administration manager currently working in the financial services sector. She has over 20 years of experience in the HR field and has applied these professional skills in the education, insurance, and energy industries.

Ms. Abwavo holds a Master of Business Administration (MBA) with a speciality in Human Resources Management and Strategy from the University of Nairobi, and a bachelor's degree in education from Kenyatta University. She is a Certified Human Resources Practitioner (CHRP)K, a registered member of the Institute of Human Resources Management and has proficiency in integrated HR management systems such as SAP and MS Navision.

Ms. Abwavo's professional certifications through DeAfrica enhanced her strategic planning and analytical skills and helped her to develop the ability to sustain positive interpersonal relationships in order to become an effective leader and team member.