Carlsberg: from exporter to an integrated multinational enterprise

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Carlsberg's move from strong domestic player to exporter occurred reasonably early on in the brewery's history. During the 1860s trial exports to Sweden and Iceland began and by the end of the decade beer was being shipped beyond the Nordic region. Exports to the U.K. were initiated in 1868 with dark Bavarian style 'lagered' or matured beer being sent to a Danish merchant, Theilemann, in Leith near Edinburgh. The first contact in Edinburgh was made by Jacob Christian Jacobsen's son, Carl, who spent time at the city's J.W. Younger brewery in 1868-69 as part of his four-year apprenticeship in breweries around Europe. Through his friendship with Theilemann, Carl recognised the potential of the Scottish market and encouraged his father to dispatch beer to be sold locally.

J.C. Jacobsen, however, was concerned that expanding production of his precious lager beer would have detrimental effects on its quality. He believed that production had a natural limit and brewing more to satisfy overseas markets would result in a drop in beer quality. He had little faith in the commercial value of exports, seeing them more as an experiment than a viable commercial venture. In a letter in 1869, Jacobsen wrote that he was sending a few crates of Bavarian beer left over from a batch brewed for Theilemann to the English East Indian ports. This was followed by some crates being sent to the Danish colonies in the West Indies and to Rangoon, from where they would be delivered to India, China and perhaps even Australia. 'I do not expect that Bavarian beer will be a sought-after export article in India, but it is always interesting to discover whether it can withstand the journey,' he noted[1].

In 1873, in a letter to a brewer in Odense, he suggests that if a single brewery could supply the export trade he would be willing to support a consortium to build one and 'leave you the advantages, keeping the pleasure for myself'.[2] According to Jacobsen's biographer, A. Fraenkel, the decision to begin exporting was less to do with the search for profitable opportunities and more to do with 'national honour'. Jacobsen saw it as his duty to advance the name of Denmark by selling products that were of the highest quality that would reflect well on the country's reputation.

With one eye firmly on keeping the home market well-supplied and the other on the

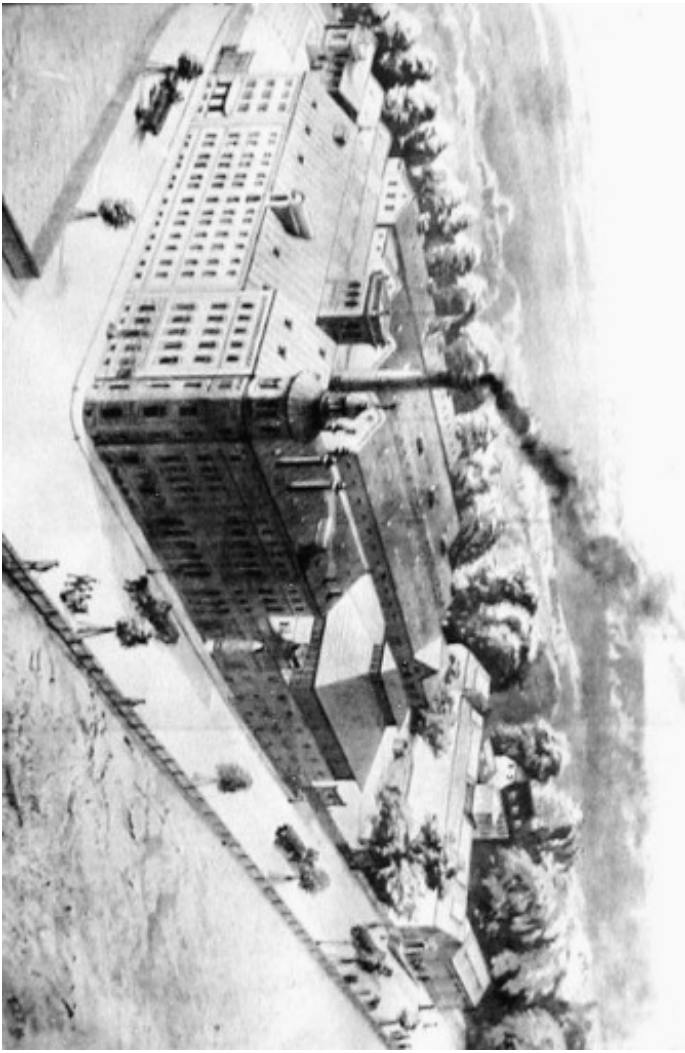


Figure 1. Jacobsen's New Carlsberg Brewery, Copenhagen.

