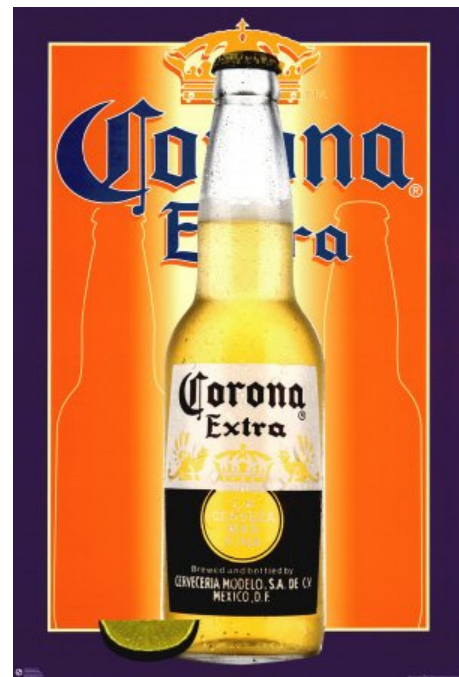


GLOBALIZATION SEMINAR
MM2.G.F387
SEPTEMBER 2007

THE SUCCESS OF CORONA BEER AS A WORLDWIDE
COMPANY

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Executive Summary

Over the past few years globalization has surrounded us becoming an everyday-used term. Countries and governments have had no choice but to adapt their policies and strategies in order to remain competitive in a worldwide scenario. Companies and organizations are not an exception. The main reasons of this emerging situation is the need to increase sales and utility, to diversify and reduce risk in portfolios, because of the saturation of the domestic market or simply because they need to grow. Practically, every company wants to do business overseas. However, the selection of a country or region to take the business to is not simple and if it is not done in an accurate way, the results can be catastrophic. Over the last ten years we have seen companies growing and becoming successful all around the world, but we have also seen companies losing important amounts of market share and even going bankrupt.

The purpose of this project is to explain and exemplify the way that Grupo Modelo, a Mexican company, has faced globalization and has made its way into different countries all around the world. We will analyze the entrance of Corona beer in to the worldwide market and the strategy that it has followed to become the second most imported premium beer in several markets. We will study one of the most interesting and successful marketing campaigns that resulted into an absolute success in terms of globalization and positioning a product in a worldwide market.

After studying this paper, the reader will be able to understand the steps, policies and strategies that managers at Grupo Modelo have applied in order to affront globalization in a positive way making Corona beer a recognized brand all around the world.

Grupo Modelo's Background

Cervecería Grupo Modelo is a Mexican company founded in 1925. They became the leader beer brewers in 1956 in the national market. Their closest and strongest competitors at the time were Cervecería Cuauhtémoc and Cervecería Moctezuma, which were founded in 1926. Grupo Modelo grew by acquisition buying five breweries between 1935 and 1966. They focused the expansion making investments to modernize their plants and making a strategically export plan. Cervecería Cuauhtémoc and Cervecería Moctezuma merged under FEMSA in 1986, in order to be more competitive against Grupo Modelo. They used to have 33.1% and 22%, respectively of the Mexican beer market. The merge helped them improve their share of the market. However, they have not been able to surpass Grupo Modelo's.

Grupo Modelo entered the US market, which was the largest beer-consumer market in the world, in 1979 with Corona Beer. Managers decided to give Corona the image of a premium beer in order to take advantage of the US economical situation. They had to face a major rival, the Dutch beer Heineken. Heineken was already established in the US, and was dominant import beer in the market. The premium beer image was represented by the "Fun, Sun and Beach" marketing campaign. Many people felt identified with these concepts and sales boomed. Another key success factor was the growing Hispanic population, which felt identified with the beer and began purchasing it.

Corona beer has opened markets in 122 countries all over the world, all markets served from Mexico. The marketing strategy used for exports is the one of a premium beer. In Mexico the approach is completely different, Corona it is not priced as a premium beer because of its local competitors. Corona has faced critical barriers in their expansion process. In the US two of their competitors spread the rumor that Corona was contaminated with urine. In Germany was said that it caused cancer. These rumors managed to slow Corona's expansion. However, Corona has been able to overcome these situations becoming the second most imported beer in the US, and the eighth largest selling brand in the whole world.

