INSTITUTE OF ECONOMIC
AND INDUSTRIAL RESEARCH

12 - 14, MITROPOLEOS STREET · ATHENS. 126 · TEL. 32 30 466 - 8 · PO BOX 1703. PL. SYNTAGMATOS

SECTORAL RESEARCH AND INTELLIGENCE UNIT

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RESEARCH TEAM : FOOD AND BEVERAGES

SECTORAL REPORT 1981

- The Greek Beer Industry

November 1981

The SECTORAL RESEARCH AND INTELLIGENCE UNIT

This newly established research Department, which is directly related to the Industrial Research Dpt., was set up jointly by IOBE and the two major Greek industrial Development banks, both members of the Institute - The Hellenic Bank for Industrial Development (ETVA) and the National Investment Bank for Industrial Development (ETEVA/ NIBID).

The UNIT, which started operating at the beginning of 1980 is involved in continuous monitoring of developments in specific manufacturing sectors at a domestic as well as European Community level. To achieve this, the Unit has established contacts on an exchange of information basis with a large number of similar research centers and sectoral organizations both domestically and in other European countries. Besides, a large number of trade journals and periodicals is also being monitored.

The results of this continuous sectoral research operation are disseminated to all interested companies and organizations at home or abroad, through regularly published Sectoral Reports as well as through Occasional Sectoral Reports dealing with specific issues of sectoral interest.

The Unit is internally organized in Research Teams. In collaboration with the sponsoring development banks, a 3-year expansion plan has been formulated and the Unit, consisting of eight Teams covering most of greek manufacturing activities, is being scheduled to become fully operative by the end of 1982.

IOBE/SECTORAL RESEARCH AND INTELLIGENCE UNIT

TEAM 1: FOOD AND BEVERAGES

BEER

SECTORAL REPORT 1981

FOREWORD

This is the second Sectoral Report produced by the FOOD AND BEVERAGES RESEARCH TEAM of the IOBE'S SECTORAL RESEARCH AND INTELLIGENCE UNIT (SRIU). The sector investigated by this Report is the Greek Beer Industry, while another Report dealing with Canned Vegetables and Fruits and Frozen Vegetables has also been published.

Topics covered by this Report include levels and the evolution of Demand and Production of beer over time, the Greek Sector's productive capacity and finally, certain issues associated with the distribution of production in the domestic as well as foreign markets.

Although the largest part of the Report aims at a detailed description of the prevailing situation (regarded as a prerequisite for all further sectoral analyses) a number of forecasts based on sectoral business sources has also been included in the Report. Such estimates and forecasts will be subject to regular reassessment and updating and the revised situation will be published in follow-up SRIU Sectoral Reports.

As indicated, this Report, being a Summary one, has been derived from a much more extended Greek original version in which comparative analyses of the sector's situation to that of respective sectors in other European (or, if relevant, non-European) countries have also been presented. Information on conditions for obtaining the original Greek Report is available from IOBE.

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THE GREEK BEER INDUSTRY

1. The Greek Beer Market.

1.1 Factors determining demand

Factors determining demand for beer in Greece are similar to those for other alcoholic and non-alcoholic drinks. Thus, demand for beer is characterized by a high income elasticity and it is elastic with respect to its price.

Apart from the price of beer itself, another factor determining demand is the relative price of its substitutes (wine, liquors, soft drinks).

The basic, however, factor influencing the demand for beer in Greece - and not only in Greece as is indicated by various studies- is the weather conditions. The higher the temperature, the higher the consumption of beer. Especially during the months of July and August, when the highest temperatures of the year are recorded, it has been observed that the market absorbs approximately 32% of total annual production of the greek brewing industry, while during a typical winter month absorbtion rate is around 4-5%.

An additional determining factor in the case of the greek market is tourism (acting as a process of transferring foreign drinking patterns to the greek consumer).

Finally, one must also mention the fact that the demand for beer is also influenced by factors suchasstate intervention in the form of taxation, quality, etc., which, however, play a rather limited role in Greece.

1.2 Domestic Beer Production and Consumption

Table 1 presents production and per capita consumption of beer in Greece for the period 1972-1980.