Source. Brewers' Journal 15th May 1889.

success of English and German brewers exporting beer to their colonies, Jacobsen decided that Carl would begin his brewing career with English-style beers. However, this was not due to any great love of English beer, he admitted in a letter in 1855 that his stay in London was made difficult by a 'lack of decent beer to drink', but because he was a great admirer of English methods of rational production and the advantages gained from the resulting beer's long shelf-life.

Ever the perfectionist, Jacobsen worried that his beer would not reach its destination in a condition he would be proud of. Yet, as production techniques improved with the introduction of steam boiling and bottling, he grew more and more confident in his beer, displaying it in the World's Fair in Vienna in 1873. He received acclaim for his success in steam boiling where others, including the great Munich brewer Gabriel Sedlmayr, had failed. Bottles of Carlsberg beer were also praised, not least because they came via Singapore, Rio and Valpariso, carrying the seal of the Austrian consul as proof of their long journey.[3] It was the start of Carlsberg's international reputation as a high-quality beer and would drive its expansion.

In the same year, Tuborg opened its brewery north of Copenhagen. In contrast to Carlsberg, Tuborg was founded specifically as an export brewery and had its own bottling plant, but sales were slow to take off. It wasn't until the 1880s (and the introduction of Pilsner beer) that exporting began in earnest when Tuborg's director, Phillip W. Heyman, started to use the many overseas contacts cultivated through his butter export company. Like Carlsberg, Tuborg had little direct contact with foreign sales, preferring to work through trading companies such as Denmark's Det Østasiatiske Kompagni (East Asiatic Company) and various Hamburg merchants.

Despite Jacobsen's reservations, exports at Carlsberg grew quickly. By spring 1870, Carlsberg had orders of 2,300 barrels ready to send to Scotland and England and in 1885 sales had reached around 10,000 hectolitres.[4]

Following the split between father and son, Carl Jacobsen's 'New Carlsberg' brewery began to export a new lighter beer rather than the dark Bavarian beer. This type became the foundation of Carlsberg's later expansion and by 1914 Carlsberg alone exported 42,322 hectolitres of beer.[5] During the First World War, exports fell away to almost nothing and even by 1925 they had only reached 25,000 hectolitres. In an article in Carlsberg Foundation's yearbook of 1926, Director Poul C. Poulsen blamed poor demand, an increase in the number of domestic breweries and Japanese brewers who supplied 'Carlsberg Beer' to China and Siam complete with perfectly forged labels!

In 1924 Carlsberg began to consolidate the various export tasks that until then

had been looked after by a single, lowly office worker, although it wasn't until 1934 that an Export Department was created with its own office, manager and two assistants.[6] In these inter-war years Carlsberg also established three distributorships, in Edinburgh, Goole (Yorkshire) and London, all selling the same beer using a standardised label. The U.K. was still the only market where Carlsberg had a direct distributor arrangement; elsewhere exports were handled by the East Asiatic Company.

Immediately before the Second World War, Carlsberg exported 64,295 hectolitres of beer, with 39,717 hectolitres sold to the U.K. and 24,578 hectolitres to the rest of Europe and other markets. Once again war stopped almost all exports and it was not until November 1945 that the first exports were sent to Belgium. By 1947, Carlsberg had achieved a new export record, selling 68,254 hectolitres, although only 4,616 hectolitres went to the U.K.