1 Mexico's Background

1.1 Economical Environment

Mexico's economical environment has suffered from serious up and downs. One of the most tragic crisis the country has gone through was the "Tequila Crisis" in 1994. However in the recent years Mexico has been able to come through and its economy has been developing up to the 14th largest economy of the world in 2006.

Mexico has a free market and export-oriented economy, being the country with most free trade agreements in the world (more than 40 countries). Mexico is the only Latin American country that is part of the Organization for Economic Cooperation and Development.

Mexico's largest component of GDP at 70% is the services sector, followed by the industrial sector at 26%. Agriculture represents about 4% of GDP. Remittances (contributions sent by Mexicans living abroad, mostly in the US) to their families at home in Mexico, are a substantial and growing part of the Mexican economy. Total GDP in 2006 was estimated at US \$1.134 trillion with a growth of 4.8%. GDP per capita in 2006 was of US \$10,600. Estimated growth for 2007 is 3.5% with an inflation of 3%.

1.2 Social and Demographical Environment

Mexico's last census was made on 2005 it showed a total population of 103,263,388 habitants. The total population estimated for 2007 is of 108,700,890 habitants, with a growth rate of 1.02%. The labour force in Mexico is estimated at 38.09 million with an unemployment rate of 3.2%.

Minimum wage in Mexico is classified in three different categories. Minimum wage for zone A is of 49 Mexican pesos (4.41 USD). Zone B, where the wage is of 47 Mexican pesos (4.23 USD). Finally Zone C, where the wage is of 45 Mexican pesos (4.05 USD).

Concerning the alcoholic beverage consumption these are the most relevant statistics. Market studies and research have shown that 61% of the men drink alcoholic beverages, while 58% of the women drink them. 37% of the men start drinking between 11-14 years old, while only 18% of the women do it. Beer is the most important alcoholic beverage in the Mexican market. 86% of the Mexicans between 19-65 years old drink beer and 82% of the

Mexicans between 12-18 years drink it. Mexico has the 10th largest beer consumption market in the world with 60 liters per capita drunk per year.

1.3 Geographical Environment

Mexico is situated in Latin America. In the north side it collides with United States of America and in the south with Guatemala and Belize.

