Repositioning in Furtherance of Future Strategic Direction: An Analysis of Cobra Beer

Michelle Bayani¹, Dakila Crisanto¹
¹Faculty of Social Science, City Technological Institute - Tuguegarao City, Cagayan, Philippines

ABSTRACT

Business organisations all over the world go through different phases of development from the time of introduction to the eventual exit from the market. The beer industry as a whole also has a development lifecycle similar to that of a single company. The objective of this report is to evaluate the current operations of Cobra beer and to suggest strategic direction for the company. This is done in the light of current environmental conditions. The external environment is first analysed using appropriate techniques after which the internal organization is analysed. The current strategy of the company is reviewed in the subsequent sections. Finally a strategic direction is proposed for the company.

Keywords: Repositioning, Strategic, Beer, Industry, Development

INTRODUCTION

Business organisations all over the world go through different phases of development from the time of introduction to the eventual exit from the market. The beer industry as a whole also has a development lifecycle similar to that of a single company. The objective of this report is to evaluate the current operations of Cobra beer and to suggest strategic direction for the company. This is done in the light of current environmental conditions. The external environment is first analysed using appropriate techniques after which the internal organization is analysed. The current strategy of the company is reviewed in the subsequent sections. Finally a strategic direction is proposed for the company.

PESTEL ANALYSIS

Political Factors
Firstly, the beer industry is affected by political decisions in both the UK and the EU. These include increases in excise duties at the central and local levels, regulations on alcohol content in a beer, age to drink alcohol etc (Allied Market Research, 2017). Also according to Mintel (2016) the duty on beer and larger has risen in some European countries such as Poland and Russia where beer is highly consumed.

Since duty free shopping is only available to those travelling beyond the EU and that means the price of beer at ports of entry which are very important markets will not reduce (Report Linker, 2017). Other factors relate to industry guidelines about the production, packaging, distribution, advertising and labeling beer before it is sold. In 2011, for instance, the UK government reintroduced the ban on alcoholic drinks sold below the duty and VAT levels (Allied Market Research, 2017). There is now rigorous enforcement of the drunk-driving policies across the EU and this has discouraged many consumers from drinking beer in bars, restaurants, pubs and high way joints (Mintel, 2016). In some of these countries, age caps have been set at which one can purchase and consume alcohol and this is enforced strictly. This has reduced the consumption of alcoholic beverages in the UK and the EU in general. This notwithstanding, the beer industry may expect some change especially those that are EU related after Britain eventually exit the EU. However, the value of this exit to the industry cannot be realistically estimated (Mintel, 2016).

Economic Factors
There are also a number of economic factors in the UK and the EU that affects the beer industry. Despite the fact that the global economic crisis and the Euro-debt sovereign crisis have long ended, their effects lingers on. Many EU countries (including the UK) are reeling under high unemployment rates (Report Linker, 2017). There are reported cases of stunted retail growth and extensive cuts in public sector expenditure especially for welfare purposes. This has led to lower disposable income of consumers including consumers of beer. As beer consumption is not a necessity, there is a higher tendency for consumers to reduce intake to accommodate more important needs (Mintel, 2016).

Socio-cultural Factors
There are a number of socio-cultural factors that also influences the sale of alcohol. As observed by Pilcher (2016), the traditional religious-centric European culture influences public perception of drinking alcohol. The practice is generally perceived as a negative behavior and people who drink a lot of alcohol are regarded as social deviants. Indeed a lot of social vices are linked to the consumption of alcohol and many agents of socialization advise against it (Searle, et al, 2014). This discourages beer consumption and those who would have loved to drink completely avoid it or limit its consumption. Moreover, the campaign against alcohol consumption is on the rise. The mass media, governmental agencies, international organizations and civil society groups invest huge sums of money to campaign against alcohol including beer on health grounds (Aquilani, et al, 2015). These campaigns project many severe diseases and disorders as emanating from alcohol consumption. For example the UK has reactivated the hitherto less enforced Drinking Banning Order to alcohol related vandalism Public health experts have called for a ban on alcohol advertising in the UK to promote a healthy society. These have worked very well to frighten many people out of the industry. For this reason many active beer consumers have either abandoned their desire or have switched from strong beer to light beers or others (Chen & Shieh, 2016). This is due to the belief that the latter are healthier than regular beers because of the low calories in percentage in light beers (Helm & Evans, 2016). These responsible drinking campaign initiatives contribute to reducing the consumption of beer. Howard (2014) and Wells (2016) also argue that in many parts of Europe, the fashion of drinking out with friends in pubs; restaurants and clubs have become old fashion. These are places where the rules are a little relaxed to promote high consumption. Instead a new culture of in-house parties with self-defined rules on alcohol consumption has emerged (Mintel, 2016).

