SOCIEDADE CENTRAL DE CERVEJAS E BEBIDAS:

Internationalization Strategy Options in Angola and Brazil

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Abstract

Title: Sociedade Central de Cervejas e Bebidas: Beer Internationalization Strategy Options in Angola and Brazil

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This case study has been prepared based on a real-life business scenario, where the company “Sociedade Central de Cervejas e Bebidas” (SCC) was chosen in order to serve as a teaching example of the complex and difficult task that companies’ have to expand their operations internationally, as well as, to alert to the opportunities and threats existing in a global business context.

SCC is a Portuguese based company specialized in producing and marketing beer and other beverages, acquired in 2008 by the Heineken group, one of the largest beer companies in the world.

In 2012 the entire European beer market was contracting considerably as a consequence of the global financial crisis and its negative impact on consumer’s purchasing power. In view of this critical situation, SCC managers believed that the only way the company could counteract to the poor results in Portugal was to focus their future development towards external markets. Thus, Angola and Brazil appeared to be the most meaningful internationalization options for SCC. In the former the company was urged to re-evaluate its approach to the market and augment its performance, whilst in the latter SCC was not yet present and therefore needed to develop the appropriate strategy to enter that market.

The case study presents some of the information SCC managers disposed at that time to make the most accurate possible decisions regarding the company’s next internationalization steps, with the main goals in mind of sustaining the Portuguese subsidiary’s infrastructures and contribute to Heineken’s global performance.

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1. Case Study

1.1 Introduction

It was the beginning of September 2012 when "Sociedade Central de Cervejas e Bebidas"[1] (SCC) was preparing itself for what could be a major step towards its international future.

The beer market in Portugal, as well as in the rest of Europe, had been falling considerably during more than four years, as a consequence of the global financial crisis that had reduced the consumers' purchasing power.

With this scenario worsening day by day, SCC's managers met with its partner Heineken, one of the most influent beer groups in the world, to decide what could the Portuguese company do in order to overcome this situation and also improve its contribution to the giant transnational company[2]. After this meeting an action plan was established, to expand and improve SCC's presence in the developing beer markets, in harmony with Heineken's goals and strategy.

It soon became clear for the SCC management team what the next steps should be in order to achieve these goals: (i) to revise the internationalization strategy in the growing Angolan market, to ensure the best performance in this important African country; (ii) and to enter the promising Brazilian market.

Until the end of 2012, SCC managers had to present these internationalization projects to Heineken, who after this meeting would make the final decision about these plans.

This case, even though based on a real scenario, was prepared as a basis for class discussion and not as an endorsement, or a source of primary data. Thus, some data has been disguised in order to preserve "Sociedade Central de Cervejas" confidentiality.

[1] "Beer and Beverages Central Society" in English

[2] A Transnational company traditionally tries to combine the cost reduction benefits available through global integration together with the marketing advantages coming from local adequacy, taking this way advantage of the company's central core capabilities and adapting it to a particular market and its own characteristics.
Source: Adapted from Barlett, Christopher A. (1986) "Building and Managing the Transnational: The New Organizational Challenge", em Porter, Michael E. (ed.) *Competition in Global Industries*, Boston, Massachusetts: Harvard Business Scholl Press, pp.371-2.

1.2 SCC before Heineken

The foundation of SCC was in 1934, 5 years after the severe global economic depression that had also significantly impacted the Portuguese economy and in particular the beer industry. These events put all the six Portuguese beer companies in a difficult situation, which led to four of them[3] to merge in order to survive. This merge gave origin to "Sociedade Central de Cervejas", and since that time this company has managed to maintain an important position in Portugal, as well as becoming a major exporter of Portuguese beer to the world.

Besides producing and marketing beer, this company has extended its business to other areas, producing and selling bottled water and other beverages, which explains their name switch to "Sociedade Central de Cervejas e Bebidas, S.A." later in 2004.

Since its foundation this company has believed that innovation was crucial to maintain a sustainable competitive advantage. Improve quality and production capacity was the main goal in order to compete with the rest of the European companies and also to expand its international business. The first big strategic step towards this ideal consisted in the construction of a massive state-of-art plant in Vialonga (see Exhibit 1) (1968), considered the largest factory in Portugal at the time and still its main facility for the local market and exports.

Innovation did not come only through improved facilities. It also assumed an important role in its marketing operations. This company has always had a pioneer position in this industry regarding marketing activities, by creating new brands and diversifying its portfolio, creating new product concepts, adopting new product and packaging technologies, and also by having an unparalleled approach to distribution and communication. Since the early 60's SCC has given serious attention to these two marketing activities, which were seen as extremely important in this and key to outperform competition, matching demand with supply, surviving recessions and fostering customers' loyalty. In this respect, SCC has created and managed its own distribution fleet to its selling points, and invested heavily in publicity, with creative advertising campaigns and sponsoring music and sporting events.

In 2003, one of the leading European beer companies, Scottish & Newcastle (S&N) acquired 100% of SCC's capital stock[4]. In 2007, the third largest group in the global beer industry, Heineken International, and its closest competitor, and fourth in the world, Carlsberg, had formed a consortium with the single purpose of buying the S&N group. In 2008, these two companies decided to end the

[3] The companies were: "Companhia Produtora de Malte e Cerveja Portugalia", "Companhia de Cerveja Estrela", "Companhia da Fabrica de Cerveja Jansen", "Companhia de Cervejas de Coimbra"

[4] "Centra de Cervejas e Bebidas" history. Available at: http://www.centralcervejas.pt[Accessed 10 November 2012]

agreement and the assets of the recently acquired group were consequently split. On the 29th of April that same year, Heineken International was officially given the ownership of SCC.

1.3 SCC after Heineken

Heineken International

Heineken International, considered the 3rd largest group within the beer industry, inherited its name from its first and original beer brand Heineken. This company emerged in Amsterdam, almost 150 years ago (1864), producing and selling its exclusive premium beer brand. The Heineken Company initiated its international story, in 1933, exporting its beer to the United States, and later in 1937 began brewing abroad. After these first steps towards internationalization, Heineken continued its expansion through growth and a series of acquisition processes in Western Europe, Africa, and Central/Eastern Europe respectively. The last big development was in 2010, through an agreement with the largest beverage company of Mexico and Latin America "Fomento Económico Mexicano, S.A.B. de C.V."[5] (FEMSA), which let Heineken to take better advantage of the emerging markets in Latin America and consolidate its performance in North and Central America.

Heineken prided itself, not only on its "most global beer brand in the world" claim, but also on its extensive international reach, with a comprehensive portfolio of beer brands being sold in more than 178 countries, and plants operating in a total of 71[6] (see Exhibit 2, and Exhibit 3). As stated in Heineken's international website: "Wherever you are in the world, you are able to enjoy one of our brands. We own, market and sell more than 250 of them. Our principal global brand is Heineken®, the world's most valuable international premium beer brand."

The company's goals had always put a lot of emphasis on the premium brand Heineken. However, local brands started to gain a more significant attention by representing around 80% of the group's total business volume, against Heineken's 20%[7]. The main strategy was kept constant: to build a strong portfolio of brands in the chosen markets, by combining the true power of local brands together with the international brands, sustaining the Heineken brand at the top. A centralized coordination of all beer brands' management, distribution and coverage, and also the provision of support to all local management teams scattered around the globe, made possible for this group to

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[5] In January 2010, Heineken International announced its intention of acquiring FEMSA's beer operations. This transaction did not involve cash, Heineken paid FEMSA with shares. With this FEMSA became a major shareholder of Heineken (just after the Heineken family) with 20% of the shares. Source: Wikipedia. Available at: http://en.wikipedia.org/wiki/FEMSA [Accessed 22 November 2012]

[6] Heineken international information. Available at: http://www.heinekeninternational.com/companystrategyprofile.aspx[Accessed 20 October 2012]

[7] Information acquired through an interviewing process realized at "Central de Cervejas e Bebidas"

successfully implement its strategy of growth. To accomplish its strategy Heineken has established five global business priorities, 1) to grow the Heineken® brand, 2) to be consumer-inspired, customer-oriented, and brand-led, 3) to capture the opportunities in emerging markets, 4) to leverage the benefits of HEINEKEN's global scale, 5) to drive personal leadership.

SCC and Heineken relationship

After becoming 100% owned by the Heineken group, SCC was able to maintain a significant management empowerment, thus continuing to function in the same way as before the ownership change. Local expertise was extremely valued by Heineken, whose had also provided managerial support to the original Portuguese company and had created operational synergies. SCC was effectively aligned with Heineken's goals and ambitions, making it easy to sustain a supportive and friendly relationship between both companies.

Exports accounted for 20% of SCC's total sales in 2011, of which 70% came from the "PALOP"[8] countries and 30% from other countries such as, Switzerland, France, England, Germany, Luxembourg, USA, Canada, and Australia[9]. Within the "PALOP" countries, 95% of the export business came from Angola and the remaining 5% came from Mozambique[10], Cape Verde, and São Tomé and Príncipe.

1.4 SCC's Brand portfolio

The SCC had already at this time a fairly comprehensive portfolio of beer brands and other beverages, dominated by its own national brands, along with other international ones (see Exhibit 4). This company possessed several brands with a great Portuguese expression such as, the mineral water brand "Luso"[11], and the beer brand "Sagres"[12], connected with the Portuguese discoveries and history, the nation's shield, and the national flag colors.

[8]"Países Africanos de Língua Oficial Portuguesa" – Acronym for Portuguese Speaking African Countries
[9] Information acquired through an interviewing process realized at "Central de Cervejas e Bebidas"
[10] In 2012, Mozambique was still very poor and dominated by South African beer companies
[11] "Luso" is a prefix used to identify its Portuguese origin
[12] Has no translation to English or any other language

1.5 The “Sagres” Brand

The SCC’s core beer brand was unquestionably Sagres, in both national and international markets, and exporting was part of its history since the very beginning (see Exhibit 5). This brand was created in 1940 with the single purpose of being exported. It started being sold in Gibraltar in response to a request of the British Allied Forces that were protecting the North Africa from the Nazis’ entry attempts, and was followed by the Azores archipelago and all the other Portuguese overseas territories, Angola being one of them. The company had the opportunity to take advantage of favorable circumstances Portugal was facing at the time, such as, the neutral position during the World War II that gave Portugal a really significant competitive advantage, and also the Portuguese World Exposition that was successfully running at that time. The great success this beer had, rapidly led to its establishment in the Portuguese territory as a national beer brand. Sagres was positioned as a mainstream brand within the national market, although in some external markets, such as Angola, it had assumed a premium beer position.

1.6 The World Beer market

In 2012, the beer industry as was the case of many other industries was looking for future developments in the emerging markets, such as, Asia, Latin America, and Russia, and also to the African markets[13]. The global scenario for this specific industry was as follows: Europe markets were declining, except for Eastern Europe (Russia) that was growing; USA was stable; Latin America, Asia, Africa and Middle East were the developing markets at that time. (see Exhibit 6 and Exhibit 8)

This industry was dominated by some huge transnational groups, which kept growing through a series of mergers and alliances, enlarging and consolidating their operations allover the world. In 2010, the four leading groups together, Anheuser-Bush InBev, SABMiller, Heineken and Carlsberg, already held 43% of the global market. (see Exhibit 7) Such as M&A[14], there were other trends in the global beer industry, such as, the increasing market’s segmentation, generating a higher level of product’s differentiation, constantly bringing new product concepts and technologies to the markets, and also the super-premium and premium segments that were considerably growing. Moreover, regarding internationalization in this industry, protectionism was substantially gaining attention in the emerging economies and also in other potential developing ones, posing this way a certain barrier to imported beer brands.

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[13] Report Linker, 2011. Beer Industry: Market Research Reports, Statistics and Analysis. Available at: http://www.reportlinker.com/ci02015/Beer.html [Accessed 16 October 2012]

[14] Acronym for “Mergers and Acquisitions”

1.7 The Portuguese Beer Market

The Portuguese beer market could be characterized as a Duopoly, since it had been dominated by two companies until this time. These two companies, Unicer[15] and SCC, had experienced a tough but friendly competition for several years, not only in the Portuguese market but also abroad. SCC assumed the leadership in 2008[16] and managed to maintain its position until 2012. Although in this year, and even after a productive summer season, this company found itself roughly behind its primary competitor with a market share of 47,1% against one of 47,5% (see Exhibit 9, and Exhibit 10). During the last decades, SCC and Unicer, backed by two of the biggest groups in the global beer industry (Heineken and Carlsberg respectively), had demonstrated great levels of expertise in marketing and innovation, defending that these two activities were critical to succeed in the beer industry.

The Portuguese market was experiencing in 2012 a challenging recession that not only affected the beer industry but the entire consumer's "share-of-throat"[17], due to a decrease in consumers' purchasing power that resulted from the global financial crisis. This setting made the consumption per capita in Portugal to go down and caused the market volume to drop 10,6% in 2012 (see Exhibit 11). These events made SCC fear for its business success and infrastructure sustainability, because the majority of its markets were experimenting a contraction of sales[18].

1.8 Organizational and International Objectives

With the national market declining, SCC had to rely on overseas markets in order to maintain volumes and make an effort to continue progressing, to achieve business targets and ensure the infrastructure's sustainability. The main purpose of exports was to compensate volume rather than profits, having in mind that the margins attainable in the national market were higher than those of the exports[19]. The main locations to expand operations appeared to be the ones with a certain connection to the country, such as, the "PALOP" countries, the former Portuguese colonies, and the countries where it was possible to locate Portuguese diaspora.

SCC internationalization initiatives and its dream of making Sagres brand the most imported Portuguese beer brand in the world, as the former SCC's CEO Alberto da Ponte had stated, were also in line with Heineken goals of creating a strong portfolio of local brands and consolidating its status as one of the most international beer groups in the world.

[15] "Unicer" is a Portuguese based company specialized in producing and marketing beer, water, and other beverages.
[16] Information acquired through an interviewing process realized at "Central de Cervejas e Bebidas"
[17] "Share-of-Throat" stands for the amount of liquid products consumed by people.
[18] The majority of markets were in Europe, such as, Spain, France, Switzerland, Germany, England and others
[19] Information acquired through an interviewing process realized at "Central de Cervejas e Bebidas"

1.9 The potential of the Angolan market

Despite all the poverty, inflation, inequality, corruption, a low result on Human Development Index (HDI) and Economic Freedom index (EFI), and other (see Exhibit 12, Exhibit 13, Exhibit 14, and Exhibit 15), during the last few decades Angola was attracting high volumes of business and rising its influence in Southern Africa, establishing well its position as one of the most important emerging countries in the world, in 2012.