The restrictive cartel agreement of 1903

While the terms of the 1903 agreement between Carlsberg and Tuborg gave a framework for co-operation within Denmark, there was no agreement concerning co-operation in international markets. In the 1950s and early 1960s exports grew steadily and Carlsberg and Tuborg found themselves in growing competition in Belgium and the U.K. To avoid the situation deteriorating they agreed that investment in new breweries could take place as long as this occurred outside their main markets. This gave rise to brewery projects in Turkey and Iran for Tuborg in 1967, and Cyprus (1967), Malawi (1968), Brazil (1970) and Malaysia (1972) for Carlsberg. A merger between Carlsberg and Tuborg became inevitable. According to the former chairman of the Carlsberg Foundation, Kristof Glamann, 'The two breweries almost blocked each on the international market. The German breweries had started to merge and we feared that the Dutch would acquire in Denmark. With the merger with Tuborg we gathered our strength and started our expansion seriously'.[7]

In the years after the merger, it was no longer just exports that counted towards sales in foreign markets. Licensing deals became more important as a source of both income and volume. In 1970, exports made up only around 24% of total sales and sales from licence agreements were negligible. However, during the 1970s and 1980s sales outside Denmark, both from exports, licence deals and investments, rose rapidly as a percentage of total sales. Sales of Carlsberg and Tuborg produced outside Denmark surpassed sales in the home market for the first time in 1976[8] and continued to grow. From 24% in 1970, it climbed to 60% in 1980/81 and 90% in 1999/2000. By that time Carlsberg and Tuborg products were available in more than 140 countries.

Exports as a percentage of overseas sales fell throughout this period. The

Before 1975	1976-80	1981-85	1986-90	1991-94	1995-99
Malawi	Italy	Hong Kong	Spain	Portugal	Sweden
Turkey			Germany	Paraguay	Finland
Brazil			Nepal	Thailand	Israel
Malaysia			Greenland	Vietnam	India
U.S.A.				Sri Lanka	Romania
U.K.				Croatia	Poland
				China	Russia

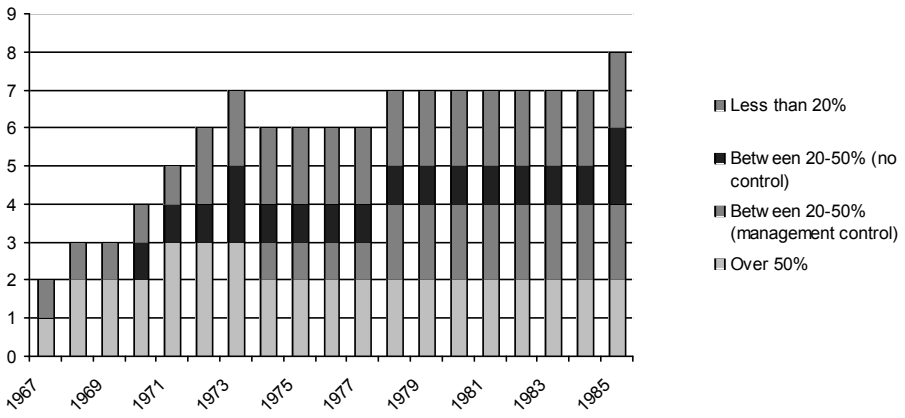
Table 1. Countries with Carlsberg licensing partners.

Source. Carlsberg.

move towards licence agreements was driven by the need to cut costs after the oil crisis of 1973, as fuel costs increased so too did the cost of exporting beer. It was cheaper to export know-how in the form of licensing agreements, while a licensing agreement together with a minority stake allowed greater access to the partner's distribution network. Increasing unrest among Danish labour unions also meant that the supply from Denmark had become unreliable.

Although the merger solved immediate problems, there were still differences that needed to be resolved between the two former competitors. Throughout his time at the company C.E.O. Poul Svanholm kept two offices - one at Carlsberg in Valby and one at Tuborg in Hellerup - to ensure that both organisations felt themselves equally treated. His rationale for keeping the two organisations separate was to maintain 'power and vitality', although it was also necessary to ensure visible proof to the authorities of the competition that existed in the Danish market. However, it also helped prevent the development of a single head office capable of rational and strategic decisions at home and abroad. Marketing was a particular challenge. Carlsberg and Tuborg were often available in the same markets, competing for the same customers and often with different licence brewers for the two brands.

The lack of clarity in marketing internationally was also a result of an organisational structure that was far more suited for an export and licensing company than it was for a global brewer. Just as De Forenede Bryggerier (United Breweries) had separate sales organisations for Carlsberg and



Graph 1. Ownership of breweries - 1st phase. Carlsbergs ownership shares of subsidiaries, 1967-1985.

