Beer tastes success in India

Beer consumption is rising in India, thanks to rising incomes, exposure to media and reduction in beer prices!

Beer is perhaps the oldest and most popular of all alcoholic beverages in the world. Even though it is unable to compete with the liquor market in India, there still remains a growing market for the beverage.

Beer has been a part and parcel of western culture, particularly North America and Europe, for eons. However, looking at recent developments in the beer industry, it appears that companies have reached their tipping point—so much so that Carlsberg has shut down a few breweries in Europe due to the fall in demand. This is where the BRIC (Brazil, Russia, India and China) countries make a grand entrance.

Production, imports and exports

The domestic production of beer is on the rise, with official statistics reporting a 12 per cent increase in domestic beer production in 2006, which was in tandem with relatively strong sales growth during the year. Domestic beer manufacturers have actively pursued the establishment of breweries in as many states as possible in order to achieve tax benefits. In 2007, United Breweries started production at its newly established breweries in Rajasthan and Orissa. Other manufacturers are actively building up production capacities by setting up greenfield and brownfield ventures.

UK-based Cobra Beer is expected to invest about Rs 450 million in setting up a greenfield plant in Hyderabad and has further plans for Punjab. The company is also investing about Rs 45 million in upgrading one of Mount Shivalik’s breweries in Rajasthan. In addition, Anheuser-Busch started production of Budweiser in 2007.

Imports and exports both registered declines in 2006, with domestic production increasing significantly in 2006. Major imported brands include Heineken. A number of international labels have introduced their products in India. With the dissolution of additional customs duty, imported brands are expected to increase their volume sales. Domestically produced beer is mainly produced with the intention of local consumption and a negligible amount is exported.

Domestically produced beer is the dominant force in the Indian beer market, with a volume share of more than 99 per cent in 2007. Restricted advertising, high prices and the limited distribution reach of beer make it...
Market Survey

The growth in beer consumption in India between 2006 and 2012 will reach 16 per cent per annum. This is a good sign for the future.

Brands in the market


Technology in beer brewing

Demand for the highest quality has a profound effect on process technology in beer brewing. The technological side of brewing has changed radically over the past few decades. All the stages in brewing have become and are still becoming faster, more effective, more flexible and more product- and environment-friendly.

The objectives of brewery technology are defined at every stage of the brewing process. For example, with mashing the aim is to achieve homogenous temperatures throughout the mash tank, rapid heating-up, and conversion of processes that take place quickly and with maximum yield.

Each brewery has different requirements, which suppliers respond to in different ways. For example, one brewery might focus on directly heating up the mash by injecting pure steam. Others might use vibrating units in the mash. These units, together with a special agitator and a heating surface first exhibited at drinktec 2005, achieve excellent heating and conversion rates.

difficult for foreign players with an imported brand to create brand awareness and loyalty. Moreover, archaic legislation and high import duties lend a helping hand to domestic manufacturers. Domestic brands also tend to have a higher alcohol content than imported ones, and consumers prefer strong beer due to its faster intoxication effect.

Apparent consumption levels grew by 12.5 per cent in 2006 over the previous year to reach 324 million litres. This is less than one-third of the reported market size of 1013 million litres, which is generated from production, import and export, and sales estimates. This is chiefly due to problems associated with data collection by government bodies. Companies often underreport actual production figures, while many units are sold via both official and unofficial channels, such as with the illegal imports of beer into prohibition-states.

Rapid economic growth of India has charmed the rest of the globe. Constantly increasing GDP, favourable growth in the demographics with a growing urban middle class, growth of modern retail formats, hopeful rationalisation of the taxation rules and ban on local country liquor are factors that will act in favour of the growth of beer in India. On-premise consumption—a major sociological reason which hinders growth of any alcoholic beverage—is expected to grow.