The beer market in Angola was perceived to be one of the most promising of Africa, not only having in mind the size of the population and the beer consumption habits in this country, but also its past performance and expected development, with a market growth around 40% each year[20].

The most famous and successful beer in Angola was by far the local brand “Cuca” with 48% market share, managed by the local group “Companhia União de Cervejas de Angola” (CUCA)[21]. This same group also held some other brands with a good performance, such as, the Angolan “Nocal”(16%), “Eka”(4,8%) and “N’gola”(10%), and the international brand “33Export” and some others (see Exhibit 16). Unicer was present in this market with two premium brands, “Cristal” and “Super Bock”, while SCC had “Sagres” as a premium brand and has introduced “Cergal” as a value brand to fight against “Cuca” (see Exhibit 17). In Angola, contrary to the Portuguese market, Unicer was leading essentially through its brand “Cristal” that was the most appreciated imported beer in Angola, mainly due to its light body and taste. Although, SCC managed to stay close behind, with its brand Sagres that had seen its sales almost double in 2011.

Beer consumption in Angola was around 9 million hectoliters, with 7,5 million being Angolan beers and the remaining 1,5 million being imported brands(see Exhibit 18). Regarding consumption per capita in Angola, the consumption patterns were not known by consumer segment. However, Dr. Nuno Pinto Magalhães, SCC’s Board Adviser for Corporate Affairs and Ombudsman, believed that the regular beer consumers in Angola had considerably higher per capita consumption.

Concerning the distribution pipeline in Angola, it worked in a completely different way to Europe. Beer was firstly sold to huge warehouses by the local or foreign beer factories, and then, all intermediaries or even final consumers had to go into these warehouses to buy the beer they wanted. The great majority of beer was packed in glass bottles, even though it was also possible to find a few brands using aluminium cans. Without having done extensive market research, SCC managers knew from experience that the attributes the majority of Angolan beer consumers valued the most were freshness and light taste. In fact, the 80% referring to national brands was mainly driven by a younger

[20] Information acquired through an interviewing process realized at “Central de Cervejas e Bebidas”
[21] “Angolan Beer Union Company” in English

type of consumer, with a lower budget and seeking the attributes mentioned above. The remaining 20%, represented by imported beers, was driven by another type of consumer: older, healthier, with a need for status that was achievable through imported goods.

SCC history in Angola

SCC started its investments in Angola in 1947 by being part of CUCA's creation right after the Second World War, and also by starting to export Sagres to the country a few years later. After its introduction, Sagres rapidly gained notoriety among Angolan beer consumers and assumed the leading position in the Angolan beer market as a premium imported beer. The increasing demand and success achieved by this brand finally supported SCC's decision, in 2004[22], to start producing Sagres in the Angolan territory, more specifically in "Cuca's" factories. Although, surprisingly after this moment, the Angolans started to reject the Portuguese brand for some reason and its sales started to fell considerably. What indeed happened was that Cuca had strategically taken advantage of the situation to convey to consumers that since both beers were done in the same place, both products were the same, and so, there was no difference in quality. This in fact, affected the way Sagres was perceived in Angola and forced, one or two years later, SCC to re-start importing its beer.

This definitely represented a turning point in the Angolan beer market. By 2005, the "Cuca" brand had assumed a dominant leading position with a market share around 50%. Also Unicer had improved its performance maintaining its "Super Bock" brand as an imported one and launching the "Cristal" brand, which achieved a solid place in the Angolan market because of its lightness and smooth taste.

Since then SCC has been making significant efforts in order to reach its former position in this market, mostly by sustaining innovation and with the introduction of the "Cergal" brand, also a lighter and smoother-tasting beer. One of the main innovations was the re-introduction of "mini"[23], which had already been tried back in 1972 but without having the expected outcome. Although, after releasing again this packaging model a few years later, it finally proved to be a huge success due to its ability to keep beer fresh longer in a warm country such as Angola. This has undoubtedly boosted SCC's performance, contributing to a big share of the group's sales, and soon being copied by its competitor Unicer (see Exhibit 19).

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[22] Angonotícias, 2004. Angola já produz cerveja de marca Sagres. Available at: http://www.angonoticias.com/Artigos/item/652 [Accessed 16 October 2012]

[23] "Mini" is a innovative packaging concept that consists in a smaller glass beer bottle, with 25centiliters, which allows beer to be consumed while it is still fresh

Internationalization strategy challenges and alternatives

In Angola the scenario is of a market continuously developing and strong national companies with a production capacity close to the beer consumption of the country, but also prevalent was a noteworthy threat: the increase of import tariffs. This happened at a critical time when some of these importing companies had to deal with a severe national financial crisis in Portugal, making them more dependent on exports.

Angolan beer producers, which had already made great investments in this industry and in their country, were pressuring the government to protect the market and impose more barriers on imports. The import duties were supposed to rise from 30% to 50% in 2012, but fortunately for the Portuguese companies the prime minister of Portugal at the time was able to delay that decision after making an official appeal to the Angolan government, to take into consideration the difficult situation the Portuguese economy was facing at this time. For both SCC and the country's economic welfare it was more important to continue exporting rather than starting to produce in Africa. Exports were sustaining the company's infrastructures and personnel by compensating the downturn observed in Portugal. In fact, this market has proved to be very important for the Portuguese beer companies, as the Angolan market represented a major share of their exports and around 20% of the SCC's total sales[24]. At the same time, Angolan authorities were starting to yield the pressures of national producers, wanting foreign companies to make direct investments in the country and produce locally.

Due to this, SCC was seeing itself forced to consider whether it should continue to export or to build its own production plants in Africa. In case it is chosen to continue exporting, whether they should pass on the import duties on the prices, or absorb it in their own margins. On the other hand, if they started producing in Africa, should they create a new brand or should they produce Sagres and risk spoiling the consumers' perceptions about its superior quality due to it being imported, as had happened before.

Moreover, there were other risks in Angola that could possibly make this decision even more complex and slower than usual. Investments made in Angola were known to bare a high level of risk and so they had to be done with strict and carefully planned criteria. Adding to this, Angola was also known to have great political instability, high corruption levels, and there was also the problem of national idiosyncrasies[25] prevailing in the African continent. A good example of this was the relation between Angola and South Africa. Cooperation between these countries and their respective producers

[24] Information acquired through an interviewing process realized at "Central de Cervejas e Bebidas"

[25] Idiosyncrasies meant that relations between African countries were often difficult and crooked, mainly because they were competing for greater territorial influence in Southern Africa.

was tortuous and nearly impossible to achieve. As Dr.Nuno Pinto Magalhães, based on his experience, affirmed that: “In Africa, each case needs to be considered individually.”

There were also some challenges in the distribution stage, such as, the poor infrastructures on offer; roads only covered a limited area; and the prevailing insecurity in the country.

1.10 The Promising Brazilian Market

In 2012, Brazil, with a population of 193,3 millions and a GDP per capita of 11.239$, was ranked the 3rd largest producer of beer in the world (see Exhibit 6, Exhibit 14, and Exhibit 15). There was no doubt about the great economical potentiality Brazil had achieved, being considered one of the most important developing countries in the world that was forecasted to grow substantially in the near future. In this country beer consumption per capita was around 65 liters (see Exhibit 8), and the overall beer market was expected to grow considerably in size and in profitability due to various reasons.

Firstly, the super-premium and premium sector only represented around 5% of the market, compared to 15% in Europe[26]. These numbers were about to change, due to the increased consumer purchasing power[27], economic stability and the emerging consumers’ desire of trying new tastes and concepts[28]. There was already evidence of a growth of 15% in in the premium segments, which would increase this market to the same level as in Europe, between 5 to 10 years maximum. There were also two huge sporting events coming to Brazil, the 2014 FIFA[29] World Cup and the 2016 Olympic games, which would certainly have a significant impact on beer consumption in the country.

Secondly, in this market consumers were showing a high degree of interest in new beer brands and concepts, leading international companies to grow faster than the market in general.

Although, at the same time, these factors were also driving the market to a higher degree of segmentation, giving space to a large number of microbreweries to progress, and differentiation to gain a greater focus through product quality, level of service provided, marketing strategies and management efficiency. Another important aspect was that the Brazilian market was still very protected, during this phase of fast development. The Brazilian tax structure was indeed quite

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26 Época Negócios, 2011. Mercado De Cerveja Caminha Para A Maior Segmentação. Available at: http://epocanegocios.globo.com/Revista/Common/0,,EMI280971-16355,00-mercado+de+cerveja+caminha+para+a+maior+segmentacao.html [Accessed 16 October 2012]

27 Cervesia, 2011. O Mercado Cervejeiro Brasileiro Atual – Potencial De Crescimento. Available at: http://www.cervesia.com.br/dados-estatisticos/760-o-mercado-cervejeiro-brasileiro-atual-potencial-de-crescimento.html [Accessed 16 October 2012]

28 Ibid.

29 Acronym for “Fédération Internationale de Football Association”

confusing, making it very difficult to estimate the exact final cost of imports[30]. Even though, SCC managers believed that the entire amount of imports taxes at this time was certainly above 150%.

The Brazilian market was largely dominated by the biggest group in this industry, AB-imbev, with almost 70% market share. While the second and third places, were being disputed by the Brazilian company "Grupo Petrópolis"[31] and Kirin Holdings[32]. The Heineken company after its agreement with FEMSA had reached the fourth place, staying really close to the two previous ones with 8,5% market share. This market was indeed gaining more attention from this group, which became alerted to its potential and soon started to grow above the market average (see Exhibit 20 and Exhibit 21).

Heineken Brazil

Heineken entered in the Brazilian market, in 2010, after acquiring FEMSA's beer sector. With this, the company found itself with a total production capacity of 20 million hectoliters per year[33]. The headquarters were in São Paulo and a total of eight brewing plants, in seven different states, were already operating in this country. With this acquisition, Heineken was also able to enter the Brazilian market with a quite solid and efficient brand portfolio (see Exhibit 22).

At this stage the company's brand was already known to the Brazilian public, by being present in several activities related with music and sports. It was usually a sponsor of massive music events such as, Rock in Rio, and was already known as a major sponsor of huge sporting events all over the world and within the country too.

[30] To calculate the total cost three taxes had to be considered: the Import Duty (II); the Industrialized Product tax (IPI); the Merchandise and Service Circulation tax (ICMS); and other smaller taxes and duties.

[31] Known before by "Cervejaria Petrópolis", produces some renown beer brands in brazil, such as, "Itaipava", "Crystal" and "Petra"

[32] Kirin Holdings is a big Japanese Beer Group that had recently acquired a famous Brazilian company "Schincariol".

[33] Heineken Brazil information. Available at: http://www.heinekenbrasil.com.br/?heineken-no-brasil [Accessed 20 October 2012]

Internationalization strategy challenges and alternatives

The beer brand Sagres had already at this time some notoriety in Brazil among the sizeable first and second generation of Portuguese families residing in this country and also between the most recent wave of qualified Portuguese workers whom went to live in Brazil searching for better live opportunities. Having in mind that there were still no exports to this place, the opportunity to get just a niche segment in this huge market would be of great impact on SCC's financial performance. As all SCC's managers share the opinion that: "Anything that is sold in that world is indeed very important to us."

So here, the SCC's main goal while entering this new promising market was to target, conquer and sustain this significant Portuguese community and people with Portuguese influence living in Brazil. In order to accomplish this, the Portuguese company's managers came up with two distinct alternatives: the first one was to start exporting Sagres to Brazil, and the second was to grab the opportunity and take advantage of the Heineken's production and/or distribution infrastructures already established in this country.

Looking into the second alternative, there was only one imperative issue for SCC to consider, which was to negotiate with its shareholder Heineken, the portfolio and production capacity management. It was absolutely necessary to examine if there was enough room to produce this new brand and also if it could suit in the existing distribution pipeline. SCC had to make sure that supply could match demand, that the Sagres brand could be harmoniously incorporated within the existing portfolio, that the route to market was controlled, and lastly to decide the best time to launch the product.

1.11 Markets' Expected Output Comparison

Each of these markets presented their own potentialities and hurdles, as well as SCC that also held different reasons to approach each one of them. Both these markets seemed to be able to offer remarkable opportunities for SCC and Heineken by showing enough space to grow and the capability to fulfill both companies' goals: to guarantee a favorable stake in the Angolan market and to derive some profits in the Brazilian one. It was dependent on the way SCC tackled the markets and the problems each posed.

1.12 Conclusion

Reaching this point, it was clear for SCC managers that expanding and participating in the Angolan market had actually been key to accomplish its goals and alleviate the serious condition it was seeing itself at the time. Exports made possible to compensate what was being lost in the national and European markets in terms of volume. However, with the Angolan government's threat of increasing tariffs, SCC had to review its way of approaching this important market. The main questions here were:

- Would it still be reasonable to believe in producing Sagres in Angola or should this brand remain being an "imported" brand? In this case, where should tariffs' increase be reflected?
- What other options could SCC have to enhance its performance and influence in the Angolan beer market?

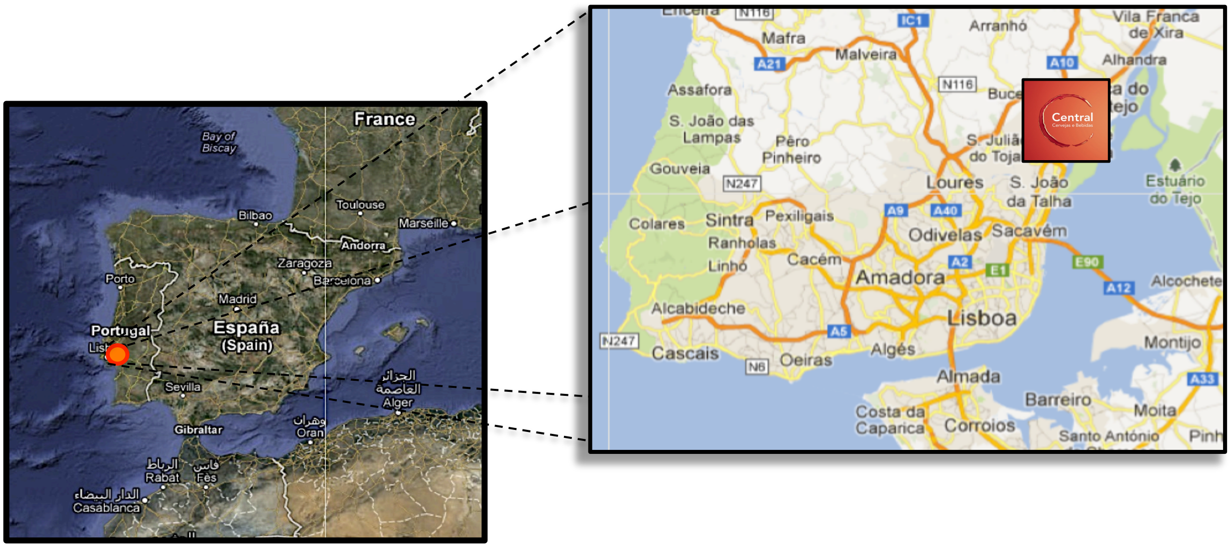
At the same time, SCC had also realized about the opportunity to expand its operations in the immense Brazilian market, consolidating its sustainability in terms of profits, not in terms of volume, as in Angola. The remaining issue was:

- Having in mind the company's objectives in this market, what internationalization strategy would be more suitable in this case?