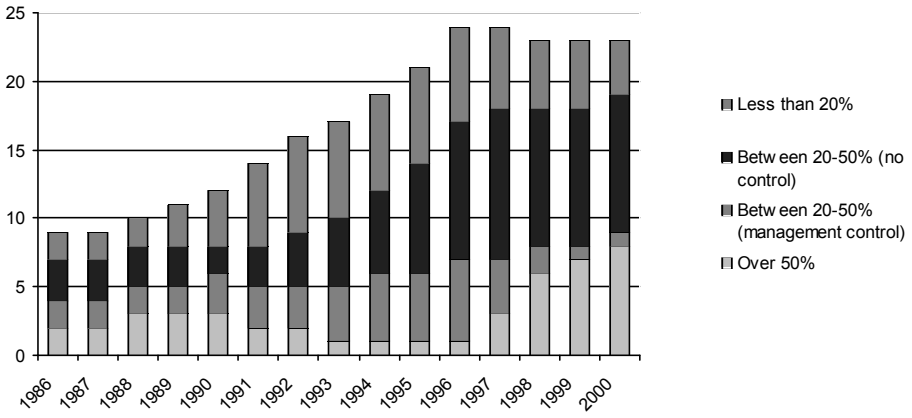
Source. Carlsberg, various reports.

Tuborg in Denmark, it also had separate organisations for its overseas business. Carlsberg International looked after export sales and licensing agreements for Carlsberg, while Tuborg International did the same job for Tuborg. A third organisation, United Breweries International, looked after foreign breweries in which United Breweries had a shareholding.

Expansion abroad throughout the 1970s and 80s was still driven by the idea that Carlsberg and Tuborg were high quality, high priced products that did not take market share from established, domestic breweries. This policy was described by Carlsberg's managing director Poul Svanholm in an interview in 1983:

> We would like to enter those markets where we see an opportunity for a growth in beer sales so we can get a share of that growth. We are not so interested in gaining sales by taking market share from other breweries. That's not our way. We have, by the way, a policy of going to the local brewers and telling them that we intend to establish ourselves in the country.[9]

The choice of partners and investment type was governed by a mixture of traditional attachments, chance and some conscious strategic choices. Investment in the breweries in Hong Kong and Malaysia was undertaken with its old export partner the East Asiatic Company, while others were a development of exist-



Graph 2. Ownership of breweries - 2nd phase. Carlsbergs ownership shares of subsidiaries, 1986-2001.

Source. Carlsberg, various reports.

ing strong export markets such as the U.K. However, many of the partnerships in this period were a result of interested breweries contacting Carlsberg and enquiring about the possibilities of licensing the beer.[10] This policy of taking a small stake was dubbed a 'business card' strategy as it allowed Carlsberg to quickly gain a foothold in a market with limited investment, although it also meant that Carlsberg rarely had a majority in the companies concerned, and therefore little management control.

In the period up until 1997 it was rare for Carlsberg to take a majority stake in a brewery. When it did invest in a brewery, it generally did so as part of a licensing agreement and the total share seldom rose above 30% and was more typically under 20%.[11] In 1996, the company held a majority in only eight of the 27 foreign breweries it had an interest in. Carlsberg's technical organisation was one of the few common elements. Licensing agreements included access to Carlsberg's laboratory research and quality control, which gave its partners an advantage on their home markets as the technology was applied to local beers.[12] But it also underlined the company's focus on the ability to produce a 'quality' product rather than sell it.

Technical know-how was formalised with the creation of Danbrew, a 100%-owned

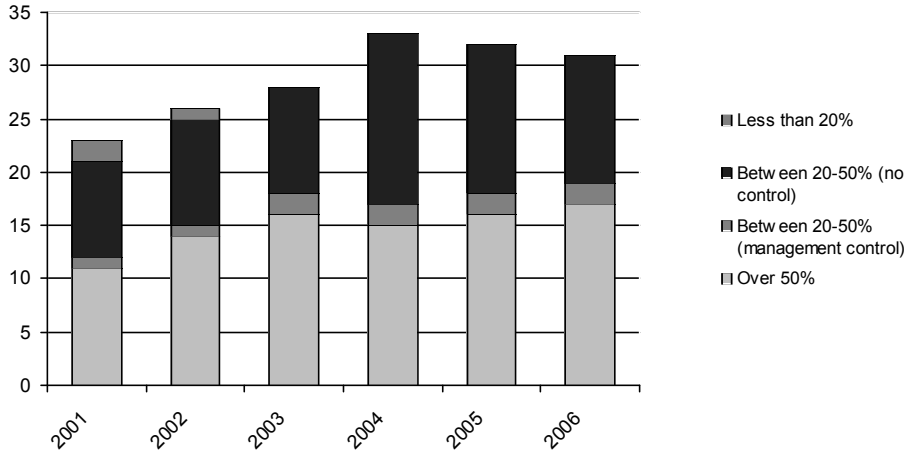
subsidiary that took the knowledge gained from building breweries in Northampton in the U.K. and Fredericia in Denmark, and used it to construct breweries abroad - often in connection with a licensing deal.