Table I

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*Includes tap water, vegetable juices, powders, and miscellaneous others
Source: Beverage Marketing Corporation

Table II

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<th>Year</th>
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<th>Growth</th>
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<td>15%</td>
<td>Delhi</td>
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<td>180.95</td>
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<td>129.38</td>
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<td>Orissa</td>
<td>33.86</td>
<td>29.20</td>
<td>16%</td>
<td>Orissa</td>
<td>33.86</td>
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<td>16%</td>
<td>Orissa</td>
<td>33.86</td>
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Each brewery has different requirements, which suppliers respond to in different ways. For example, one brewery might focus on directly heating up the mash by injecting pure steam. Others might use vibrating units in the mash. These units, together with a special agitator and a heating surface first exhibited at drinktec 2005, achieve excellent heating and conversion rates,
and should also produce significant increases in lautering and beer filtration performance.

The keyword is lautering. Companies have invested a great deal in development over the last few decades, with great success. For example, the performance of lautering tuns has increased from six or eight to twelve or fourteen brews per day, respectively.

Modern lautering tuns have also performed exceptionally well with regard to quality, flexibility, reliability, yield and cost-effectiveness. That’s the reason why lautering tuns are used in an estimated 75 per cent of global beer production. However, depending on the initial conditions, the mash filter or hot wort separation can be attractive alternative to lautering tuns. Therefore it remains an individual decision, based on what is effective in the wort cooking.

In the cold area, innovations are currently competing in the area of filtration. Flushing filtration, membranes and membrane separators are the three main alternatives. When looked at more closely, each of these systems has its specific advantages. There are also breweries which do not want filtration that is just free of diatomaceous earth—they want it to be absolutely dust-free, and so select membrane technology. For example, a number of large international breweries are already using a combined membrane filter and separator process, which is visible proof that this is a beer filtration technology that is both qualitatively and economically attractive for their particular conditions.

**Beer sales in India**

In India, beer sales grew at nearly 90 per cent, compared to a less than 60 per cent growth for other alcoholic drinks. Industry sources expect the Indian beer market to nearly double to 23.3 million hectolitres by 2012 from 12.5 million hectolitres at present.

States such as Haryana and Punjab have recorded huge growths after governments in these states replaced the auction system with licencing system. The change saw prices of beer drop Rs 20 per 650ml bottle to Rs 45-50.

Karnataka’s share in the total domestic beer market dropped to 8 per cent from 11 per cent during April 2006-January 2007 as the local government slapped higher levies, which increased beer prices by Rs 5-10 per bottle. In 2005-06, the state had recorded a growth of about 33 per cent when the national average was 17 per cent but between April 2006 and January 2007, its growth was nearly flat. Globally, taxes on beer are half that on hard liquor but in states like Karnataka, it was the reverse. Therefore there were no low-cost options available for customers.

For the record, between April 2006 and January 2007, domestic beer sales in volume terms grew to 999 lakh cases recording a growth of 31 per cent. Andhra Pradesh, which leads the beer market nationally with an 18 per cent share, posted 42 per cent growth during the same period, Tamil Nadu recorded 34 per cent, Delhi 30 per cent and Maharashtra 20 per cent.

**Per capita consumption of beer in Asia**

In Asia, a lot is expected from India and China. In 2007, China consumed 25 litres per capita, while beer consumption in India was less than five litres per capita. Moreover, taxation, which is India’s biggest hurdle, is not a problem in China. This can be attributed to the fact that China has a centralised policy making system, unlike India where policies regarding alcohol are made by the states.

Yet, there is hope; India has shown maximum CAGR in the past five years among all other countries in Asia. India has a greater youth population than China. Industry-wise, the beer industry itself is more structured and organised in India, while in China it is fragmented. In addition, strong beer is more favoured in India, while China prefers beer with low alcohol content. Thus the growth of beer in India is definite, though it may not follow the same pattern as China.

The Indian beer industry has been witnessing a steady growth of 7-9 per cent per year for the last ten years. Volumes crossed 100 million cases during 2005-06. With the average age of the population on the decrease and income levels on the
increase, the popularity of beer in the country continues to rise.