It was already mid December and the day SCC was going to meet with its partner was really close. The persons in charge for this task were quite confident about their decisions. They were aware of all possible outcomes that each scenario could bring. However, they were still missing at this point the consumer research results, relying only in the opinion of their local partners. They believed that key local opinion and insights were crucial to get the most accurate and real perspective about their projects.

It was definitely a short period of time, full of challenging decisions and commitments, in which SCC managers had to go beyond frontiers and find the ultimate answers for the company's future sustainability and success. It was time for Heineken representatives to see the outcomes of this research and assessment period so the plan could be finally put into action.

Exhibit 1 – SCC factory in Vialonga, Lisbon



Source: Case writer

Exhibit 2 – Heineken International's geographic distribution of consolidated beer volume in thousands hectoliters, FY 2011

	2011	2010	%
Western Europe	45,4	45,4	0
Central & Eastern Europe	45,4	42,4	+7.4
Americas	22	19,1	+16.0
Africa & Middle East	50,5	37,9	+30.0
Asia Pacific	1,5	1,3	-1.5
Consolidated beer volume	164,6	145,9	+13.0

Source: Heineken International's information

Exhibit 3 – Heineken’s breweries in the world, 2012

Central & Eastern Europe

Country	Company	Location	Brands
Austria	Brau Union Österreich (100%)	Leoben, Graz, Schladming,	Heineken, Zipfer, Gösser, Puntigamer,
	Pago International (100%)	Schwechat, Wieselburg, Zipf, Linz,	Desperados, Edelweiss, Schlossgold, Kaiser,
		Hallein	Schwechater, Wieselburger, Reininghaus, Schladminger
Belarus	HEINEKEN Breweries (100%)	Bobruysk	Heineken, Zlaty Bazant, Rechitskoe, Bobrov, Gösser, Doctor Diesel, Dneprovska
	Rechitsapivo (96.2%)	Rechitsa	
Bulgaria	Zagorka Brewery (49.4%)	Stara Zagora	Heineken, Zagorka, Desperados, Ariana, Amstel, Stolichno, Starobrno, Kaiser
Croatia	Karlovacka Pivovara (100%)	Karlovac	Heineken, Karlovacko, Desperados, Edelweiss
Czech Republic	HEINEKEN Ceská Republika (100%)	Krušovice, Brno, Velke Brezno, Krasne Brezno	Heineken, Krušovice, Starobrno, Zlatopramen, Breznak, Frij, Zlaty Bazant, Hostan, Cerveny Dark, Baron Trenck
Germany	Paulaner Brauerei (25%)	München	Paulaner Weissbier, Paulaner, Hacker-Pschorr,Thurn & Taxis
	AuerBräu (25%)	Rosenheim	Auer
	Weissbierbrauerei Hopf (25%)	Miesbach	Hopf Weisse
	Kulmbacher Brauerei (31.4%)	Kulmbach	Kulmbacher, Mönchshof, EKU, Kapuziner
	Sternquell Brauerei (31.4%)	Plauen	Sternquell
	Braustolz (31.4%)	Chemnitz	Braustolz
	Scherdel (31.4%)	Hof	Scherdel
	Würzburger Hofbräu (31.4%)	Würzburg	Würzburger Hofbräu, Keiler
	Fürstlich Fürstenbergische Brauerei (49.9%)	Donaueschingen	Fürstenberg, Riegeler
	Privatbrauerei Hoepfner (49.9%)	Karlsruhe	Hoepfner, Grape?
	Privatbrauerei Schmucker (49.9%)	Mossautal	Schmucker
Greece	Athenian Brewery (98.8%)	Athens, Patras, Thessaloniki, Lamia	Heineken, Amstel, Alfa, Fischer, Sol, Buckler, McFarland, Murphy’s Irish Stout, BIOS 5, IOLI
Hungary	HEINEKEN Hungaria (100%)	Martfü, Sopron	Heineken, Gösser, Soproni Aszok, Amstel, Kaiser, Zlaty Bazant, Edelweiss, Schlossgold, Steffl, Adambrau, Buckler
Kazakhstan	Efes Karaganda (28%)	Almaty, Karaganda	Heineken, Tian Shan, Efes, Beliy Medved, Stary Melnik, Sokol, Gold Mine
Macedonia	Pivara Skopje (48.2%)	Skopje	Heineken, Amstel, Skopsko, Gorsko
Poland	Grupa Zywiec (61.9%)	Cieszyn, Elblag, Lezajsk, Warka, Zywiec	Heineken, Desperados, Zywiec, Warka, Tatra, Strong, Special, Królewskie, Lezajsk
Romania	HEINEKEN Romania (98.4%)	Constanta, Craiova, Miercurea Ciuc, Targu Mures	Heineken, Ciuc, GoldenBrau, Silva, Bucegi, Neumarkt, Gambrinus, Horgita, Hatigana, Desperados, Edelweiss
Russia	HEINEKEN Breweries (100%)	Irkutsk, St.Petersburg, Ekaterinburg, Kaliningrad, Khabarovsk, Sterlitamak Novosibirsk, Nizhnyi Novgorod	Heineken, Amstel, Bochkarev, Ochota, Zlaty Bazant, Guinness, Buckler, Stepan Razin, PIT, Edelweiss, Doctor Diesel, Tri Medvedya, Gösser, Amur-Pivo, Zhigulevskoye, Patra, Strelets, Bereg Baikala, Okskoye, Rusich, Volnaya Sibir, Sedoy Ural, Shikhan, Ostmark, Kenigsberg
Serbia	United Serbian Breweries (72%)	Novi Sad	Heineken, MB, Master, Amstel
	United Serbian Breweries Zajecarsko (52.5%)	Zajecar	PilsPlus, Efes, Zajecarsko
Slovakia	HEINEKEN Slovensko (100%)	Hurbanovo	Heineken, Zlaty Bazant, Corgon, Kelt, Starobrno, Gemer, Martiner

Western Europe

Country	Company	Location	Brands
Belgium	Alken-Maes (99.9%)	Alken, Kobbegem, Opwijk	Maes, Grimbergen, Cristal, Mort Subite, Ciney, Affligem, Judas, Hapkin, Brugs, Postel, Desperados, Heineken
Finland	Hartwall (100%)	Lathi, Karijoki	Lapin Kulta, Karjala, Foster's, Heineken, 1836 Classic Gourmet, Jaffa, Pepsi, Novelle, Original Long Drink, Upcider
France	HEINEKEN France (100%)	Marseille, Mons-en-Baroeul, Schiltigheim	Heineken, Pelforth, Desperados, Affligem, Fischer tradition, '33' Export, Panach', Adelscott, Amstel, Georges Killians, Murphy's Irish Stout
Ireland	HEINEKEN Ireland (100%)	Cork	Heineken, Amstel, Coors Light, Desperados,Tiger, Sol, Murphy's Irish Stout, Beamish Stout, Foster's, Paulaner, Birra Moretti, Zywiec, Affligem
Italy	HEINEKEN Italia (100%)	Pollein (Aosta), Comun Nuovo (Bergamo), Massafra, Assemini (Cagliari)	Birra Moretti, Heineken, Dreher, Ichnusa, Classica von Wunster, Birra Messina, Prinz Brau, Sans Souci, Amstel, Fischer, Strongbow
Netherlands	HEINEKEN Nederland (100%)	Zoeterwoude, 's-Hertogenbosch,	Heineken, Amstel, Wieckse Witte, Jillz, Strongbow, Desperados, Lingen's Blond, Murphy's Irish Red
	Brand Bierbrouwerij (100%)	Wijlre	Brand
	Vrumona (100%)	Bunnik	Crystal Clear, Royal Club, Sisi, Sourcy, Vitamin Water, Pepsi, 7-Up, Rivella
Portugal	Sociedade Central de Cervejas e Bebidas (98.7%)	Vialonga, Luso, Cruzeiro	Sagres, Luso, Cruzeiro, Cergal, Imperial, Heineken, Foster's, Jansen, São Jorge, Bulmer
Spain	HEINEKEN España (98.7%)	Seville, Madrid, Valencia, Jaen	Cruzcampo, Amstel, Heineken, Shandy, Paulaner, Guinness, Latino, Foster's, Legado de Yuste, Maes, John Smith, Judas, Mort Subite, Newcastle
Switzerland	HEINEKEN Switzerland (100%)	Chur, Lucerne	Heineken, Eichhof, Calanda, Desperados, Ittinger, Haldengut, Ziegelhof, Erdinger, Clausthaler, Amstel
United Kingdom	HEINEKEN UK (100%)	Manchester, Tadcaster, Edinburgh, Hereford, Ledbury	Foster's, Strongbow, John Smith's, Kronenbourg, Bulmers, Heineken, Newcastle Brown Ale, Amstel, Sol, Woodpecker, Tiger, Jacques, Deuchars IPA

Americas

Country	Company	Location	Brands
Argentina	Companias Cervecerías Unidas Argentina (33.1%)	Salta, Santa Fe, Lujan	Heineken, Budweiser, Paulaner, Birra Moretti, Guinness, Corona, Negra Modelo, Salta, Santa Fe, Cordoba, Kunstmann, Palermo, Biecker, Schneider, Imperial, Otro Mundo
Bahamas	Commonwealth Brewery (75%)	Nassau	Heineken, Guinness, Kalik, Vitamalt
Brazil	Cervejarias Kaiser (100%)	Araraquara, Cuibabá, Feira de Santana, Gravataí, Jacareí, Manaus, Pacatuba, Ponta Grossa	Kaiser, Bavaria, Sol, Summer Draft, Gold, Heineken, Kaiser Bock, Xingú, Dos Equis, Amstel Pulse, Birra Moretti, Edelweiss, Murphy's, Santa Cerva
Chile	Companias Cervecerías Unidas (33.1%)	Antofagasta, Santiago, Temuco	Heineken, Cristal, Escudo, Royal, Kunstmann
Costa Rica	Cervecería Costa Rica (25%)	San José	Heineken, Bavaria, Imperial, Pilsen, Rock Ice
Dominican Republic	Cervecería Nacional Dominicana (9.3%)	Santo Domingo	Presidente
Haiti	Brasserie Nationale d'Haïti (22.5%)	Port-au-Prince	Guinness, Malta, Prestige
Jamaica	Desnoes & Geddes (15.5%)	Kingston	Heineken, Dragon Stout, Guinness, Red Stripe
Martinique	Brasserie Lorraine (100%)	Lamentin	Heineken, Lorraine, Malta, Porter
Mexico	Cervecería Cuauhtémoc Moctezuma (100%)	Monterrey, Tecate, Orizaba, Guadalajara, Toluca, Navojoa	Tecate, Sol, Dos Equis, Bohemia, Coors Light, Indio, Carta Blanca, Superior, Kloster, Noche Buena, Soul Citric
Nicaragua	Consorcio Cervecero Centroamericano (12.5%)	Managua	Heineken, Bufalo, Tona, Victoria
Panama	Cervecerías Barú-Panama (74.9%)	Panama City	Heineken, Crystal, Guinness, Panama, Soberana, Budweiser
St. Lucia	Windward & Leeward Brewery (72.7%)	Vieux-Fort	Heineken, Guinness, Piton
Suriname	Surinaamse Brouwerij (76.2%)	Paramaribo	Heineken, Parbo
Trinidad	Carib Development Corporation (20%)	Port of Spain	Carib, Stag, Guinness

Middle East & Africa

Country	Company	Location	Brands
Algeria	Tango (100%)	Algiers	Tango, Samba, Fiesta, Heineken, Amstel
Burundi	Brarudi (59.3%)	Bujumbura, Gitega	Amstel, Primus, Heineken
Cameroon	Brasseries du Cameroun (8.8%)	Bafoussam, Douala, Garoua, Yaoundé	Amstel, Mützig, Heineken
Congo	Brasseries du Congo (50%)	Brazzaville, Pointe Noire	Guinness, Maltina, Mützig, Ngok, Primus, Turbo King, Heineken
Democratic Republic of Congo	Bralima (95%)	Boma, Bukavu, Kinshasa, Kisangani, Mbandaka, Lubumbashi	Maltina, Mützig, Primus, Turbo King, Legend, Heineken, Amstel
Egypt	Al Ahram Beverages Company (99.9%)	Badr, El Obour, Sharkí	Heineken, Birell, Fayrouz, Meister Max,
		6th of October City, Gianaclis	Sakara, Stella, Amstel Zero,
		El Gouna	Luxor
Ethiopia	Bedele Brewery (100%)	Bedele	Bedele
	Harar Brewery (100%)	Harar	Harar
Ghana	Guinness Ghana Breweries Ltd. (20%)	Accra, Kumasi	Amstel Malta, Guinness, Gulder, Star, Malta, Heineken
Israel	Tempo Beverages Limited (40%)	Netanya	Heineken, GoldStar, Maccabi, Nesher Malt, Newcastle Brown Ale
Jordan	General Investment (10.8%)	Zerka	Amstel, Heineken
Lebanon	Almaza (67%)	Beirut	Almaza, Laziza, Amstel, Heineken
Morocco	Brasseries du Maroc (2.2%)	Casablanca, Fès, Tanger	Heineken, Fayrouz
Namibia	Namibia Breweries (14.6%)	Windhoek	Heineken, Guinness, Windhoek, Amstel, Tafel
Nigeria	Nigerian Breweries Plc (54.1%)	Aba, Ama, Ibadan, Kaduna(2), Lagos, Onitsha, Sango-Ota	Heineken, Amstel Malta, Gulder, Legend, Maltina, Star, Fayrouz, Life Continental Lager, Goldberg Lager, Malta Gold '33' Export, Hi-malt, Maltex, Turbo King, More Lager, Williams, Champion Lager
	Consolidated Breweries (50.5%)	ljebu Ode, Awo-Omamma, Makurdi, Lagos, Uyo	
Réunion	Brasseries de Bourbon (85.7%)	Saint Denis	Bourbon, Dynamalt, Heineken
Rwanda	Bralirwa (75%)	Gisenyi, Kigali	Amstel, Guinness, Mützig, Primus, Turbo King, Heineken
Sierra Leone	Sierra Leone Brewery (83.1%)	Freetown	Heineken, Guinness, Maltina, Star
South Africa	Sedibeng Brewery (75%)	Johannesburg (Sedibeng)	Heineken, Amstel, Windhoek, Strongbow, Guinness
Tunisia	Nouvelle de Brasserie 'Sonobra' (49.99%)	Grombalia, Ksar Lemsa	Heineken, Golden Brau, Fayrouz, Bravo, Sahara