As can be seen from the Table, production and consumption during this period more than doubled. This increase is attributed to the new conditions created in the market by the entrance of two brewing companies in the sector. In the beginning of the last decade competitive operation of the beer market. Of course, the continuous, which resulted to a more increase in consumer incomes also played an important role.

TABLE 1

Production and consumption of beer in Greece

	1972	1973	1974	1975	1976	1977	1978	1979	1980
Production (000) HL	1,006	1,175	1,466	1,377	1,376	1,800	1,990	2.462	2.500
Per capita consumption	11.5	13.3	16.6	15.2	15.2	19.5	21.5	26.2	26.3

Source: NSSG data, SRIU estimates.

The capacity of breweries existing at present is unable to cover the demand during the summer months. Breweries, therefore, have to create reserves during the other months. The accumulation of reserves however faces two obstacles:

The first and most important one is that brewing industries are taxed before beer is produced (taxation is calculated in terms of hops being consumed), which implies that the creation of large reserves requires a considerable tying up of capital.

The second obstacle is related to distribution problems being created by the relative short life span of beer.

Total consumption of beer in the greek market is geographically distributed as follows:

MAKEDONIA	:	20%
ATTICA	:	36%
ISLANDS	:	8%
REST OF GREECE	:	36%

1.3 Outlook for the greek beer market

Per capita consumption of beer in Greece is considered relatively low, when compared, not only to that recorded in countries where beer is supposed to be a traditional beverage (England - Germany - Denmark), but also to that of countries where the brewing industry operates in an environment very similar to that of Greece (Spain - Portugal).

It is believed that beer consumption in the greek market will continue to increase, although at a lower rate compared to that recorded in the past. For the next decade an average annual consumption increase of approximately 5% forecasted, as against 12% recorded in the 1970-1980 period.

Reasons leading to the above prediction are the following:

a) It is expected that more favorable conditions will prevail in the greek economy, resulting in increased consumption expenditure.

b) New brewing companies will enter the industry. Consumption will be influenced by this event in two ways:

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i. the supply of increased amounts during the summer months and the satisfying of demand will favorably affect the entire consumption curve.

ii. the appearance of new breweries will certainly be accompanied by an intensification of competition.

c) Changes in consumption may also be brought about by changes in consumer preferences. Beer in Greece may be consumed both as an alcoholic beverage accompanying meals, as well as a refreshment.

Concerning the substitution between beer and wine, we may note that at present the substitution relation seems to have reached a "balance". However, any further shift in demand may be caused only by a change in relative prices. If, upon Greece's Accession to the European Economic Community, greek tax legislation is aligned with the respective legislation of the Community countries or if the taxation of beer in Greece is reduced, then relative prices will change in favor of beer, and this is expected to lead to an increase in its consumption.

Concerning the substitution of beer for soft drinks, we must emphasize that, at this stage, changes in relative prices are not expected to play an important role. The entrance of beer in the refreshments market will not be the result of price, but of a probable change in consumer preferences.

2. PROBLEMS OF BEER MARKETING IN THE GREEK MARKET

2.1 Marketing of Beer in the Domestic Market

Virtually all greek beer production is absorbed by domestic demand.

Approximately 50% of total domestic beer consumption is absorbed by the large urban centers (Athens, Piraeus and Thessaloniki). The channels through which beer reaches the urban consumer are the following: the brewery directly supplies certain selected customers (such as large hotels, restaurants, as well as most supermarkets). Other retailers are supplied by brewery representatives and wholesalers. It is estimated that 50-70% of total consumption in urban areas is distributed through these exclusive representatives. This percentage varies from company to company.

The remaining 50% of consumption is absorbed by rural areas. In these areas, marketing of beer is conducted primarily by the companies' representatives, who, in turn, supply retail stores, restaurants etc.

During periods of peak demand (July-August), some difficulty is observed in the supply of areas located far from each company's centers of production and distribution.

Such problems are not observed in the large urban centers, where the distribution of beer is conducted by company-owned trucks.