The end of the business card strategy

The year 1997 marked several important events in Carlsberg's history as a company. It was the year it celebrated 150 years as a brewer, it was the year that Poul Svanholm retired and it was the year that marked the end of the business card strategy. In the time since the merger, the policy of expanding through licensing and minority partnerships had resulted in a patchwork of holdings across the world, but with little strength outside the top five markets for both the Carlsberg and Tuborg brands. The situation was made worse by the fact that in many of these markets Carlsberg was a minority shareholder and where it did have the majority, profitability was poor. Added to this was an international organisation that was little more than an export sales function with negligible or no control over partners or their production. Despite the fact that international sales had outstripped domestic sales since 1976, the international organisation was still subordinate to a Danish-dominated administration that spent a proportionately larger amount of time on managing domestic issues. Carlsberg's weakness was underlined in 1997 when the Dutch brewer Heineken bought Cruzcampo in Spain from under its nose, despite Carlsberg's existing 11% share in the brewery acquired in connection with a licensing agreement. In effect, Carlsberg was thrown out of Spain, Cruzcampo was one of its top ten most profitable breweries, and the business card strategy was shown to be ineffective in the face of growing worldwide consolidation in the brewing industry.

The Carlsberg Foundation opened the way for international expansion in 1999 by abandoning the requirement that it hold a minimum of 51% share in the Carlsberg brewery. In return it acquired a 'significant interest' in subsidiaries owned by Carlsberg A/S. The obligation to have a minimum of 51% share holding had been criticised by stock market analysts as it limited Carlsberg's ability to attract capital necessary for expansion. This was underlined in March 2000 when Carlsberg missed out on obtaining the Kronenbourg brewery because its owners, the French conglomerate Danone, wanted part payment in shares. Carlsberg's ownership structure made this sort of deal impossible.

The deciding step in the brewery's future came in May 2000, when Carlsberg and Orkla announced the creation of a new brewing group - Carlsberg Breweries - made possible by the Foundation's decision. In one move, Carlsberg secured its Nordic market by acquiring the leaders in Norway and Sweden, and gained access to the booming central and eastern European markets through a 50% share in Baltic Beverage Holding (B.B.H.).



Graph 3. Ownership of breweries - 3rd phase.Carlsbergs ownership shares of subsidiaries, 2001-2006.

Source. Carlsberg, various reports.

Orkla's impact on Carlsberg was to be more than a simple securing of Carlsberg's Nordic backyard. The Norwegian conglomerate accelerated the process of internationalism by providing the management aptitude that Carlsberg lacked and bringing in tools that would help Carlsberg manage its existing breweries and make it easier to take on more. In the first two years, the new organisation began the job of integrating I.T., accounting, marketing, production and logistics, starting with the Nordic region. Brewery acquisition continued, driven by the merger and in the years 2000-2002 Carlsberg Breweries increased its share or bought outright eleven breweries and entered a major joint venture in Asia.

Additional managers brought in by the merger allowed Carlsberg to take on ambitious tasks such as the turnaround of the Swiss brewery Feldschlösschen and spending time on the Polish and Turkish businesses.[13] A major restructuring of Carlsberg's head office took place in November 2001 by one of the new vice-presidents recruited from Orkla which removed the remaining 'export sales' characteristics. However, the new co-operation was not without its teething troubles. An unfortunate comment from Orkla's Chief Executive Officer, Jens P. Heyerdahl, that suggested the deal was merely the first step towards an acquisition of Carlsberg was not popular with the Carlsberg Foundation and began the

process that led first to the dismissal of Flemming Lindeløv, who was seen to be pro-Orkla, and finally to the decision to buy Orkla's 40% share of Carlsberg Breweries.