Technology
The influence of technology on the beer industry in the EU in general and the UK in particular is also very significant. It affects the sale and purchase of the beer in the region. Technology is used to brew the beer and efficient technologies drive quality, cost effectiveness, fast production, efficient distribution (Stack, et al, 2016). Technology is also very necessary for brewery companies that cultivate their own raw materials. This is necessary to provide just-in-time raw materials to prevent production lags. As home parties become popular, company’s face the challenge of obtaining brewing technologies that offer beer with built in CO2 to give home consumers, a beer with the same taste as those offered in the clubs and pubs (Fedoseeva & Werner, 2016). There is intense pressure to provide technology that innovates larger with different tastes to attract both women and students and other specialized consumers. There is also the need to look for innovative packaging, cooling and attractive bottle designs that competitors may not easily leverage (Madsen & Wu, 2016).

PORTERS FIVE FORCES
Threat of New Entrants
The threat of new entrants in the beer industry is very high. The main barriers to new entrants are the perceived loyalty of elderly beer consumers. They usually stick to Heinekens, Carlsberg and those they are most familiar with (Mintel, 2016). Secondly the cost of setting up in the industry is quite high and may deter low cost producers. However, these opportunities and many others such as intellectual property rights are not enough to guarantee success. Despite a general decline in the consumption of beer, the young generation of consumers is very adventurous and open for new experience and change (Report Linker, 2017). They have a high penchant to try new brands and new taste. Moreover a lot of consumers are easily attracted towards craft and specialty brand. For example in 2011, consumption of increased drastically by 28% across the UK (Allied Market Research, 2017). The effect of the Whole Food industry is drawing a lot of customers to other types of beer that promises healthy life.

Bargaining Power of Customers (High)
The bargaining power of customers denotes the degree to which customers can influence prices in the industry. The beer industry has closely related buyer prices. This makes it easy for customer to switch
from one brand to the other. In other words the switching cost from one beer to the other is not very high (Euromonitor, 2017). This is one of the reasons why low income earners such as young consumers can easily shift between new brands. In the midst of the declining economic condition in the EU and the UK, it makes sense for customers to spend less on beer and more on necessities. The beer manufacturing companies are forced to respond by lowering prices in order to remain competitive. Beyond that beer is not the only alcoholic beverage that consumers can patronize (Allied Market Research, 2017). There are many other substitutes that are deemed much healthier and this gives customer options. The competitive rivalry in the industry is also a factor. Since there are more competitors in the market, the use discounts and other promotional programs are to attract customers and this gives customers some bargaining power.