Various estimates suggest that the "household market" absorbs 30-35% of total beer consumption. The remaining 65-70% is absorbed by the "restaurants market".

2.2 Prices and Profit Margins

Prices and profit margins in the various stages of beer marketing are determined by Price Control Regulations issued by the Ministry of Commerce.

Each year the Ministry of Commerce determines the beer sale price, which is not the same for all breweries, but instead it differs depending on differences in the production cost reported by each company. The price also varies depending on the packaging used and the bottle content. The company representative's profit margin in urban areas, which cannot exceed 8 per cent of the price set by the Ministry, is also included in this price.

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In rural Greece, the wholesaler buys beer at the price determined by the Ministry of Commerce and resells it to restaurants, retail stores and even directly to the consumer, with a profit margin of 7 per cent.

These however are the "theoretical"profit margins. Apart from these, there are others, the magnitude of which depends on each brewery's marketing policy. All breweries, for examples, offer an additional discount, the height of which depends on the size of the Order, conditions of payment, etc. This discount usually varies between 4-8%, while in many cases it reaches 10% to 12%. It is either given in the form of some free bottles in each crate, or in the form of payment of a certain amount-five to ten drachmas- per crate.

Furthermore, it is worth noting that profit margins observed during the last two years are greater in the case of beer in tin containers, rather than in bottles.

2.3 Competition and Companies' Market Shares

Competition in the domestic market takes two basic forms:

- The first is the effort of the brewing industries to "differentiate" their products from those of their competitors.
- The second concerns efforts for the expansion and improvement of their distribution network.

Concerning the first form, the only type of beer offered to the greek market is lager beer. All efforts for the production and the promotion of other types of beer have not, up to now, produced any positive results. Any "differentiation"is therefore based on qualitative superiority and on the advertising strategy adopted by each company for the support and"proof" of its product's "superiority".

According to various unpublished data, market shares occupied by the three brewing companies for 1978 and 1979, are as follows:

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COMPANY	1978	1979
FIX	29.0%	25.8%
HENNINGER	30.0%	30.1%
AMSTEL	41.0%	44.1%
TOTAL	100.0%	100.0%

It is observed that in 1979 HENNINGER maintained approximately the same market share it had in 1978, while AMSTEL increased its share at the expense of FIX.

Estimations made in 1980, suggest that no significant changes had taken place in the shares estimated for 1979. By the end of 1980 AMSTEL accounted for 43% of the market, HENNINGER for 30% and FIX for the remaining 27%.

2.4 Beer Imports - Exports

At present, exports and imports of beer are maintained at very low levels. Table 2 presents the development of beer exports and imports for the 8 - year period 1972-1979.

The explanation for this generally low level of exports lies in the fact that the industry's activity is concentrated in meeting domestic demand.

The situation is expected to somewhat change in 1981 and the years to follow. The substantial increase in productive capacity created by recently set up plants (see section 3 below) and the inability of the domestic market to absorb the entire production, is expected to create strong incentive for a shift of the greek beer industry toward exports.

2.5 Distribution of Beer in 1981

During the first half of 1981, the products of two new brewing industries (LOWENBRAU and CARLSBERG) appeared in the greek market. As a result, competition has been intensified. However, no important product differentiation of the final product is observed, since the new breweries also manufacture and offer lager beer only.

In any case, the fact that future beer production will exceed domestic demand has forced both new and older breweries to extend their distribution

TABLE 2

Exports-imports of beer (in thousand metric tonnes)

Year	Imports	Exports
1972	2.55	0.30
1973	2.35	1.07
1974	0.91	1.03
1975	0.56	0.50
1976	1.38	1.31
1977	1.86	1.24
1978	2.40	0.16
1979	2.60	0.36

Source: NSSG.

networks to supply the entires country. It is estimated that, in the summer of 1981, the five brewing companies will have established representatives in all regions of the country, as to avoid the development of shortages during peak demand months.

Intensified competition will also appear in the consumer's "information". It is estimated that the sector's advertising expenses in 1981 will more than double compared to those of 1980.