Region	Country	Company	Location	Brands
Asia Pacific	Cambodia	Cambodia Brewery (33.5%)	Phnom Penh	ABC Extra Stout, Anchor, Gold Crown, Tiger
	China	Shanghai Asia Pacific Brewery (46%)	Shanghai	Heineken, Reeb, Tiger, Anchor, Aoke,
		Hainan Asia Pacific Brewery (46%)	Haikou	Tiger Crystal, Sol, Strongbow, Murphy's
		Guanghzhou Asia Pacific Brewery (46%)	Guanghzhou	Irish Red
	India	United Breweries (37.5%)	Cherthala, Palakkad, Hyderabad, Ponda, Ludhiana, Chopanki, Mangalore, Bangalore, Khurda, Aurangabad, Chennai, Vishakhapatnam, Dharuhera, Mumba	Heineken, Cannon 10000, Arlem, Baron's Strong Brew, Kingfisher, Kalyani, UB
		UB Ajanta Breweries (50%)	Aurangabad	
	Indonesia	Multi Bintang Indonesia (40.6%)	Sampang Agung, Tangerang	Heineken, Bintang, Guinness, Bintang Zero, Green Sands
	Laos	Lao Asia Pacific Breweries (28.5%)	Vientiane	Tiger, Namkong, ABC Stout, Heineken
	Malaysia	Guinness Anchor Berhad (10.7%)	Kuala Lumpur	Heineken, Anchor, Baron's, Guinness, Strongbow, Kilkenny, Tiger, Lion, Malta, Anglia
	Mongolia	MCS Asia Pacific Brewery (23.1%)	Ulaan Baatar	Tiger, Sengur
	New Caledonia	Grande Brasserie de Nouvelle Calédonie (36.6%)	Nouméa	Heineken, Number One, Desperados, Havannah, Hinano
	New Zealand	DB Breweries (41.9%)	Greymouth, Mangatainoka, Otahuhu	Heineken, Amstel, DB Draught, Export Gold, Export Dry, Tiger, Monteith's, Tui, Fuse, Barrel 51, Murphy's Irish Stout
		DB South Island Brewery (23.1%)	Timaru	Murphy's Irish Red, Double Brown, Bushmans Draught, DB Draught, Export 33, Export Dry, Export Gold, Flame, Monteith's, Skippers Draught, Tui
	Papua New Guinea	South Pacific Brewery (31.8%)	Lae, Port Moresby	Niugini Ice Beer, South Pacific Export Lager, SP Lager, SP Gold
	Singapore	Asia Pacific Breweries (Singapore) (41.9%)	Singapore	Heineken, ABC Stout, Guinness Foreign Extra Stark, Raffles
			Archipelago	Archipelago, Belgian Wit, Irish Ale, Bohemian Lager, Summer Ale, Strongbow, Bulmers, Guinness Draught, Erdinger, Kirin Ichiban, Kilkenny, Old Speckled Hen
	Solomon Islands	Solomon Breweries (40.9%)	Honiara?	Solbrew?
	Sri Lanka	Asia Pacific Brewery (Lanka) (25.2%)	Mawathagama	Bison, Kings Stout, Baron's, Lager, Baron's Strong Brew, ABC Stout, Anchor
	Thailand	Thai Asia Pacific Brewery (15.4%)	Bangkok	Heineken, Tiger, Cheers, Guinness, Kilkenny
	Vietnam	Vietnam Brewery (25.2%)	Ho Chi Minh City	Heineken, Bivina, Tiger?
		Asia Pacific Breweries (Hanoi) (41.9%)	Hatay	Heineken, Anchor Draft, Tiger, Larue
		VBL Da Nang Co (25.2%)	Da Nang?	Foster's, BGI, Larger
		VBL Tien Giang (25.2%)	Tien Giang	
		VBL Quang Nam (20.1%)	Guang Nam	

Source: Heineken International's information

Exhibit 4 – SCC beer brands portfolio, 2012

Brand		Sub-brand	Type	Alcohol %	Available since	Origin
Sagres		Branca	Pilsner(a)	5	1940	Portugal
		Preta	Munich(d)	4,1	1940	Portugal
		Panaché	Pilsner	0,8	2010	Portugal
		Puro Malte	Lager(b)	6	2011	Portugal
Sagres Bohemia		Bohemia	Pilsner (specialty beer)	6,2	2005	Portugal
		Bohemia Reserva 1835	Pilsner (specialty beer)	6,6	2006	Portugal
Sagres Sem Álcool		Branca	No Alcohol Beer	0,3	2005	Portugal
		Preta	Munique No Alcohol Beer	0,3	2007	Portugal
		Limalight	No Alcohol Beer	0,3	2008	Portugal
International		Heineken	Pilsner	5	XIX century	Amsterdam, Netherlands
		Guiness	Stout(c)	4,2	1759	Dublin, Ireland
		Guiness Original	Stout	5	1759	Dublin, Ireland
		Kilkenny	Irish Ale	4,3	1710	Kilkenny, Ireland
		John Smith's	Ale Bitter	4	1852	Tadcaster, England
		Foster's	Lager	5	1887	Melbourne, Australia
		Bud	Lager	5	1876	USA
		Desperados	Beer w/Tequilla	5,9	2010 (Portugal)	France

(a) Pilsner (also called as pilsener or pils) is a type of pale larger. It was named after the city of Pilsen, in Czech Republic, where it was created in 1842. It mainly uses malted barley, which gives it a lighter flavor, different from the more roasted or smoked flavors typically present in German beers. It is the most popular type of lager in the world.

(b) Lager is a type of beer, fermented and conditioned at low temperatures. There are two main types of lagers, the pale lagers (such as, Bock, Pilsner, Dortmunder Export and Märzen) and the dark lagers (such as, Dunkel and Schwarzbier)

(c) Stout is a dark beer made by roasted malt or roasted barley, hops, water and yeast. It is commonly a stronger, heavier flavor type of beer. However, it is also possible to find blonde stouts. There are several types of Stout beers, for example, Dry or Irish Stout, Imperial Stout, Porter, Milk Stout, Oatmeal Stout, Chocolate Stout, Coffee Stout, or Oyster Stout.

(d) Munich is a type of dark colored lager made by burnt malt, created in the 10th century in the city of Munich, in Germany.

Source: SCC information

Exhibit 5 – Sagres labels

1947 1978 1995 2007

Exhibit 6 – Top 15 beer producing countries [million hectoliters], 2010

	2010	2011	variance	world %
China	423,728	448,304	5,8%	24,3%
EUA	230,839	227,838	-1,3%	12,3%
Brazil	107,042	114,000	6,5%	6,2%
Russia	108,462	102,930	-5,1%	5,6%
Germany	98,036	95,683	-2,4%	5,2%
Mexico	82,360	79,889	-3,0%	4,3%
Japan	59,809	59,630	-0,3%	3,2%
U.K.	45,132	44,997	-0,3%	2,4%
Poland	32,224	33,900	5,2%	1,8%
Spain	33,815	33,375	-1,3%	1,8%
Ukraine	30,512	31,000	1,6%	1,7%
South Africa	28,794	29,600	2,8%	1,6%
Vietnam	22,984	26,500	15,3%	1,4%
Netherlands	25,383	23,936	-5,7%	1,3%
Canada	22,402	22,200	-0,9%	1,2%

World beer production 2010: **1 846,393**
Market share top 15 countries 2010: **74.4%**

Source: Barth Report 2010/2011

Exhibit 7 – Top 15 brewers in the world [million hectoliters], 2010

	2009	2010	variance	world %
Anheuser-Bush Inbev (B/USA)	358,8	358,7	-0,03%	19,4%
SABMiller (U.K.)	174,0	172,3	-1,0%	9,3%
Heineken (NL)	159,1	145,9	-8,3%	7,9%
Carlsberg (DK)	116,0	114,0	-1,7%	6,2%
China Reource Brewery Ltd. (China)	84,0	93,3	11,1%	5,1%
Tsingtao Brewery Group (China)	59,0	64,0	8,5%	3,5%
Grupo Modelo (MEX)	51,8	51,9	0,2%	2,8%
Yanjing (China)	46,7	50,3	7,7%	2,7%
Molson-Coors (USA/CND)	52,5	48,7	-7,2%	2,6%
Kirin (J)	22,5	30,3	34,7%	1,6%
Efes Group (TR)	22,1	24,2	9,5%	1,3%
BGI/Group Castel (FR)	21,8	23,5	7,8%	1,3%
Diageo (Guinness) (IRL)	22,0	22,0	0,0%	1,2%
Asahi (J)	22,4	21,8	-2,7%	1,2%
Polar (VE)	18,2	20,7	13,7%	1,1%

Source: Barth Report 2010/2011

Exhibit 8 – Global beer consumption, 2010

Rank	Country	Consumption per capita (litres)	2009–2010 change (633ml bottles)	Total national consumption (10^6 liters)
1	Czech Republic	131,7	-21.1	1 708
2	Germany	106,8	-3.7	8 787
3	Austria	105,8	-1	888
4	Ireland	103,7	-2.8	479
5	Estonia	90,6	-8.8	117
6	Lithuania	85,7	12.7	304
7	Poland	83,6	-0.3	3 215
8	Australia	83,4	-7.2	1 794
9	Venezuela	83	-4.7	2 259
12	United States	78,2	-2.5	24 138
17	Netherlands	73,9	1.4	1 224
18	United Kingdom	73,7	-3.4	4 587
20	New Zealand	70,5	-3.6	300
22	Spain	69,9	-1.1	3 251
23	Canada	68,4	-1.9	2 311
26	Russia	66,2	-6.8	9 389
27	Brazil	65,3	10	12 170
29	South Africa	63	4.4	3 095
30	Switzerland	57,3	0	453
31	Mexico	57,1	-2.9	6 419
32	Portugal	54,9	-3.2	590
33	Angola	52,7	5	898
36	Japan	45,5	-2.4	5 813
40	China	31,5	2.1	44 683

Source: Kirin Holdings information

Exhibit 9 – Major beer brands and companies in Portugal, 2012

	YTD 10	var.	YTD 11	var.	YTD 12
Market share by Volume (%)					
Sagres	43,6	-0,5	43,1	-0,2	42,9
Super Bock	41,3	0,0	41,3	-0,4	40,9
Desperados	0,0	0,0	0,0	0,0	0,1
Heineken	0,7	0,1	0,8	0,0	0,8
Carlsberg	1,6	0,0	1,5	0,3	1,8
Imperial	1,2	-0,1	1,1	-0,2	0,9
Cristal	4,1	-0,6	3,6	0,4	4,0
MDD+PP	3,5	1,2	4,7	0,1	4,8
Cergal	2,2	0,1	2,3	0,0	2,3
Marina	0,5	-0,1	0,4	0,2	0,6
Tagus	0,5	-0,2	0,3	-0,1	0,2
Market share by Value (%)					
Sagres	45,9	-0,6	45,3	-0,1	45,2
Super Bock	43,2	0,6	43,8	-0,2	43,6
Desperados	0,0	0,0	0,0	0,0	0,1
Heineken	1,0	0,5	1,6	-0,3	1,3
Carlsberg	2,0	-0,2	1,8	0,3	2,1
Imperial	0,6	-0,1	0,5	-0,1	0,4
Cristal	3,3	-0,6	2,7	0,2	2,9
MDD+PP	1,2	0,4	1,6	0,2	1,8
Cergal	0,8	0,1	0,9	0,1	1,0
Marina	0,2	0,0	0,2	0,1	0,3
Tagus	0,6	-0,2	0,4	-0,1	0,4

	YTD 10	var.	YTD 11	var.	YTD 12
Market share by Volume (%)					
SCC	48,1	-0,5	47,6	-0,5	47,1
UNICER	47,7	-0,7	47,0	0,5	47,5
MDD's+PP's	3,5	1,2	4,7	0,1	4,8
CEREURO	0,5	-0,2	0,3	-0,1	0,2
FONT SALEM	0,1	0,1	0,1	0,0	0,1
Market share by Value (%)					
SCC	48,9	-0,1	48,8	-0,5	48,3
UNICER	48,9	-0,2	48,7	0,4	49,1
MDD's+PP's	1,2	0,4	1,6	0,2	1,8
CEREURO	0,6	-0,2	0,5	-0,1	0,4
FONT SALEM	0,1	0,0	0,1	-0,1	0,1

Source: AC Nielsen report 2012

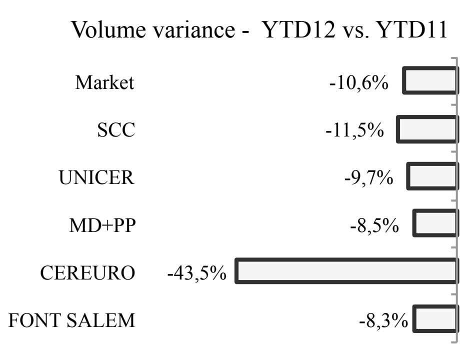
Exhibit 10 – Sagres (SCC) and Super Bock (Unicer) market shares in Portugal, 2012