**Bargaining Power of Suppliers**

<table>
<thead>
<tr>
<th>Resources and Capabilities</th>
<th>V</th>
<th>R</th>
<th>T</th>
<th>N</th>
<th>Implication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Reputation</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>N</td>
<td>Competitive Parity</td>
</tr>
<tr>
<td>Management Skill</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>Temporary Competitive Advantage</td>
</tr>
<tr>
<td>Access to Retail Outlets</td>
<td>Y</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>No Advantage</td>
</tr>
<tr>
<td>Outsourcing Capability</td>
<td>Y</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>No Advantage</td>
</tr>
<tr>
<td>Brand Image</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Sustainable Competitive Advantage</td>
</tr>
<tr>
<td>Loyal Employees</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td>Competitive Parity</td>
</tr>
<tr>
<td>Country of Origin Effect</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Sustainable Competitive Advantage</td>
</tr>
<tr>
<td>Financial Resources</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>N</td>
<td>Temporary Competitive Advantage</td>
</tr>
<tr>
<td>Health Consciousness</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>Sustainable Competitive Advantage</td>
</tr>
<tr>
<td>Access to Technology</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>Temporary Competitive Advantage</td>
</tr>
<tr>
<td>Cost Advantage</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>Temporary Competitive Advantage</td>
</tr>
<tr>
<td>Research and Development</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>N</td>
<td>Temporary Competitive Advantage</td>
</tr>
</tbody>
</table>

The bargaining power of suppliers in the beer industry in the EU and the UK can be described as medium based on currently available information. Most of the companies develop long term relationship with their suppliers. The sign such long term contracts in order to guaranteed unlimited supply at stable prices (Allied Market Research, 2017). Additionally, many suppliers that deal with major manufacturers such as Cobra and leading brewery companies consider such contracts as huge fortune. This is because the brewery companies buy huge stocks and pay huge amounts of money which is a significant share of their total sales (Report Linker, 2017). Nowadays a lot of companies are involved in direct cultivation of raw materials or a joint-venture with other companies (Euromonitor, 2017). A typical example is the joint venture between Heinekens in Sierra Leone to cultivate sorghum under favourable conditions. These kind of arrangements allow the beer companies to control supply and price of raw materials. There are also many producers of the 330 and 660 ml bottles which are used in the industry. This makes suppliers of such products exercise limited power over the beer companies.

**Threat of Substitute**

This is perhaps the major threat affecting the beer industry as there are many substitutes to beers. There is strong competition from the wine industry which also has a very high social value as the beers (Mintel, 2016). There is also the non-alcoholic beverage industry which is fast growing and gaining support from health conscious advocates. There is also strong competition from flavor alcoholic drinks that easily attracts the young generation of consumers (Allied Market Research, 2017). Smirnoff; an alternative beer brewed with malt has become a major threat to the very survival of the traditional beer brands. Thus the threats of substitute products are high threats to the whole industry.

**Competitive Rivalry**

The beer industry is a relatively a consolidated industry in the EU and the UK. According to Mintel (2016), the top beer brewers namely (Anheuser-Busch InBev, SAB Miller, Tsingtao, Guinness, Heinekens, Carlsberg) have nearly 80% of the market share in terms of sales. Beyond this, there is competition from smaller beer companies such as Cobra, Pabsi, and Stone etc (Report Linker, 2017). In that end of the market, the competition is very tight due to the limited market share to compete for. Most companies try to outdo each other with price cuts, innovative products and other promotions to keep or attract new customers. This has made competitive rivalry very high among the competition entities (Mintel, 2016).
VALUE CHAIN ANALYSIS

The information in table 1 is the VRIN analysis of the Cobra beer. This analysis helps to summarise and explain the core competencies and resources of the company that are of competitive value and how they can deploy this to support the company’s operations. The analysis shows twelve main resources and competencies of the company but not all of them have sustainable competitive advantage for the company. The company has a business reputation that is very valuable and rare but it is not costly to innate and the firm is not has not organized itself to capture value.

This thus business reputation in the case of Cobra beer is a competitive parity. On the other hand the access to management skill is also valuable but it lacks the characteristics of rarity, innate and organization to capture value. Thus it is not of significant competitive importance. Full analysis reveals that only three of the resources and competences actually deliver sustainable competitive advantage to Cobra beer. These relate to brand image, the country of origin effect (due to India’s growing population in Europe as well as the goodwill associated with Indian cuisines. Again the health consciousness of the company and its products is a very important factor that can offer them significant competitive advantage.