Carlsberg: the global brewer

Lindeløv's successor as C.E.O., Nils Smedegaard Andersen, took the opportunities offered by the creation of Carlsberg Breweries to shape it into a truly global enterprise and he can rightly be called the architect of the modern Carlsberg.

In spring 2002, Carlsberg Breweries' new international focus was underlined with its first international management meeting held outside Denmark, bringing together managers to discuss the recent past and future of the Group. This resulted in a plan based on the creation of six 'Must Win Battles' that were seen as vital for the success of the Group:[14] Carlsberg's response to the changing conditions was a global strategy in terms of marketing, corporate culture and production/logistics.

In 1987 Carlsberg had replaced the United Breweries as the official company name. This was followed by a growing tendency to promote Carlsberg as the main international brand, with Tuborg as a regional player, apart from in several of its stronger markets in Eastern Europe.[15] However, it wasn't until after the so-called 'Ten Principles' strategy in 1997/8 that Carlsberg finally became the focus of branding activity for the company.

Increasing focus on marketing had lead in 2001 to a project called 'Brand Spirit' to rejuvenate Carlsberg and ensure global consistency in the way the brand was positioned and marketed. This project now took off under the Must Win Battle programme. The scheme reflected the strategy of having a broad portfolio of local brands supported by an international premium brand, Carlsberg Beer. It marked a change of policy from previous years where Carlsberg existed in a vacuum, with few or no connections to local beers. Now, Carlsberg and Tuborg were part of a portfolio that could be managed in terms of cost and sales efforts.

This new approach was only possible with tighter management control over Carlsberg's majority-owned subsidiaries, especially with regards to production and distribution. From now on it would be marketing and sales that would drive production, rather than vice-versa.

Operational Excellence was the name given to a programme of improvements to reduce the cost base and improve efficiency that was born out of an international benchmarking study in 2001. Carlsberg described it as a move from 'Probably the best beer' to 'Probably the best beer company'. The Excellence programme, covering production, administration, commercial skills and procurement, was the first of its kind in the company and represented a clean break from

Carlsberg's previous 'hands-off' management style. It was one of several projects, such as joint I.T. systems and financial service centres, that began to be run across Carlsberg's businesses, rather than from the head office and out. Where previously new breweries would be more or less untouched by head office, it became more common to change their names to Carlsberg and receive an injection of managerial capital.

Conclusion

It is perhaps in Carlsberg's rapid advance in China - especially western China where it now has control over six brewery groups and 290 breweries - that we can see the results of Carlsberg's transformation from exporter to global player. Carlsberg has been present on the Chinese market since the 1890s, largely distributed by the East Asiatic Company. In 1982, the two companies formed a joint venture to build Carlsberg Brewery Hong Kong. In 1995, the industrial conglomerate Swire Group was brought into the partnership and all three took over the Huizhou Brewing Company in Guangdong, on the Chinese mainland. Carlsberg and Swire bought out the East Asiatic Company, leaving the remaining partners with 51% and 49% holdings respectively in the Hong Kong and Guangdong breweries. In 1998, Carlsberg opened a state-of-the art brewery in Shanghai, eastern China, only to have their growth ambitions frustrated by Chinese drinkers' preference for cheaper local brands. Production capacity was massively under-utilised and Carlsberg sold 75% of the brewery to the local Chinese market leader, Tsingtao, at a loss.

It returned to the Chinese market in 2003 with a strategy of building up a network of local breweries focusing on the mainstream beer market. The idea of introducing Carlsberg as a niche brand survives, but only within a broader, owned portfolio.

Since the large merger in 1970, Carlsberg thus underwent a tremendous transition from a small exporter to a global player with majority-owned and controlled breweries in most parts of the world. Carlsberg's 'business cards' have been converted to bricks and mortar while further major acquisitions in the Nordic region (Ringnes, Pripps, Sinebrychoff), Eastern Europe (B.B.H.), Germany (Holsten) and China have helped make Carlsberg the fastest-growing international beer brand of the early 2000s

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