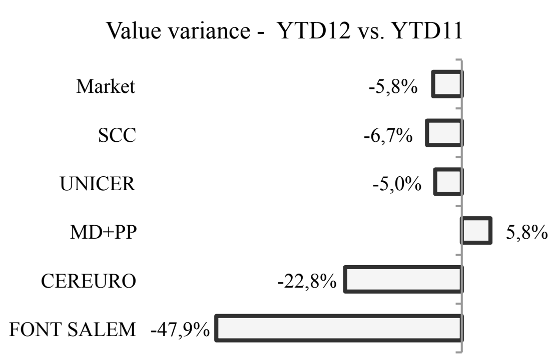
	YTD 10	var.	YTD 11	var.	YTD 12
Market share by Volume (%)					
Sagres Branca	39,4	-1,0	38,4	0,7	39,0
S.Bock Branca	37,9	0,2	38,1	-0,2	38,0
Bohemia	0,4	-0,1	0,3	0,0	0,2
Abadia	0,3	-0,1	0,2	0,0	0,2
Sagres Preta	2,2	0,1	2,4	-0,1	2,3
S.Bock Stout	1,5	-0,1	1,4	0,0	1,4
Sagres Sem Álcool	1,5	-0,1	1,3	-0,1	1,2
S Bock Sem Álcool	1,3	-0,2	1,1	-0,2	1,0
Sagres Festa	0,0	0,8	0,8	-0,7	0,1
S Bock Classic	0,0	0,3	0,3	0,0	0,3
S Puro Malte	0,0	0,0	0,0	0,1	0,1
Sagres Limalight+Panaché	0,0	0,0	0,0	0,0	0,0
S.Bock Green	0,2	-0,1	0,1	0,0	0,1
Market share by Value (%)					
Sagres Branca	41,2	-1,1	40,1	0,7	40,8
S.Bock Branca	39,8	0,7	40,5	-0,2	40,3
Bohemia	0,4	-0,1	0,3	0,0	0,3
Abadia	0,3	-0,1	0,2	0,0	0,3
Sagres Preta	2,7	0,2	2,9	-0,2	2,7
S.Bock Stout	1,7	-0,1	1,6	0,1	1,7
Sagres Sem Álcool	1,5	-0,1	1,4	-0,1	1,2
S Bock Sem Álcool	1,2	-0,1	1,1	-0,1	1,0
Sagres Festa	0,0	0,6	0,6	-0,5	0,1
S Bock Classic	0,0	0,3	0,3	0,0	0,3
S Puro Malte	0,0	0,0	0,0	0,1	0,1
Sagres Limalight+Panaché	0,0	0,0	0,0	0,0	0,0
S.Bock Green	0,1	0,0	0,1	0,0	0,1

Source: AC Nielsen report 2012

Exhibit 11 – Portuguese beer market volume and value (€), 2012

	Sales Volume		Sales Value	
	YTD 11	YTD 12	YTD 11	YTD 12
BEER TOTAL	297 824 102	266 248 604	725 307 672	683 580 784
SCC	141 769 813	125 436 847	353 698 970	329 916 330
UNICER	140 125 476	126 573 721	352 957 742	335 366 864
FDIST	13 933 864	12 742 705	11 815 817	12 495 868
CEREURO	885 452	500 417	3 278 172	2 531 184
FONT SALEM	415 034	380 386	1 011 615	526 590





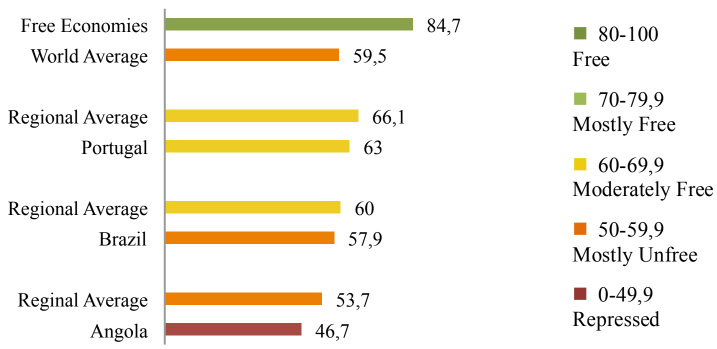
Source: AC Nielsen report 2012

Exhibit 12 –Index of Economic Freedom in Portugal, Brazil and Angola, 2012

2012	Overall Score	World Rank	Rule of Law: property rights	Rule of Law: freedom from corruption	Limited Government: fiscal freedom	Limited Government: government spending	Regulatory Efficiency: monetary freedom	Regulatory Efficiency: labor freedom	Regulatory Efficiency: business freedom	Open Markets: investment freedom	Open Markets: trade freedom	Open Markets: financial freedom
Portugal	63.0	68	70.0 —	60.0 ∧	59.0 ∨	25.5 ∨	82.6 ∧	32.5 ∨	83.0 ∧	70.0 —	87.1 ∨	60.0 —
Brazil	57.9	99	50.0 —	37.0 —	69.1 ∧	54.8 ∧	75.8 ∨	59.1 ∧	53.7 ∨	50.0 —	69.7 ∨	60.0 ∧
Angola	46.7	160	20.0 —	19.0 —	84.1 ∨	53.2 ∧	61.2 ∧	43.9 ∧	45.5 ∧	35.0 —	65.2 ∨	40.0 —

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage and Dow Jones & Company, Inc., 2012), at www.heritage.org/index.

Exhibit 13 – Economic Freedom Score comparison, 2012



Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage and Dow Jones & Company, Inc., 2012), at www.heritage.org/index.

Exhibit 14 – Economic indexes of Portugal, Brazil and Angola, 2012

Country	tariff rate	income tax rate	corporate tax rate	population (millions)	GDP (billions)	GDP per capita	unemployment rate	inflation rate	fdi inflow (millions)	tax burden % GDP	government expenditure % GDP
Portugal	1,4	46,5	26,5	10,6	247	23 223	10,8	1,4	1 452,4	35,2	49,8
Brazil	7,6	27,5	34	193,3	2 172,1	11 239	7	5	48 438	34,3	38,8
Angola	7,4	17	35	19,1	107,3	5 632	N/A	14,5	9 941,6	9	39,5

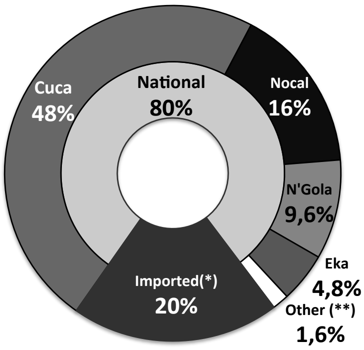
Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage and Dow Jones & Company, Inc., 2012), at www.heritage.org/index.

Exhibit 15 – Human Development Index (HDI), 2011

Country	Rank (187 countries)	variance between 2010 and 2011	value		variance between 2010 and 2011
Portugal	41	1 ∨	0,81	very high	0,001 ∧
Brazil	85	1 ∧	0,718	high	0,003 ∧
Angola	148	–	0,486	low	0,004 ∧

Source: Wikipedia information

Exhibit 16 – Angolan beer market, 2012



(*) More relevant brands: **Cristal, Sagres, SUperbock, Heineken and Carlsberg**

(**) Produced in Angola: 33 Export, Castel Beer, Tchizo, Ngola Preta, Doppel Munich

Source: Castel Cuca BGI Group

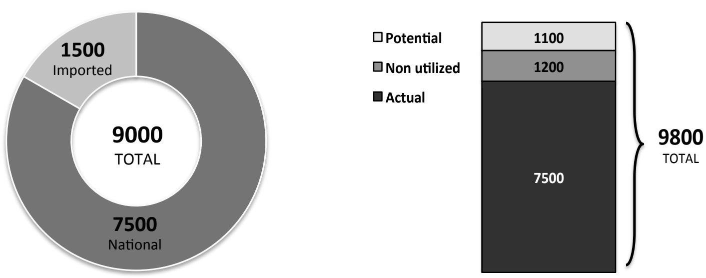
Exhibit 17 – Beer prices in Angola, 2012

				Price per centiliter
120 Kz	Heineken	(SCC)	33cl can	3,64Kz
115 Kz	Heineken	(SCC)	25cl bottle	4,60Kz
90 Kz	Cristal	(Unicer)	33cl can	2,73Kz
90 Kz	Carlsberg	(Unicer)	25cl bottle	3,60Kz
85 Kz	Cristal	(Unicer)	33cl bottle	2,58Kz
85 Kz	Super Bock Mini (a)	(Unicer)	25cl bottle	3,40Kz
80 Kz	EKA	(CUCA BGI)	31cl bottle	2,58Kz
80 Kz	Super Bock	(Unicer)	33cl bottle	2,42Kz
75 Kz	Castel Mini	(CUCA BGI)	25cl bottle	3,00Kz
75 Kz	Super Bock	(Unicer)	33cl can	2,27Kz
75 Kz	Sagres	(SCC)	33cl bottle	2,27Kz
75 Kz	Nocal	(CUCA BGI)	31cl bottle	2,40Kz
70 Kz	Cuca	(CUCA BGI)	33cl can	2,12Kz
70 Kz	Cuca	(CUCA BGI)	31cl bottle	2,26Kz
70 Kz	Sagres Mini (a)	(SCC)	25cl bottle	2,80Kz
65 Kz	Sagres (b)	(SCC)	25cl bottle	2,60Kz
60 Kz	N'Gola	(CUCA BGI)	33cl bottle	1,82Kz
50 Kz	33 Export (c)	(CUCA BGI)	33cl bottle	1,52Kz

(a)Easy Opening cap system
(b)Regular cap system
(c)Promotional value
Kz -Kwanzas (Angolan currency)
cl - centiliter

Source: Exame Angola

Exhibit 18 – Beer consumption and production in Angola, 2012



Source: Castel Cuca BGI Group

Exhibit 19 – SCC and UNICER innovation “battles”, 2012

Exhibit 20 – Major beer companies and brands in Brazil, 2011

Rank	Company	Market Share (%)	Brands
1º	AB InBev / Ambev	69,8	Skol, Brahma, Antarctica, Bohemia, Antarctica Original, Serramalte, Stella Artois, Caracu, Polar, Norteña, Patrícia, Pilsen, Quilmes, and more
2º	Cervejaria Petrópolis	10,3	Itaipava, Crystal, Petra
3º	Kirin / Schincariol	10	Nova Schin, Devassa, Primus, Glacial, Cintra, Nobel, Baden Baden, Eisenbahn
4º	Heineken / FEMSA	8,5	Kaiser, Kaiser Summer Draft, Sol, Bavária, Heineken, Xingu

Source: AC Nielsen report 2011

Exhibit 21 – Most consumed beer brands in Brazil, 2009

Rank		Brand	Company	Type	Alcohol (%)	Market Share (%)
1º		SKOL	AB InBev / Ambev	Pilsner	4,7	32,7
2º		BRAHMA	AB InBev / Ambev	Pilsner	5	18,5
3º		ANTARCTICA	AB InBev / Ambev	Pilsner	4,9	12,3
4º		NOVA SCHIN	Kirin / Schincariol	Pilsner	4,7	10,3
5º		KAISER	Heineken / FEMSA	Pilsner	4,5	4
6º		BAVÁRIA	Heineken / FEMSA	Pilsner	4,3	2,2
7º		SOL	Heineken / FEMSA	Pilsner	4,5	0,5

Source: AC Nielsen report November 2009

Exhibit 22 – Heineken Brazil beer brands portfolio, 2012

Brand	Sub-brand		Type	Alcohol %	Origin
Kaiser		White	Pilsner	4,5	Brazil
		Bock(a)	Munich	6,2	Brazil
		Gold	Pilsner extra	5,4	Brazil
Heineken		Heineken	Pilsner	5	Brazil
Bavaria		White	Pilsner	4,6	Brazil
		Premium	Pilsner	4,8	Brazil
		White	No Alcohol Beer	0,5	Brazil
Sol		White	Pilsner	4,6	Brazil
		Premium	Pilsner	4,3	Brazil
Summer		White	Pilsner	4,7	Brazil
Xingu		Dark	Stout	4,6	Brazil
Santa Cerva		White	Pilsner	4,9	Brazil
Imported		Dos Equis	Lager	4,5	Mexico
		Amstel Pulse	Lager	4,7	Netherlands
		Birra Moretti	Lager	4,6	Italy
		Edelwiss	Wheat Beer	5,5	Austria
		Murphy's Irish Stout	Stout	4	Ireland
		Murphy's Irish Red	Red Ale	5,2	Ireland
		Desperados	Beer w/Tequilla	5,9	France

(a) Seasonal edition – super premium beer

Source: Heineken Brazil information

2. Teaching Note

2.1 Introduction

This case study was prepared based on a real business scenario, although some of the data has been disguised in order to preserve the confidentiality of “Sociedade Central de Cervejas” and “Heineken International”. The content of this case has been put together as a basis for class discussion, preserving all important data relationships. The case though, should not be regarded as a source of primary data.

2.2 Synopsis

“Sociedade Central de Cervejas e Bebidas, S.A” (SCC), founded in 1934, was a company specialized in producing and marketing beer, water and other beverages, detaining some of the most iconic and appreciated Portuguese brands in these industries. In 2007, the forth-largest group of the global beer industry, the Dutch company “Heineken”, had acquired SCC. After the acquisition, the Portuguese company was able to remain functioning in the same way it had done as before, since Heineken believed local knowledge and expertise to be a key resource in their international strategy, endowing its subsidiaries with substantial empowerment and providing them with support at many business levels. SCC started its international experience early in its history, with the creation of its most important brand “Sagres” in 1940, with the single purpose of being exported. The success achieved by this brand soon guaranteed a notorious presence in the national market and the establishment of exports to almost every Portuguese overseas territory and countries with Portuguese influence and emigration.

In 2012, the Portuguese beer market, along with the entire beer market in Europe, was experiencing a continuous and threatening downturn in sales volumes and margins. Consumption of all kind of beverages was contracting due to a decrease in consumers’ purchasing power in consequence of the global financial crisis. In Portugal, the beer market was controlled by “Sociedade Central de Cervejas e Bebidas” (SCC) and “Unicer”, two national companies that were backed up by two of the largest international companies in this industry, Heineken International and Carlsberg respectively. With results in the national markets worsening year-by-year, both these Portuguese companies saw internationalization as a means of survival.

After meeting with their partner Heineken about the issues experienced in that period, SCC had been given a four-month task until the end of 2012. SCC was in charge of developing a strategic and operational plan of action to expand and improve the company's presence in two evolving beer markets with Portuguese influence, Angola and Brazil, aligned with Heineken's international goals and strategy.

This case presents all the data that SCC managers had at the time to make a decision regarding these two countries. In Angola, they were asked to re-evaluate the company's current approach to the market, while in Brazil they had to evaluate the best way of entry into a complex and competitive market. Both markets present different potentialities and threats for SCC, also the company's objectives and targets behind each country differed.