Concerning the market share expected to be covered by the two new companies, it is estimated that taken together they will probably be able to catch a 12%-14% of the market.

3. PRODUCTIVE CAPACITY IN THE GREEK BEER INDUSTRY

3.1 Number of enterprises - Regional distribution.

The first greek brewery was founded in 1864 by the FIX company. For almost a century, beer production in Greece constituted the above company's monopoly. In 1961, however, this monopoly status ceased to exist. Nevertheless, beer production and consumption was maintained at very low levels.

This fact. along with the market's substantial development possibilities, facilitated the entrance in the greek market of two large foreign brewing companies, AMSTEL and HENNINGER. Athenian Breweries S.A. was established in 1964 and produced AMSTEL beer, while Henninger Hellas S.A., manufacturing the products of the German company of the same name, was established in 1974.

Thus, until the end of 1981, there were three companies operating in Greece: Athenian Breweries (AMSTEL), Henninger Hellas and FIX, with a total of six factories, each company owining two plants. One of FIX's plants is located in Athens and the other in Thessaloniki. This is also the case for Athenian Breweries S.A., while one of Henninger's plants is located in Heraklion (Crete) and the other in Atalante (Central Greece).

3.2. Production capacity of greek breweries

Total beer producing capacity is estimated at 5,100,000 HL. annually.

During 1980, the greek market absorbed 2,500,000 HL of beer, an increase of approximately 1% compared to 1979. Based on these data, the production potential utilization rate is on average estimated to have reached 50 per cent. which is considered as rather satisfactory.

The productive capacity of the industry is distributed among the three breweries as follows:

Athenian Breweries account for about 50 per cent of the industry's capacity. Its capacity is estimated at 2,2500,000 Hl annually.

FIX ranks second in established capacity (approximately 1,420,000 Hl annually), and Henninger third, with 1,340,000 Hl annually.

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Rate of utilization of productive capacity for the various companies in 1979 reached 54 per cent for AMSTEL, 53 per cent for FIX, and 69% for HENNINGER.

3.3 New investment in the industry

As was shown in Section One, the gradual enlargement of the domestic beer market has resulted in strong investment interest being developed. At a first stage, this interest was materialized in the expansion of the existing factories' productive capacity. It was estimated that Athenian Breweries' S.A. (AMSTEL) monthly productive capacity increased by 80-90 per cent during the past three years. In 1981, the company is expected to invest at least 280,000,000 Drs. for the partial replacement of its mechanical equipment.

Plans for the expansion of buildings and mechanical equipment are also being implemented by Athenian Breweries in Thessaloniki. This investment amounts to 480 million Drs.

On the other hand, Henninger Hellas recently established its third factory in Thessaloniki. This factory was founded in April 1980 and started production in April 1981. Total investment reached 1.5 billion Drs. The new plant's capacity is estimated to be around 110,000 Hl monthly.

Investment interest, however, was not exhibited only by the existing breweries, but by new ones too.

Within 1980 investment for the establishment of two new breweries were realized. The first of these is founded by Breweries of Greece S.A. and will be of the order of Drs. 1,243 million, while the second is founded by the Greek Breweries S.A. and will be of the order of one billion Drs. Breweries of Greece will produce the german beer LOWENBRAU. Their new unit, which began operation in June 1981, is located in the Patras Industrial Zone and has a monthly capacity of 85,000 Hl.

The other unit, owned by Greek Breweries S.A., will produce CARLSBERG beer.

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This new unit, which started operation in May 1981, is located in Atalanti. (Central Greece). Its total monthly capacity is estimated around 45,000 Hl.

As a result of these new investment, the productive capacity of the industry will, by the end of 1981, have reached approximately 680,000 Hl per month, compared to the present monthly capacity of 430,000 Hl. This increase is expected to create distribution problems for the industry, given the fact that demand is by no means expected to grow at such a fast rate.

The only possible solution seems to lie in exports. Already, in April 1981 the existing breweries have begun an intense effort for the promotion of their exports.

If, however, exports are maintained at their present low levels, then the establishment of the two new breweries is bound to cause a reduction in the utilization of production capacity for the entire industry.