Image 1: Map of America



Source: Asociacion Latinoamericana de Poligrafistas

Image 2: Map of Mexico



Source: Embassy of Canada in Mexico

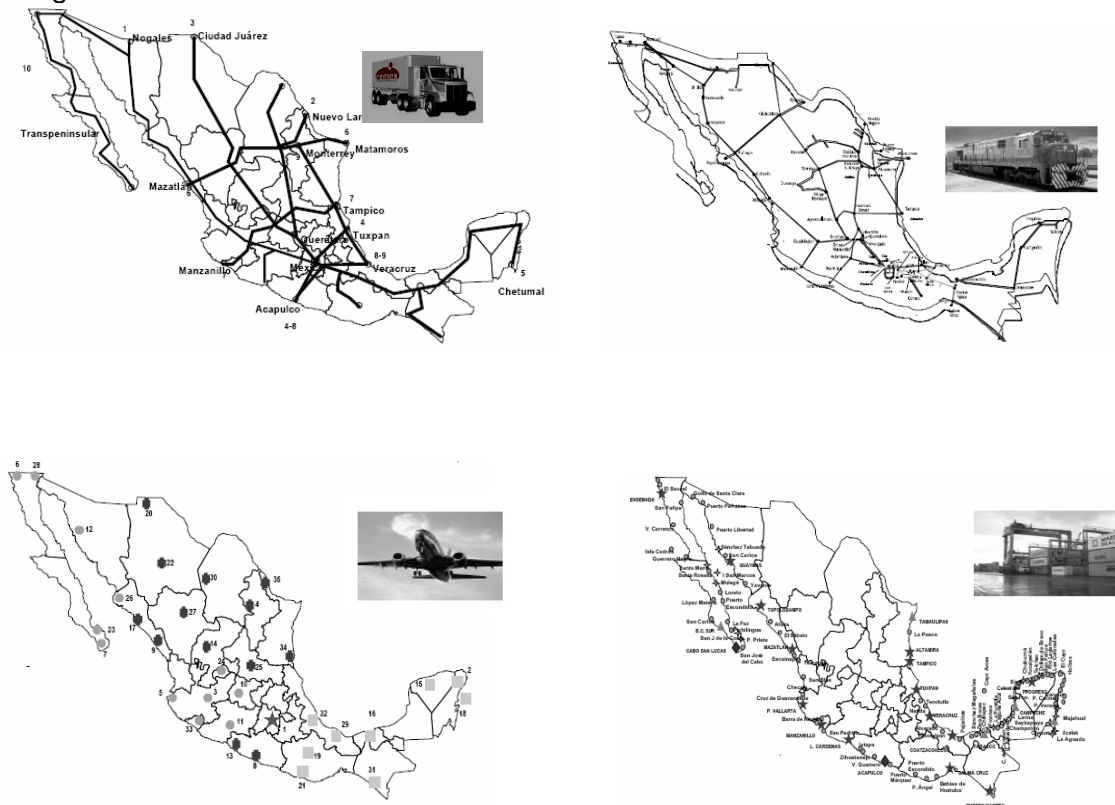
1.4 Political Environment

Mexico’s government is organized as a federal republic. The head of state is the president, who keeps in charge for 6 years. Last elections took place last year. Felipe Calderón Hinojosa is the current president, member of the liberal political party PAN (Partido Acción Nacional). The Legislature in Mexico is in charge of the Federal chamber of Deputies, conformed by 500 deputies and 128 senators.

1.5 Technological Environment

Mexico has many kinds of transportation such as maritime, air and terrestrial. For the transportation of the international commerce 58% is made maritime and for the domestic commerce 75% is made terrestrial. The next graphics represent the principal highways, railways, airports and maritime ports where most of the merchandise goes by.

Image 3: Mexico's Infrastructure



Source: Secretaria de Comunicaciones y Transportes Mexico

Mexico has also a high infrastructure in telecommunication. There are mobile and fixed spaces, having a total of US\$24bn revenues in 2006. And this amount has a tendency of growing.

2 Industry and Market analysis of Mexico

2.1 Industry Analysis

In recent times the Mexican beer industry has gone through many changes, such as automatization and intensification of quality standards due to competition with imported beers. After these changes Grupo Modelo is still the number one brewery in México.

Table 1: Corona's Market Share

Year	Market percentage
2000	55.4%
2001	56.4%
2002	56.9%
2003	63.10%

Source: Comercio exterior y fluctuaciones cíclicas de la cerveza en México

The potential beer market is of 63 million of consumers and it is growing at a rhythm of 1 million people a year. The national production of beer is around 60 millions of hectoliters and of this production 9 millions of hectoliters are exported around the world.

Table 2: Mexican´s beer consumption (hectoliters)

Region	Year: 2000
North	72
Center	40
south	46

Source: Comercio exterior y fluctuaciones cíclicas de la cerveza en México

2.2 Local Production, Imports and Exports

Mexico is a major producer of beverages, included bottled water, sodas, vinegar and alcoholic drinks such as tequila. In 2004, the exportations were of 690 millions of dollars, but Mexico is still having a deficit in the balance account of this beverage sector.

There has been a sustained growth of the export sales of beer, which derived from the opening commercial politics of the federal government and because of the market expansion strategies that have followed the beer companies. In the beer industry there is a surplus: for every imported hectoliter there are 15 exported.

Table 3: Percentage exported of the total production

Year	Percentage
1980	3%
1985	8%
1990	9%
1995	15%
2000	17%
2003	20%

Source: Comercio exterior y fluctuaciones cíclicas de la cerveza en México

2.3 Market Segments

Beer consumption accounts for around 84% of the beverage sales by volume and this number is expected to rise by over 10% for 2010. Beer consumption in Mexico is of 60 liters per capita, which is equivalent to 78 USD per year. The average price of a beer is of 1.5 USD when bought in a convenience store. However, when bought at a bar or restaurant the price might go up to 4 USD.

2.4 Target Market

Beer in Mexico has the largest share of the market than any other alcoholic beverage. People comprising the age group 18-34 are the chief consumers of alcoholic drinks. The young population has become the most important and developing market because their starting drinking age has become lower during the past few years.

After analyzing some data retrieved from the Health Department in Mexico we have seen that beer consumption is highly linked to the education level. 66% of the people who just finished elementary school drink beer; while 82% of people who studied a major drink it and 90% of people with postgraduate studies drink it as well. This means that a larger part of the marketing campaigns in Mexico are directed to people with more economic resources. This way young people of high economic resources has become the most appealing target for beer selling companies in Mexico.