2.3 Suggested Assignment Questions

1. Having in mind the Portuguese economical situation in 2012, how could SCC improve its performance in the national market by expanding/enhancing its operations overseas? Identify the opportunities and threats each of these countries had.
2. Should SCC continue to export its "Sagres" brand or should they try to produce it again in Angola? Where should tariffs' increase be reflected in case they chose to continue exporting "Sagres"? Explain why.
3. If SCC decides to engage in foreign direct investment by starting to produce and sell a different brand of beer in Angola, how should this be positioned and targeted? Could there be a cannibalization problem?
4. SCC was not present in Brazil yet. What would be the best way to enter this market? How should its product be positioned and targeted?
5. Could a Portuguese beer brand adequately fit the Heineken Brazil beer portfolio? Justify.
6. Would both these specific internationalization projects of SCC be advantageous for Heineken, or could it actually bring some damages/constraints to the group, such as cannibalization?
7. Identify some pros and cons of the two internationalization strategy categories – *"foreign direct investment"* and *"transactions"*? Try to illustrate with the case.
8. Is it possible two identify a better international expansion alternative for SCC to follow between the two presented in the case? Justify.

2.4 Teaching Objectives

1. To alert students to the complexity in analyzing and entering distinct foreign markets effectively, and understand the needs of an individual approach to each country.
2. To have students identify the different internationalization strategy alternatives companies have to enter foreign markets, as well as, the advantages and disadvantages present in each strategy.
3. To help students identify the different reasons for a company to expand operations globally, and evaluate distinct internationalization projects and the resulting benefits produced by each one of them.
4. To have students become familiar with some hurdles existing in the internationalization processes in rapidly evolving economies and developing countries.
5. To help students acquire a good understanding about the different positioning and targeting strategies, based on brand image, brand association, customer perceptions, and consumption patterns, at an international scope.
6. To have students explore the importance of local knowledge, market research, and the advantages and disadvantages of using foreign brands to influence customer perceptions and boost portfolio sales.
7. To illustrate to students some entry strategies and behaviors to keep in mind when entering in a new foreign market that is already dominated by other powerful companies.
8. To introduce students to the benefits and obstacles prevalent from a relationship between an empowered subsidiary and a giant international group, and how opportunities for both can be aligned.

2.5 Use of the Case

This case presents to students a real scenario that companies of that time were urged to deal with. The globalization effect not only brought along some negative impacts on societies and world economies, but it also gave companies the opportunity to go beyond frontiers and expand their operations. Besides consumption habits and behaviors becoming more standardized throughout the world, companies still had to make sure to develop a carefully planned approach to each market, and to be familiar with the remaining diverse political, social and environmental realities of each country. This case aims to alert students to these issues brought by the global market paradigm and to prepare them for the changes or novelties influencing strategic business decisions.

The “Sociedade Central de Cervejas e Bebidas” case was designed to be used in a masters level international strategy course, such as, international business, international industry analysis or managing in a global context, or in a master level international marketing course. Although, it can also have an appropriate fit in other core undergraduate and master level strategy courses or marketing courses, under the topics of market analysis and research, advanced strategic management, market positioning and differentiation, brand management, marketing management, marketing communications, portfolio management and consumer behavior.

2.6 Relevant Theory

This case aims to introduce international business administration students to the complex and difficult task of establishing a successful strategy to enter new foreign markets or to have the best approach towards increasing the company’s international commitment. In order to enrich this learning experience, some theoretical models and information to support this case discussion and analysis were included in the teaching note. The following books and respective theories were used in this analysis:

1. ***PEST Analysis*** – Freire, A., 2008, *Estratégia – Sucesso em Portugal*, 12th edition, Verbo.

2. ***Porter’s Five Forces*** – Porter, M. E., 2008, ‘The Five Competitive Forces that Shape Strategy’ Harvard Business Review, pp. 86-104

3. ***Porter’s Value Chain*** – Porter, M. E., 1996, ‘What is strategy?’ Harvard Business Review, pp. 61-78.

4. ***Critical Success Factors***, ***Key Buying Factors*** and ***Competition Engines*** – Freire, A., 2008, *Estratégia – Sucesso em Portugal*, 12th edition, Verbo.

5. ***New SWOT Analysis*** – Freire, A., 2008, *Estratégia – Sucesso em Portugal*, 12th edition, Verbo.

6. ***Uppsala Model*** – Blomstermo,A. & Sharma, D., 2003, *Learning in the Internationalisation Process of Firms (New Horizons in International Business)*, illustrated edition, Edward Elgar Publishing, Inc.

7. ***Internationalization Strategy Categories*** (*Transactions* and *Foreign Direct Investments*) – Freire, A., 2008, *Estratégia – Sucesso em Portugal*, 12th edition, Verbo.

2.7 Analysis and Discussion

The discussion of this case follows the eight assignment questions listed above. These questions and respective discussion points were prepared to integrate a 90-minute class, where the instructor can accurately cover some of the key learning points present in the case. The suggested time distribution for these questions is the following:

<table>
<tr><td>1st Question</td><td>Opportunities and Threats in Angola and Brazil for SCC</td><td>20 minutes</td></tr>
<tr><td>2nd Question</td><td>Internationalization strategy options for Angola and the import tariff issue</td><td>20 minutes</td></tr>
<tr><td>3rd Question</td><td>Introducing a new beer brand in Angola</td><td>10 minutes</td></tr>
<tr><td>4th Question</td><td>Internationalization and marketing strategy options to enter the Brazilian market</td><td>10 minutes</td></tr>
<tr><td>5th Question</td><td>Portfolio Management in Brazil</td><td>5 minutes</td></tr>
<tr><td>6th Question</td><td>Opportunities and Threats in Angola and Brazil for Heineken</td><td>10 minutes</td></tr>
<tr><td>7th Question</td><td>Transactions vs. Foreign Direct Investments</td><td>10 minutes</td></tr>
<tr><td>8th Question</td><td>Comparing the Angola and Brazil internationalization options</td><td rowspan="2">5 minutes</td></tr>
<tr><td>Summary & Wrap-Up</td><td>Final Recommendations and Comments</td></tr>
</table>

1st Question

Having in mind the Portuguese economical situation in 2012, how could SCC improve its performance in the national market by expanding/enhancing its operations overseas? Identify the opportunities and threats each of these countries had.

- This question should take at least 20 minutes to be covered, serving as an introduction to the case discussion, where the professor could randomly ask some students to share their opinion about the case study, more specifically asking about the problems faced by SCC and what possible solutions were found in this scenario. The use of the tables in class would be advisable to enhance class discussion.

The beer market in Portugal in 2012 had continued to fall considerably, as well as, the entire European beer market. In this year, the Portuguese market had shown a 10,6% decrease compared to 2011, which had alerted SCC managers and Heineken's representatives to find solutions to support this important subsidiary in Portugal. SCC was important for Heineken by having a dominant participation in the Portuguese market, exporting to several countries in Europe and around the world, the principal target being the Portuguese communities and the former Portuguese overseas territories. The downturn of the Portuguese market was threatening the sustainability and profitability of the infrastructures in Portugal, and the decrease in volumes sold and produced, made it difficult to support its physical and human structures due to the high costs associated with this. At this moment, the results achieved in Angola were crucial for SCC infrastructures' sustainability. Through the increased volumes exported to Angola it was possible to compensate part of the volume lost in Portugal, although the profits of beer sold in Angola were much smaller than that achieved in Portugal.

With these details in mind, SCC and Heineken managers had to think of a strategy to overcome this threat. Taking into account that all Heineken's European operations were also being threatened by the same issue, the solution appeared to be out of Europe, in countries that were still showing positive results in the beer sector. Looking specifically into the SCC case, the managers in charge for the internationalization strategy of this company had turned their attention to two potential markets where SCC could have a better chance of getting good results. The first market was Angola, where this company had already acquired experience and knowledge of the market and had established important contacts, having convictions of the market's potential and the best way and timing to guarantee its presence in this country. The second one appeared to be Brazil, one of the most rapidly developing economies in the world that had a significant Portuguese influence and a large Portuguese community in the country. This huge market had not been targeted by SCC due to the high investment needed and import tariffs.

In order to evaluate these two internationalization options, it would be necessary to identify both countries' macro environmental factors, as well as, to analyze the company's strengths and weaknesses. The macro environmental factors can be easily assessed through a PEST[34] analysis (see TN Exhibit 1 and TN Exhibit 2) and the micro environmental factors through a Porter's five forces analysis, which would provide us the industry's attractiveness. To help detecting company's strengths and weaknesses the Porter's Value Chain model could be used.

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[34] Acronym for "Political-Legal, Economical, Socio-Cultural, and Technological". Can be also called PESTEL analysis.

TN Exhibit 1 – Angola *PEST Analysis*

Political-Legal factors	• Extremely high corruption levels • Weak property rights • Significantly fiscal free • Reasonable government spending • African continent economical power
Economical factors	• Reduced business freedom • Emerging economy • Increasing GDP • Hard to invest, due to risk, bureaucracy and complexity of the process • Easiness on trading, but predicted to become more difficult (beer import's tariffs to increase from 30% to 50%) • Extremely high inflation rate – 14,5%
Socio-Cultural factors	• Idiosyncrasies among southern African countries • Connect foreign products/services with quality • Great discrepancy between social classes, even though a middle class is slowly appearing • Population of 19,1 million • Low on Human Development index (ranked 148th out of 187 countries) • High levels of criminality • Official Language – Portuguese
Technological factors	• Poor transportation infrastructures (roads, systems, etc) • Distribution systems are sometimes different (importers' warehouses) • Recent developments in factories' technology and agriculture

Source: Case writer

TN Exhibit 2 – Brazil *PEST Analysis*

Political-Legal factors	• High corruption levels • Fair property rights • Limited fiscal freedom • The biggest power in Latin America • Protectionism policy, high imports' tariffs and related taxes
Economical factors	• Restricted business freedom • One of the most important developing economies in the world (BRIC) • Increasing GDP per capita • Extremely condensed and competitive market • High inflation rate – 5% • Large flow of foreign direct investment to the country
Socio-Cultural factors	• Large Portuguese community living in the country • Marked Portuguese legacy • Great discrepancy between social classes, although the middle class is getting stronger and larger • Extremely populous, 193,3 million residents • High on Human Development index (ranked 85th out of 187 countries) • High levels of criminality • Highly segmented market • Consumers openness to try and discover new product/service concepts • Two huge world sporting events happening in 2014, the FIFA World Cup, and in 2016, the Olympic games. • Official Language – Portuguese
Technological factors	• Good infrastructures and transportation network • High government expenditures and support • Most advanced technology available in the country • Biggest companies in the world are greatly constructing and investing in this country

Source: Case writer

With the information provided in the case study it is possible to develop a *Porter's Five Forces* analysis for each country. Regarding Angola, bargaining supplier's power, threat of new entrants and threat of substitutes can be considered low, while rivalry is at a medium level and the bargaining buyer's power is high. While in Brazil, only bargaining supplier's power and threat of new entrants are low, bargaining buyer's power being medium, and both rivalry and threat of substitutes high.

By using the *Porter's Value Chain* we can also have an idea, through the information provided in the case study, about the SCC's advantages and weaknesses in each market. To make further analyses easier students could be asked in class to develop this model, assessing company's primary activities; namely inbound logistics, operations, outbound logistics, marketing & sales and service, and secondary activities, containing procurement, human resource management, technological development and infrastructures. The strengths and weaknesses for each country are further listed in the *New SWOT Analysis*.

These analyses together with an industry life-cycle examination of these two markets and the assessment of the company's critical success factors, key buying factors and competition engines (see TN Exhibit 3 and TN Exhibit 4) in each market would provide some useful support to perform a *New SWOT Analysis*[35] (see TN Exhibit 5 and TN Exhibit 6) and identify the opportunities available for SCC.

Both these countries seem to be in the mature phase of the industry life-cycle closer to the growth phase, with well implemented local companies competing with big international groups, presenting diversified products, an increased segmentation, and innovative concepts appearing. Both these markets in 2012 were seeing great volume growth.

TN Exhibit 3 – SCC's Critical Success Factors, Key Buying Factors and Competition Engines in Angola

Critical Success Factors	Key Buying Factors	Competition Engines
• Quality – Brand image • Price • Taste • Innovation • Packaging • Promotion	• Fresh alcoholic drink with a light and smooth taste • Social habit • Satisfy thirsty • Price • Status	• Country of origin – imported quality • Brand image - Status • Price • Taste • Innovation – R&D

Source: Case writer

35 Freire, A., 2008, *Estratégia – Sucesso em Portugal*, 12th edition, Verbo.

TN Exhibit 4 – SCC's Critical Success Factors, Key Buying Factors and Competition Engines in Brazil

Critical Success Factors	Key Buying Factors	Competition Engines
• Quality • Price • Taste • Distribution • Innovation • Promotion	• Fresh alcoholic drink with a light and smooth taste • Inherited social habits • Satisfy thirsty • Price • Status	• Brand Image – Portuguese beer • Price • Taste • Availability • Innovation

Source: Case writer

After applying these models with information available in the case, it should suggest to students that both the Angola and Brazilian markets were attractive for this Portuguese beer company, and consequently for Heineken also.

TN Exhibit 5 – New SWOT Analysis for Angola

Strengths	Weaknesses
• Sagres brand image • Country of Origin gives status to its brand • Relationship with customers and key partners • Knowledge and experience of the country • Managerial and operational expertise • Heineken's support • Marketing and sales expertise	• Taste not appreciated has much as other local beers and the imported beer Cristal • Need to reduce personnel and production capacity • Less profits acquired in the Portuguese market • Lack of financial resources for R&D
Short/Medium Term Opportunities	**Medium/Long Term Opportunities**
• Sustain Company's Portuguese infrastructures • Increase Sagres sales volume • Pressures to engage in the construction of a brewing plant • Corruption • Relating foreign products/services with superior quality • Weaker performance in the European markets	• Consumers' increasing purchasing power • Target different segments • Improve the company's profitability • Expand SCC's international presence • Subsidize R&D and new projects • Difficult to invest in the country • Enter or give a better support to other countries in Africa • Improvements in agriculture

Source: Case writer based on Freire, A., 2008, *Estratégia – Sucesso em Portugal*, 12th edition, Verbo.