ANAYSIS OF PR CRISIS DURING FINANCIAL CRISIS

In its 27 years of existence no challenge has overwhelmed the image of Cobra beer than the financial challenge the company went through in 2008. This affected the both customer and investor perception of the company due to numerous media speculations of eminent collapse that did not eventually occur due to prudent management and negotiations. At the time, the Cobra beer had enjoyed a fast and substantial growth in sales (Cobra Beer, 2008). At this time the company was growing at a rate of 40% and had reinvested all potential profits back into the organization instead of slowing down to enhance is capital reserve. The company thus over extended itself beyond capacity through numerous investments and accrued huge losses and built up substantial debt that it could not service easily (Cobra Beer, 2008).

While company executives were devising a strategy to contain any excesses an unexpected global economic crisis started off in earnest and exploded in 2008. Cobra beer was eventually put up for sale. Cobra beer sought a pre-packed administration deal to remedy the company but the potential impact on the existing shareholders compounded its declining reputation for investors. This brought to the fore the dilemma of whose interest the organization should protect. This is a central question in the ethical literature where three scenarios are presented. The first is the stockholder school of thought, the stakeholder school of thought and the social-contract school of thought (Crane & Matten, 2016). Friedman’s stockholder theory suggests that in a situation like this and at all times in the life of the organization, the interest of investors must rein sovereign (Swanson & Frederic, 2016; Barry, 2016)). However, the stakeholder theory (an offspring of the Kantian philosophy) argues that the interest of any party is as important as the other and each must be protected with the greatest possible firmness. In the specific case of Cobra, a strict adherence to the terms of the pre-pack administration was not going to favour a lot of parties in the company. For example in the initial arrangement, the unsecured creditors could be stitched up and the existing directors can shed liabilities and buy the business back under a new business name. Under this arrangement unsecured creditors were very concerned because the company was invariably declared bankrupt in practice and that meant they were unlikely to get back their money (Cobra Beer, 2016).

Even though the pre-packed administration could help to secure the jobs of many employees whose interest needed to be protected, the company reviewed some of the terms after stakeholder engagement. This led to the various stakeholders agreeing on a publicly acceptable and compromising arrangement. In 2009, the company’s founder Lord Bilimoria and Molson Coors rescued the company by entering into a joint venture with Cobra beer. The management of this case brings to light the challenges of managing reputation, corporate governance, organizational ethics, corporate social responsibility and others measures that enabled Cobra beer to protect its reputation. In the midst of the financial challenges, the company proactively responded to public and stakeholder criticisms of its decision in many ways (Cobra Beer, 2016).

For example, the company provided a direct helpline to investors that operated on a twenty-four hour basis. It set up a specialized unit to deal with customers, suppliers and investor complaints regarding the crisis it faced and occasionally issued a statement to allay fears as and when they found it necessary. The company recruited highly talented public relations experts who available personally, by mail and by telephone to answer questions and assisted to ease tension caused by the economic crisis. Another major
step to shore up its reputation was the decision of the company to maintain its headline sponsorship of the British Academy of Film and Television Arts (BAFTA) despite its economic challenges. It portrayed the company as a good corporate citizen and this helped in the eventual turnaround of the company.

BUSINESS LEVEL STRATEGY

Michael Porter’s generic strategic remains the frequently used compass to evaluate an organization’s business level strategy. Porter (2008) outlines three different kinds of strategies which are applicable to companies in any industry including Cobra beer. The first is the cost advantage strategy. In this strategy, the firm tries to win high market share by positioning itself to attract cost conscious or price sensitive customers (Grant, 2016). The company achieves this by setting lower prices than that of competitors without compromising the profitability. This is done by attempting to reduce the frills, the cost of production and the administrative cost and rather focus on the valuable part of the product and services. The company also reduces its direct and indirect cost by offering high volumes of standardized products and limit customization and personal services where possible (Kourdil, 2015).