**Brand positioning and differentiation**

Brands are trying to reach more consumers at the point of sale. The perceptual map shows the positioning strategies of the various brands operating in the Indian beer market. The brands are fighting on different positioning platforms. However, in many cases there are overlaps and any lack in the effectiveness of the brand’s communication strategy serves only to further enhance the negative effect of these overlaps. The question marks (???) show possible new positioning strategies, though financial viability of these is not reflected by the map.

In this map, the perceived distance (dissimilarity) between Foster’s and Kalyani is the largest. Further, Zingaro and Thunderbolt are perceived to be the closest among the set of brands. The clusters of beers such as Knockout, Kalyani and Haywards help to identify sub-categories of beers that may be different from the way a company defines its competitors.

If we move in a northeast direction from the origin, beers increase in their popularity with men. Haywards is the most popular with men. The horizontal axis (in the east direction) is most closely associated with ‘premium,’ ‘dining out’ and ‘special occasions’ attributes—areas which have no brands operating in the Indian market and offer scope for new brand launch positioning. In the west direction, the horizontal axis is most closely associated with ‘on a budget’ and ‘good value’ attributes. Thus, the horizontal axis (the west to east direction) indicates an underlying dimension of ‘budget-premium,’ along which customers seem to characterise their perceptions of the differences between these beers.

**Driving factors for the beer market**

The Indian beer market has been growing rapidly for the last ten years, due to the positive impact of demographic trends and expected changes like rising income levels, changing age profile, changing lifestyles and reduction in beer prices.

**Rising income levels.** India is home to nearly one-sixth of the global population and is one of the most attractive consumer markets in the world today. Various research studies have shown that a rise in the income levels has a direct positive impact on beer consumption.

The National Council for Applied Economic Research (NCAER) projects India’s ‘very rich,’ ‘consuming’ and ‘climbers’ classes to grow at a CAGR of 15 per cent, 10 per cent and 2 per cent, respectively. With this growth in income levels, Indian beer consumption is expected to continue growing, at the very minimum, at the growth rates witnessed in the...
last decade.

**Changing age profile.** As a consequence of the high birth rates prevalent until the 1990s, a large proportion of the Indian population is in the age group of 20-34 years. This age group is the most appropriate target for beer marketers. This population trend will give a further boost to the growth of beer consumption in India. Many global players are planning to enter the Indian beer sector and they realise that a partnership with a local player is important to establish a successful presence in India in a short time frame.

**Changing lifestyles.** A deep-seated social aversion to alcohol consumption has been a traditional feature of the Indian society. However, as urban consumers become more exposed to western lifestyles, through overseas travel and the media, their attitude towards alcohol is relaxing. Social habits are undergoing a transformation as mixed drinks are becoming more popular. The greatest evidence of this trend is the increase in beer consumption among women.

More and more women are consuming beer—the penetration in metropolitan areas is almost twice as high as the penetration in other large cities—implying that the greater tolerance towards alcohol consumption in metropolitan areas facilitates the consumption of beer. With increasing urbanisation, this acceptance is only going to rise.

**Reduction in beer prices.** The Indian consumer typically values an alcoholic beverage on the basis of its ‘kick’ factor versus its price. These two factors therefore affect the market for beer.

Andhra Pradesh and Maharashtra together account for almost 40 per cent of beer consumption in India, while Karnataka, Tamil Nadu, Rajasthan, Delhi, Kerala and Uttar Pradesh account for a further 40 per cent of consumption. The rest of the states combined, account for just 20 per cent. As for per capita consumption, the highest recorded figures are from Goa, Andhra Pradesh, Delhi, Tamil Nadu and Maharashtra.

**Future looks promising**

India presents a huge growth potential for beer sales. Increasing GDP, favourable growth in the demographics with a growing urban middle class, growth of modern retail formats, hopeful rationalisation of the taxation rules and ban on local country liquor are factors which will act in favour of the growth of beer in India.

In particular, the future of beer industry looks very bright because:

1. India has predominantly a warm/hot climate
2. The beer-drinkers in the country are much younger than the average beer-drinker elsewhere in the world. This makes them more likely to carry the brand with them for a lifetime
3. Increasing exposure to beer and wine drinking, mainly due to media and consumer mobility

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