Suggested solutions for Angola:

- Continue to export Sagres to Angola, making sure its positioning is not changed, which has allowed better results year-after-year, until there is consistent proof to do so.
- Start exporting superior Sagres product categories targeted specifically to the wealthier segments
- Participate more consistently in this market and expand its operations through the construction of a brewing plant in Angola.
- A lower priced beer like Cergal and another beer to compete directly with Cuca, could be produced in this country
- Finance new Research & Development projects and marketing initiatives in order to progress in the Portuguese beer market and also in Angola.

TN Exhibit 6 – New SWOT Analysis for Brazil

Strengths	Weaknesses
• Sagres brand image • Country of Origin • Relationship with customers • Heineken country's experiential knowledge • Companies' managerial and operational expertise • Marketing and sales expertise	• Being dependent on Heineken's evaluation and decision to engage in a larger internationalization project • No financial resources to invest in Brazil • Lack of financial resources for R&D
Short/Medium Term Opportunities	**Medium/Long Term Opportunities**
• Heineken's support and already implemented infrastructures in the country • Increase SCC's and Heineken's profitability • Sustain Company's Portuguese infrastructures • Highly segmented market • Extremely protectionist policies • Two huge world sporting events • Heineken's FEMSA beer sector acquisition • Weaker performance in the European markets • Large Portuguese community in Brazil	• Consumers' increasing purchasing power • Heineken gaining market share • More Portuguese expatriates going to the Americas • Improve the company's profitability • Expand SCC's international presence • Constant needed for R&D • Consumers openness to try and discover new product/service concepts

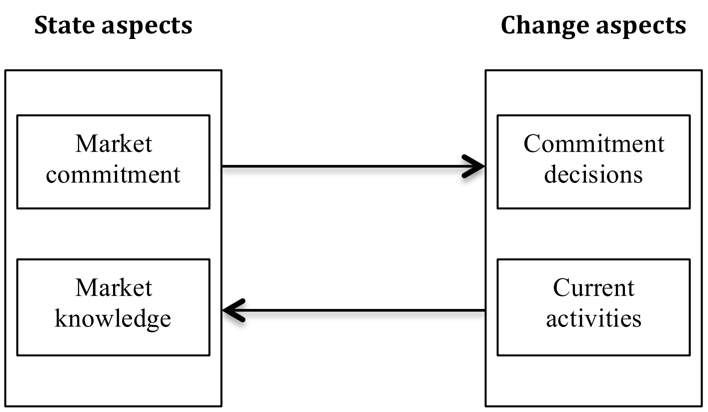
Source: Case writer based on Freire, A., 2008, *Estratégia – Sucesso em Portugal*, 12th edition, Verbo.

Suggested solutions for Brazil:

- Take advantage of already implemented infrastructures and distribution network of Heineken Brazil to produce and market the Sagres brand. The weaker situation observed in Europe could support Heineken's decision to make this investment in the American markets.
- A niche segment in this country could generate very significant profits for SCC. Profits could be used to support operations in Portugal and to invest in the Portuguese brand beer expansion in Brazil.
- Start exports to other Latin American countries
- Finance new Research & Development projects and marketing initiatives in order to progress in the Portuguese beer market and also in Brazil.

Before moving on to the next question, it would also be interesting to support these internationalization projects with another theoretical evidence, which is explained in *Learning in the Internationalisation Process of Firms*, the Uppsala model (see TN Exhibit 7). This theory tries to explain how companies should gradually strengthen their operations in external markets. It is based on the idea that companies should follow a process that starts by gathering some experience in the respective domestic market, to then expand its activities to culturally and/or geographically close countries, and later to other more distant countries in both senses. Companies should preferably start their presence in a new market through an internationalization transaction strategy, such as exports or licensing, and later should look to other options such as foreign direct investments or projects in the country. A good example of this could be the case of Angola, where the Portuguese company SCC started to operate in this foreign market through beer exports, and somehow during this process has realized that other opportunities are available for gradually intensifying its activities and investments within that country.

TN Exhibit 7 – The Uppsala Model Scheme



Source: Blomstermo,A. & Sharma, D., 2003, *Learning in the Internationalisation Process of Firms (New Horizons in International Business)*, illustrated edition, Edward Elgar Publishing, Inc.

2nd Question

Should SCC continue to export its “Sagres” brand or should they try to produce it again in Angola? Where should tariffs’ increase be reflected in case they chose to continue exporting “Sagres”? Explain why.

- This question should take at least 20 minutes to be covered. Here students can start giving their opinion whether Sagres should continue to be exported or produced again in Angola.

Why should Sagres be exported?

Angolans perceive the Sagres brand as a premium quality imported beer brand. This “imported” status of the brand seems to give consumers by itself the idea of a superior quality. This can be due to the Angolans way of thinking, in which what comes from abroad should have a better quality than what is national.

Sagres had been present in the Angolan market since the 1940’s, having the opportunity to establish its brand image and conquer a place in the market in a very consistent way throughout the times. Although there was one episode that changed its faith, the moment they started producing Sagres in this country. Consumers’ perceptions were defrauded, it seemed that this change alone had given a reason for consumers to change to Cuca brand or Super Bock, Unicer’s similar beer brand. Sagres sales were increasing until this moment, but in 2004 when Sagres started to be produced in Angola sales had the biggest fall in its history. This is the greatest proof that Sagres’ key competitive advantage and core attribute to survive in this market is its country of origin and thus being considered as a premium brand. Knowing this, it is easy to predict that a similar story could happen again. This incident has seriously affected SCC performance in Angola before, only reaching similar sales volumes eight years later, in 2012. This would be the main reason for SCC to continue exporting Sagres to Angola.

Where should import tariffs increases be reflected?

In this case, by continuing exporting Sagres to Angola, sooner or later SCC would have to face the issue of the Angolan government finally yielding towards local pressures and increase import tariffs. The foreseen increase from 30% to 50% will definitely have a significant impact on SCC performance, creating the need to review Sagres marketing strategy. The two options, are: 1) to reflect tariffs increase on final price to consumers or 2) on SCC’s margins. To make this decision SCC needs to know exactly what segment they want to target with this brand.

By applying a demographic segmentation, by income, we can accurately distinguish between three segments, each one assuming particular needs and characteristics.

The lower segment is composed of poorer people, who value more freshness and price on a beer brand, who do not even consider buying an imported product. This category of beer consumers contributes to a significant part of the 80% of the market, which is fulfilled by local beer brands. CUCA Company, by far the leading firm in this country, detaining almost all local beer brands, had full control over this segment. Some examples of brands fulfilling the needs of this type of consumers are, N'Gola and 33 Export.

The middle segment can be considered as an extension of the lower segment, in which consumers have more purchasing power but value the same needs of freshness, and a light and smooth taste, as well as a price that the lower segment has. Differently to the previous segment, these consumers actually consider some imported brands in their purchasing decision, like Cristal, Sagres and Super Bock that offer good quality with slightly higher prices. It is in this segment that Cristal is succeeding. These two segments represent the great majority of beer drinkers in Angola.

Angola, as it was possible to infer from the economic freedom indexes and HDI exhibits, was a country with a great social class discrepancy. The Middle class was still quite reduced, poverty being shared by the majority of the nation's citizens and wealth restricted to only a few.

The upper segment is the one formed by the smaller group of rich people in Angola, that look for completely different needs than the other two segments. This consumer type look for status not only in their beers but also in everything they buy. They prefer to buy foreign products in order to get a superior quality and status.

Taking into consideration this segmentation, it is possible to identify two different approaches for SCC, depending only on the target approach they want to take with the Sagres brand:

The first, reflecting tariffs increase on prices, would reinforce the brand's premium positioning, moving towards the needs of the upper rich segment. In this case SCC could be risking its current performance by neglecting middle segment consumers needs. The gap between Sagres and Cuca can become too big and drive current middle segment consumers to change to the cheaper options. This option seems to yield more towards profits rather than increased sales volumes.

The second option, absorbing tariff increases on SCC 's margins, would maintain Sagres positioning but would mean a threatening impact on the company's profitability. SCC was already getting less profit per unit sold in Angola compared to Portugal.

At this stage, with the weak financial situation present in Portugal in 2012, the main objective of SCC with its Sagres brand in Angola was to compensate the loss of volume in Portugal, sustaining this way the company's infrastructures in its country of origin. With this goal in mind, the second option appear to be more suitable, by maintaining its strategy, through which SCC had been succeeding and seen its sales doubling in 2011.

There would be also another opportunity that SCC could explore in case they chose to keep exporting Sagres. Product innovations and different product categories could be introduced in this market, by which the company could create different product lines to augment its presence in the middle segment and other products to enter specifically in the upper segment. It is true that local producers detain power and a production capacity to fulfill the entire market, but there is one thing they lack that SCC has, the status of an imported beer brand. By creating new product lines SCC would be no more in the risky position of "having all eggs in one basket" and could instead enter the upper segment without being under Cuca's shadow.

Why should Sagres be produced in Angola?

After what was said about Sagres being exported to Angola there seems to be no relevant reasons to support the argument for transferring production and stop the transactions of the internationalization strategy of this brand in Angola. Even though, there could be some reasons for SCC to invest in the construction of a brewing factory in this country, they could produce other brands, this way taking advantage of its deep and vast experience in Angola and the relations established throughout all these years of presence in the country, grabbing also the opportunity to take the most of this potential and *sui generis* emerging market.

Sagres targeting and positioning strategies – conclusion

With these observations made, SCC would have enough reasons to believe that it wouldn't be a good strategy to move the Sagres production to Angola again and deprive it from its core competitive advantage, which guarantees its successful position in this market.

Sagres was perceived at this stage as a premium imported beer with a slightly higher price than Cuca and other local brands. It targets the middle segment described above, a middle-to-low income type of customer that is willing to pay a little extra for a better quality beer. The Sagres brand was positioned as a good quality brand accessible to the majority of customers, offering freshness and a smooth taste to its consumers. It has also been driving some attention through innovation, trying to satisfy these needs of Angolans who live in an extremely warm country, revealing the need of drinking beer as fresh as possible. SCC had been introducing several innovative concepts, along with its competitor Unicer, such as, the "mini" packaging system.

Having this in mind, SCC has to decide how to deal with the import tariff increase. It all depends on the positioning they want for Sagres. Whichever option SCC decides to follow, it would be crucial to be consistent and establish the Sagres brand positioning and also to assess the pros and cons of both alternatives concerning profitability. SCC could also opt to absorb just part of the tariff increase in its margins, and transfer the rest to the final price to the consumers, reinforcing its position as a premium imported beer and putting it at the same level of other successful imported brands, like Cristal and Super Bock.

At the same time, with the information provided in this case it seems more likely that keeping the same positioning statement would be the right option, absorbing this way the tariffs increase on their margins, and continue its good performance fighting against Super Bock and Cuca, or even against Cristal with other Sagres product lines for example. Although, some consumer research would be helpful in order to take the most accurate possible decision. It is also important to keep in mind that the Sagres has a long presence in Angola and has created strong brand correlations in the consumers' mind, and that these perceptions can be quite difficult and tricky to change in a successful way in a short period of time. A similar example of this is the Heineken case in USA. The Heineken Company has also kept exporting its core beer brand Heineken to USA and has never start producing in America regardless of the amount of beer being sold in that country. Similarly, they also found that what was driving consumers choice towards this brand was its place of origin and the fact that it was being imported. This positioning strategy not only distinguished Heineken from its competition but it also had established Heineken's success in America.

3rd Question

If SCC decides to engage in foreign direct investment by starting to produce and sell a different brand of beer in Angola, how should this be positioned and targeted? Could there be a cannibalization problem?

- This question should take 10 minutes to be discussed. This question should help students to rethink their analysis made on the previous question and see a broader picture of the Angola market and SCC's future presence there. This question can also start a discussion on the feasibility of engaging in two simultaneous internationalization strategy procedures, through *transactions* and *foreign direct investment*.

Besides being one of the most important countries in Africa, experiencing high levels of growth and being full of opportunities, Angola was still a difficult country for foreign companies to get established in. Investment options had to be carefully design and analyzed, because of the high level of risk, due to the country's complex bureaucracy, political situation, corruption, and so on. It wasn't an easy place to get into, even if the path to succeed looked simple to achieve, it would always be difficult to predict how the outcome would be like in Angola.

Regarding these opportunities and threats to invest in Angola, SCC seemed to take up a favorable position, compared to other companies of other countries, engaging in a foreign direct investment project, through their knowledge of the market and its way of functioning, and having already established valuable relationships with the local community and future local partners. With the financial support of its international partner, Heineken International, SCC would have a good chance of investing in the construction of a brewing plant in Angola, to produce and introduce other brands in this potential beer market.

By analyzing the Angolan beer market, the competition present and with the information provided in this case study, it is possible to see various spaces to be conquered by SCC; in the lower and middle segments against Cuca; and if Sagres repositions itself in the middle segment closer to other imported brands (Super Bock and Cristal); and in the upper segment with new Sagres product categories.

SCC could produce two different products to enter both these segments. They could start producing Cergal in Angola and position it at the lower segment competing with N'Gola and 33 Export, with the lowest price in the market. And they could also introduce another beer to compete directly with Cuca, leaving the upper segment, and the upper part of the middle segment, to be conquered by the Sagres brand. This strategy would have the potentiality to enhance SCC's overall profitability results and also to solve the issues resulting from the tariff increase that in the case of Cergal would be unbearable.

In order to successfully design the strategy for both these brands, it would be very helpful for SCC to conduct a comprehensive market and consumer research, collecting the most accurate information possible about consumers needs and perceptions in these segments. This way SCC would be more likely to introduce a new beer and successfully steal some consumers from the leading brands Cuca and Nocal, improving its position in these segments. The Uppsala model that was previously analyzed, also suggests that the next internationalization step to be followed by SCC would be to start betting on foreign direct investment, continuing this way its progress in its overseas markets. International beer brands had entered Angola when local beer companies were still weak and didn't have the production capacity to supply the entire Angolan market, a fact that has changed in the last decade, and Angolan beers represent 80% of the market in 2012. This investment of SCC in Angola would prepare the company to face future threats, guaranteeing its target of presence in Angola and also to continue collecting profits from this market. As an example, Cergal could be introduced in the

Angolan market by positioning itself as a Portuguese beer brand being produced in Angola with foreign components, offering a fresh and light taste, at the lowest price in the market.

The cannibalization issue would also be important to consider in this case, where the introduction of a new brand in the same segment as Sagres could indeed steal some consumers from SCC. Market research would help minimize this obstacle by providing accurate information that would make it possible for the company to position its new brand adequately, competing directly with Cuca and/or Nocal. Regarding the lower entry brand Cergal it would not represent any threat, since neither SCC nor Heineken have a brand targeted to this segment.