The second generic strategy proposed by Porter (2008) is the differentiation strategy. This involves distinguishing the company’s products from that of competitors to gain and uncontested market space (Porter, 2008). The differentiated services of component must be of value to customers for which the company can enjoy sustainable competitive advantage. This is the beginning point of what Kim & Mauborgne (2014) describe as creating a blue ocean.

Finally, a company can also employ a focused niche strategy in the market. In this case the company focuses on a selected segment of the market based on their core competences (Madsen & Walker, 2015). They deploy their resources to provide maximum utility to the segment. In expanding on the generic strategy in the strategy clock, Bowman (2001) explains that it is possible for an organization to combine any of the three strategies. In the case of Cobra Company, an analysis of the company’s operations over time shows that it has chosen a hybrid of differentiation and focused niche (focused differentiation). It started with the founder (Belimoria) who identified a niche for differentiated beer for Indian Cuisines. He observed that while Indian cuisines were becoming popular in the UK, the beers they served were gassy and left drinkers bloated hence could not eat enough food after drinking. Cobra beer was thus manufactured as a differentiated premium beer to complement food and not as a substitute. The company did this by using uniquely blended natural barley malt, maize and yeast as well as hops and rice. This gives the beer an extra smooth and less gas quality but retains the 5% premium strength of alcohol (Report Linker, 2017). Moreover the Cobra beer promotes its unique selling proposition by presenting Cobra beer as the best accompaniment to spicy India food which it has retained over the years. In other words it is not possible to think about any other beer when in an Indian restaurant, pub, bar, supermarket and others than COBRA. With time Cobra beer is also venturing into the healthy food segment. Another way by which Cobra beer has systematically differentiated itself from the market is the aesthetics. The design and appearance of Cobra beer, its encrypted icons on the bottles are unique and depicts the products historic journey. The company uses very catch colour combination, simple but unique bottle design and distinct tastes and flavor to set up is Blue Ocean.

CORPORATE LEVEL STRATEGY (ANSOFF MATRIX)

At the corporate level, the Ansoff Matrix can be used to explain the strategy of Cobra beer. Ansof (1960) as cited in Lankoski (2008) describes four kinds of the strategies that organizations can pursue. The first is market penetration in which a company grows by using joining the competition with the same product as competitors in the same market. An aggressive marketing promotion is then used to oust competitors (Lankoski, 2008). Secondly a company can grow by creating a new market niche for its existing products. This is what Ansof describes as a market development strategy. Most companies adopt this approach when there is limited or no market space still left in the existing market. The third growth strategy by Ansof is the product development strategy. The company introduces a new product into the existing market by taking advantage of its strong brands and innovative competencies (Rothaermel, 2015). It may take the form of new designs, new packaging, enhanced quality, new flavor etc. The last approach is the diversification strategy. The company introduces a new product to new market altogether (Slack, 2015). An overview of the operational history of the Cobra beer shows that the company is more oriented towards the first three strategies namely market penetration, product penetration and market development.
<table>
<thead>
<tr>
<th>Suitability (Would it Work)</th>
<th>These two strategies will work because the number of the female percentage of the beer market has increased over time. This is the same with the health conscious segment. For example Mintel (2016) shows that the former has grown from 14.3% to 22.6% between 2010 and 2016 while the latter has grown from 7.9% to 19.2% in the same period. The case of Cooler which was introduced by Royal Unibrew Company is a case in point. The company’s own research disclosed that new and female beer consume were usually within the ages of 18-24. 86% of them preferred cider to larger. This is why the company introduced the Cooler for women who wanted tasty lemon or apple refreshing beverage for refreshment on hot summers and nights. According to Mintel (2016) women prefer beers without strong bitterness, have delicate flavor and low alcohol percentage. Since the launch of the Cooler it has become a booming commodity and Cobra has the opportunity to create its own niche. Since Cobra beer already has a large customer base, attracting the female market will not impose significant cost burden. This is because the same process and materials are used in different proportion.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acceptability (Will they work it)</td>
<td>Eventhough enough information is not publicly available to determine the exact amount of returns on investment the company can get from extended effort in the health conscious and female beer markets, the historical growth trends in outlined in earlier sections is enough motivation to inspire them to move ahead. For example, Mintel (2016) found out that in less than a year after the company introduced the introduction of the Cobra bite (Lemongrass, Blood Orange, Sweet Lime, Fresh Ginger) supposedly launched to reach the youthful and female niches and the Jubilee Strawberry Fruit Beer sales levels rose by 23% and profit by additional 13%. This indicates that the risk of investing in these segments is far less than the returns. There are unexpected stockholder challenges since investors will not be required to bring in additional capital. The two new strategies will also not require a dilution of ownership. These are the very challenges investors would have had with the company.</td>
</tr>
<tr>
<td>Feasibility (Can it be made to work)</td>
<td>The VRIN analysis of the company indicates that it has the required funding to support the two strategies outlined earlier. Current, the company has an enabling work force and managerial expertise to drive the new agenda forcefully and successfully. The company can take advantage of information provided by institutions such as Mintel and Euromonitor to support decision making. They can also carry out its own marketing research using the consumers at designated restaurants, pubs and bars as case study. This will give the company direct information from consumers.</td>
</tr>
</tbody>
</table>

The last is seldom an option of the Cobra beer. Over the past years Cobra beer has grown in the existing market using intense marketing promotion. Some of these promotions have even won the company global awards. For example, in February 2014, the company launched the famous “Meet the Boss” advertisement campaign in collaboration with Karmarama (Based on Farringdon). This promotional tool led to massive increase in sales and also won the Advert of the week award by the communication agency “Stratton Craig” (Euromonitor, 2017). This advert helped to improve sales by a whopping 23% in sales volume by 23% in the off trade and 77% volume growth in bars and pubs. Developing new markets with existing products is one of the most important agendas of Cobra Beer. For example, the company has entered new markets in Poland, South Africa, China and Nigeria which are very high markets. By 2016, the company had expended its current stock of beer to 35 countries from the existing 27 in 2013. It is the target of the company to reach their ambitious 50th country by the end of 2025 (Mintel, 2016). So far making more innovative products, new designs, packaging changes and quality improvement that is the hallmark mark of product development is one of the competitive strategies of the company. The company keeps is continuously striving to bring innovative products into the market. It started with the Cobra 5% Premium which was promoted as a less gassy larger that started the companies journey to the market (Allied Market Research, 2017). Today, there are many other variants such as the Cobra beer light. This is a double filtered beer with few calories and carbohydrates than the regular cobra. There is also the Cobra zero which is said to have zero percent of alcohol with 6.5 grams of carbohydrates per 330 ml bottle (Report Linker, 2017). The King Cobra is also an innovative products emerging as first double fermented lager with 8% alcoholic content in the world and presented in Champaign style bottle. There is also the Cobra bite
that comes in a range of four flavored lagers (Lemongrass, Blood Orange, Sweet Lime, Fresh Ginger) supposedly launched to reach the youthful and female niches. The same applies to the Jubilee Strawberry Fruit Beer.

SUGGESTED STRATEGIES AND IMPLEMENTATION

After reviewing the macro and micro environment on one hand, and the existing competitive strategy of the company, two main strategies can be proposed to support the future operations of the Cobra beers. The first strategy is that the company must make sustain and improve its whole food segment. This has to do with aggressive research and development to produce more healthy bear in the midst of increasing health conscious customers.

The second strategy is for the company to explore emerging female beer market. As already indicated, the beer market has traditionally been for men but the trend is changing very fast. More and more women are getting attracted but the product preferences are not the same. The SAF analysis provides more insight into why this is very important.

CONCLUSION

The objective of this report was to evaluate the current operations of Cobra beer and to suggest strategic direction for the company. This is done in the light of current environmental conditions. It has been established that the company is currently doing well after coming out of a financial crisis. There is the need to focus on developing new and profitable niches especially the female beer niche and the health conscious niche.

List of References