4th Question

SCC was not yet present in Brazil. What would be the best way to enter this market? How should its product be positioned and targeted?

- This question should be covered in 10 minutes. It aims to introduce students to the discussion of which internationalization strategy should be chosen to enter the Brazilian beer market. This question can easily be connected with the following one, by continuing to analyze the operational and strategic feasibility of introducing Sagres in Heineken's beer portfolio in Brazil

Ideally, and according to the Uppsala model, SCC should approach this new market through a transaction type of strategy, such as exports, targeting its beer to a niche segment that revealed the need/interest for this type of product. However, in this specific case, because exports could be quite difficult, due to the complex Brazilian taxation policy applied to imports, particularly of alcoholic beverages.

As referred in the case study, the import tariff in Brazil would be above 150%, putting the beer price at an extremely high level, in the premium segment. By entering this market with a product in the premium segment, SCC would enter into a direct competition with the largest international company in the beer industry, AB-Inbev, which had a 70% market share in this highly segmented and diversified market. With such high taxes on imports, the option of absorbing the entire, or even part, of the tariffs in order to maintain a lower price, would be completely out of reach because it wouldn't leave any profit for SCC.

Having been acquired by the 4th largest beer company in the world, SCC can finally hope to see one of its brands entering the Brazilian market. The Portuguese Heineken subsidiary had in Brazil the opportunity to start producing one of its brands of beer in the Heineken brewing plants. This strategy, also a transaction type of internationalization strategy through licensing, would be of great advantage to SCC, representing an extremely low cost internationalization process, and offering the opportunity for SCC to sell its beer to the Portuguese community living in that country and generate profits to help sustain operations in Portugal. The only issue remaining to take this internationalization strategy forward is to put in place an agreement with Heineken to introduce another beer brand in its Brazilian portfolio. More specifically, in order to integrate a new beer brand in Heineken's infrastructure it is first necessary to assess the company's production capacity and distribution pipeline availability to know if this process would be feasible and would not interfere with Heineken's performance or future plans. It would also be necessary for SCC to make sure all potential demand could be satisfied.

Regarding the choice of which brands to launch in Brazil, it should probably be the one that is better known by the Portuguese community residing the country. In such a highly segmented market SCC should bring a brand of beer to fulfill the needs of this type of consumer, which is better known. Taking this into account, it would be the basic line of the Sagres brand to be introduced in Brazil, keeping the original recipe and everything else, in order to assure that expectations are met. The price should be low but within the mainstream segment, without placing it in the low cost segment.

5th Question

Could a Portuguese beer brand adequately fit the Heineken Brazil beer portfolio? Justify.

- The discussion around this question should last around 10 minutes. In this question the lecturer could start by asking students about their opinion of introducing Sagres in the Heineken's portfolio and if it would be strategically in touch with the company's international priorities. Then, students should be questioned if they could find a way to help them predict if it would be possible to physically integrate Sagres in Heineken's production capacity, with the information made available in the case.

From a strategic point of view, the introduction of the Sagres brand in Heineken's portfolio seems to be perfectly in line with the company's strategy, goals and priorities. This new launch in the Brazilian market would not only be important for SCC, but it would also contribute to Heinken's objective of creating a comprehensive and effective beer portfolio, composed by international beers, local beers, and beers with connection to the country of destination. In Brazil Heineken was faced by a highly segmented and complex market, where its major competitor AB-Inbev was playing a devastating role, leaving little space for other companies to grow. With Sagres, Heineken would actually be able to reach a significant niche segment, through a distinctive approach, fulfilling the strong needs connected with Portuguese tradition and culture, that were observed in this country. This internationalization process could bring advantages for Heineken not only in the Brazilian market but it could also be crucial to improve its performance in Portugal and in the European markets.

In the operational perspective, it was only needed to evaluate the feasibility of adding another product to the current production capacity Heineken had and investigate if the existing distribution infrastructures would suit Sagres brand purposes and reach its consumers. After acquiring FEMSA's beer sector, Heineken has seen itself well implemented in the Brazilian market, possessing some famous local and international beer brands, which represented 8,5% of the total market. Besides appearing small compared to AB-Inbev, Heineken was in 2012 controlling a large and valuable beer portfolio, owning eight production plants in seven different states, forming a total production capacity of 20 million hectoliters, and a well established distribution pipeline to the numerous selling points in Brazil. It is possible to have a rough idea with the information provided in the case about the feasibility of incorporating the production of Sagres in the Heineken's Brazil available production capacity. It is known that the total beer production in Brazil is around 114 million hectoliters, so:

Actual Heineken's beer production = Total production in Brazil x Heineken's market share

= 114 x 0,085 = **9,69 million hectoliters**

Despite this calculation not being all that close to the reality, it gives us an idea about the viability of this process. The results suggest that not even half of the potential production capacity is being utilized by the company. It seems possible to add Sagres production in the infrastructures available in this country. Thus, it would be only a matter of assessing the distribution procedures in the meeting that SCC and Heineken had scheduled for the end of 2012.

6th Question

Would both these specific internationalization projects of SCC be advantageous for Heineken, or could it actually bring some damages/constraints to the group, such as cannibalization?

- This question can be easily discussed in 10 minutes in which students are encouraged to give their opinion about the consequences of both internationalization projects on the Heineken's overall performance and results, according to the strategies discussed in the previous questions.

After analyzing both internationalization options individually, there would be some evidence about the benefits and potentialities available in each country. In both these countries there seems to be a positive scenario for SCC to improve and expand its operations, being able to compensate the loss of volume in Portugal and even increasing the company's profits through an expanded performance in international markets. The first argument to support the idea that both these internationalization projects would be advantageous for Heineken is based on the fact of SCC being 100% owned by this large international group, meaning that all the positive outcomes achieved by SCC would directly and equally contribute for the Heineken group itself. The only counterargument regarding this theory would be the case of SCC interfering with the performance of other Heineken subsidiaries in one of these countries. A way this could happen would be for instance through cannibalization, which consists in the case of SCC's products stealing sales volume from another of Heineken's brand. Despite this threat being excluded in the case of Angola, taking into account that Heineken had no other brands besides those of SCC in this country, and in the Brazilian case it would be necessary to have this issue in mind.

Having SCC as a representative operating in both these specific markets with its own Portuguese brands, would also give Heineken some other advantages, such as, the relationship and connections established between Portugal and former colonies Angola and Brazil, as well as, its marked legacy and language.

Through the presence of SCC in Angola, Heineken would have the opportunity to consolidate its presence in the African continent. Heineken was already present in several countries in Africa, Nigeria being its principal market and the second largest beer market in Africa. Angola was in 2012 one of the most important and rapidly developing countries in Africa, where beer consumption was rising considerably mainly due to the increasing GDP. By supporting SCC to enhance its presence in this market through the international alternatives considered, including the construction of a brewing plant, Heineken would not only attain more profits in Angola and extend its market share in Africa, but it would also help SCC to reduce costs and sustain its operations in Portugal. Having referred to the main advantages of Heineken by entering this market, there are also some significant disadvantages to consider in this specific case. The biggest one is the high initial investment needed to accomplish the company's internationalization objectives and continue to improve its performance in Angola. The high investment risk in this country makes this issue even more inconvenient for Heineken, as well as being difficult to predict the exact investment needed and its respective outcome.

Looking at Brazil, Heineken's main advantage in this country through the integration of a Portuguese beer brand would be to conquer a niche market, composed of the Portuguese community, and possibly still some consumers from its biggest competitor AB-Inbev, by using a distinct approach to market. Integrating this Portuguese beer brand in the Brazilian portfolio would reinforce Heineken's international strategy and would also be in line with its priorities of building a strong portfolio of local beer brands and powerful international beer brands. This project actually had the potential to win Heineken some shares in the Brazilian market and consequently increasing its profits in this country. Besides the difficulty to predict, the biggest disadvantage Heineken could have through this process would be the cannibalization of its own sales with the introduction of the Sagres brand. In order to deal with this issue, Heineken could develop some research on consumer insights to know what type of consumer the brand should target and to have a better picture of its positioning statement in this market. This procedure would also give the company an idea about the influence of the Sagres brand on its sales and make it possible for Heineken to decide on its feasibility. Another possible disadvantage could be to integrate Sagres in its current production capacity and distribution channels, although the information provided in the case study suggests that this issue would never be a real problem at this stage, even without having accurate evidence about the potential reach of this brand.

7th Question

Identify some pros and cons of the two internationalization strategy categories – "foreign direct investment" and "transactions"? Try to illustrate with the case.

- This question aims to test students on the knowledge acquired regarding two different internationalization categories, giving some case examples to illustrate some pros and cons for each category. This question should take no more than 10 minutes to be covered.

There are several ways companies could follow in order to internationalize their operations. According to Adriano Freire's book, Estratégia – Sucesso em Portugal (12th edition, 2008) these internationalization procedures can be grouped into three different categories: *transactions*, *foreign direct investments* and *projects*. In this case only the first two will be analyzed.

Transactions cover the marketing of goods, services, patents and brands of a specific company to foreign companies. In this case internationalization is restricted to the exchange of company's competencies from a local to a foreign market. Exports and licensing are examples of this category. This was the type of internationalization category implemented in Angola through beer exports and in Brazil by licensing the introduction of Sagres brand in the Heineken portfolio.

Foreign direct investment is observed when a company performs part, or all, of the operational activities in an external market. This process not only requires a company to transfer its operational practices to the external market, but also to develop its vertical integration. Examples of this type of internationalization are joint-ventures and subsidiaries. Projects of this kind were the ones planned for Angola through the construction of a brewing plant to produce beer for this country.

The main internationalization strategy options to be considered in a specific country, should then narrow down its set of alternatives by considering factors such as, (a) the legal framing in the foreign country; (b) the access to that particular market; (c) the experience and knowledge acquired about it; (d) the competition; (e) the potential existing risks (exchange rates, political instability, cultural differences); (f) the level of control on its brand, technology, operations, costs, etc; (g) return and profitability issues; (h) the asset's physical characteristics; (i) related costs of each option; (j) resources and raw materials availability; and, (k) the products characteristics themselves.[36]

Some of the pros and cons for each internationalization strategy are illustrated in TN Exhibit 8 and TN Exhibit 9:

TN Exhibit 8 – *Transactions* Pros & Cons

Pros	**Cons**
• Gain knowledge and experience in an external market	• Import tariff influence on pricing and profitability
• Low level of risk	• Administration and transportation costs
• Good connotations with the country of origin of the product or service	• Lack of control in the distribution process and quality of service delivered
• Reduced investment costs	• Risk of brand image being neglected on a long term basis
• Increased sales volumes	• Lower financial returns
• More brand notoriety in external markets	• Reduced competitiveness
• Increased profitability in the long run due to reduced level of operation investments	• Bad connotations with the country of origin of the product or service
	• Dependency on local agents and suppliers

Source: Case writer

[36] Freire, A., 2008, *Estratégia – Sucesso em Portugal*, 12th edition, Verbo

TN Exhibit 9 – *Foreign Direct Investment* Pros & Cons

Pros	**Cons**
• Control of service and distribution quality	• Complexity and moroseness of the process
• More flexibility and control on prices and operational costs	• High investment risk
• Scale economies related benefits	• Bureaucracy and legal framing
• Support to surrounding regions subsidiaries	• Change customers perceptions and/or brand image
• No cost with import tariffs	• Not advisable as a first approach to an external market
• Exploit all the advantages of the its integrated performance in the foreign market	• Sharing profits with local partners
	• Difficulty in adapting to local management practices and local consumers

Source: Case writer

8th Question

Is it possible two identify a better international expansion alternative for SCC to follow between the two presented in the case? Justify.

- This last question can help the lecturer to wrap up the discussion and make a summary of the objectives and learning points of this case. It can easily be done in 5 minutes. Some last overall opinions would be useful in case there is still some time left to do so.

Regarding the alternatives the company had to approach these distinctive markets, it was clear that Angola would easily be more costly than Brazil. In the first case, SCC was in a certain way being forced to engage in *foreign direct investment* in the country, while in the second one it had the opportunity to take advantage of its parent company having already an implanted infrastructure in Brazil. There were also appeared to be more obstacles and risks in Angola than in Brazil regarding the alternatives considered and their respective levels of investment.

However, it can still be quite difficult to consider one internationalization option better than the other. To support this theory we know that SCC and Heineken had different objectives in each country. In Angola the goal was to increase sales volumes in order to maintain the company's infrastructures in Portugal, and at the same time enhance and guarantee the company's stake in the country. In Brazil, where SCC was not yet present, the main goal was to conquer profits through the

Sagres brand in order to help the Heineken subsidiary in Portugal. Knowing this, it is possible that it could be somehow more difficult to measure which project could help the most the company as a whole, in both short-term and long-term perspectives. Also the internationalization phase is different, as mentioned in *Learning in the Internationalisation Process of Firms*, companies should have distinctive and specific approaches to each country, depending on their knowledge and experience in the markets, having at the beginning a lower level of risk, commitment and investments, and increasing gradually according to the existing opportunities. Angola, where SCC has been present for a long time, and Brazil, where SCC was not present yet, can clearly illustrate this approach pattern and the different internationalization phases of companies to expand into external markets.

With the analysis made through all of the previous questions, it was possible to infer that both these markets would have a great usefulness for both the Heineken Company and its subsidiary SCC. The two of them revealed to possess a greater potential for both companies to effectively accomplish their goals and reinforce their international vision.

2.8 What Has Happened?

At the time of the preparation of this case study, in December 2012, SCC had revealed some ideas about the next steps towards its future presence in both these markets.

Regarding Angola, it was agreed that Sagres should continue as an imported brand, and that the current strategy should be maintained as long as possible, knowing that it has allowed attaining good results for the company and helping the situation in Portugal. However, the construction of a brewing plant in Angola was already fully planned and ready to go, just waiting for the right moment to be put into practice. The place for the factory and the local partner had already been chosen, as well as, the brand, or brands, to be produced. All these strategies and decisions considered in Angola were based on comprehensive market research done by the company, which was not revealed to the case writer, as well as the conclusions attained from it.

Concerning SCC's expansion in Brazil, it was clear that the only and better option would be to produce Sagres in one of Heineken's facilities. The only issue to be decided was the terms of an agreement regarding production capacity and distribution pipeline management, and it was expected to start as soon as possible.