3 Corona in Mexico

3.1 Analysis of Corona's Position on the Beer Market

The Mexican beer market is dominated by two national beer producers that share the bulk of the domestic sales: Grupo Modelo and Fomento Económico Mexicano (FEMSA). A closer look at FEMSA's position will be given in part 3.3.

Grupo Modelo "is the leader in the production and marketing of beer in Mexico with 63.2% of the total (domestic and export) market share, as of December 31st, 2006."¹ The proportion of Grupo Modelo's domestic market share in its overall sales is declining. But this is only because the company encounters abroad a demand growing even much stronger than in the domestic market. Thus, though Grupo Modelo still expands its operations in Mexico, the exports are an even more pressing issue for the company's future given its staggering growth potential.

In 2006, Grupo Modelo experienced another period of constant growth in Mexico. The increase of the domestic sales volume of 5.2% contributed to net sales rising 10.2% to \$56,828 million pesos.² For the national market, this is a stunning growth rate of sold beer, exceeding significantly the previous years' results of 1.04% in 2005, 1.02% in 2004 and 1.04% in 2003.³

Grupo Modelo still considers the Mexican beer market long not to be saturated. Investing \$4,469 million pesos (thus 32.5% of the Funds provided by operating activities) into capital

¹ Corona, annual report 2007, page 2.

² See figure.

³ Compare with figure, page 20.

expenditures,⁴ the lion’s share of the earnings stays within Mexico, so that for instance the size of Compañía Cervecería del Trópico, a brewery in Tuxtepec, was doubled. The company still pledges loyalty to Mexico, which could turn out to be another decisive advantage for its domestic reputation. Another cogent reason for its faithfulness to the country is Modelo’s credo that selling sun and beach in bottles, is closely interweaved with the origin of the products. Every bottle with a wedge of lime in it comes from Mexico. Corona profits from an enormous brand loyalty since customers identify with the sun-beach-image. This would probably not work if the beer was bottled in a country with cold climate.

Finally, new ways are discovered to conquer an even bigger market share: By the means of importing and distributing beers that are produced outside of Mexico. As in Mexico, the percentage of imported beers grew by 13.9% and represented 2.2% of the total market, Grupo Modelo considers its participation in this segment as increasingly important and relevant. In August it signed an agreement to import and distribute Tsingtao, the best-selling Chinese beer in the world, which was launched at the first quarter of 2007.⁵



YEAR ENDED DECEMBER	2006	2005	Change
Sales of Beer -million hectoliters-			
Domestic Market	33.45	31.80	5.2%
Export Market	15.89	13.74	15.7%
Total Market	49.34	45.54	8.3%
Net Sales	56,828	51,559	10.2%
Gross Profit	31,189	27,861	11.9%
Operating Income	16,250	14,331	13.4%
Net Majority Income	8,672	7,587	14.3%

⁴ Annual report 2007, page 3.
⁵ Compare page 5

3.2 Marketing Strategy in Mexico

Why are the 4Ps important?

In popular usage, "marketing" is the promotion of products, especially advertising and branding. However, in professional usage the term has a wider meaning which recognizes that marketing is customer centered. Products are often developed to meet the desires of groups of customers or even, in some cases, for specific customers. E. Jerome McCarthy divided marketing into four general sets of activities. This typology has become so universally recognized that his four activity sets, the Four Ps, have passed into the language.

The four Ps are:

Product: The product aspects of marketing deal with the specifications of the actual goods or services, and how it relates to the end-user's needs and wants. The scope of a product generally includes supporting elements such as warranties, guarantees, and support.

Pricing: This refers to the process of setting a price for a product, including discounts. The price need not be monetary - it can simply be what is exchanged for the product or services, e.g. time, energy, psychology or attention.

Promotion: This includes advertising, sales promotion, publicity, and personal selling, and refers to the various methods of promoting the product, brand, or company.

Placement or distribution refers to how the product gets to the customer; for example, point of sale placement or retailing. This fourth P has also sometimes been called *Place*, referring to the channel by which a product or services is sold (e.g. online vs. retail), which geographic region or industry, to which segment (young adults, families, business people), etc.

These four elements are often referred to as the marketing mix, which a marketer can use to craft a marketing plan. The four Ps model is most useful when marketing low value consumer products. Industrial products, services, high value consumer products require adjustments to this model. Services marketing must account for the unique nature of services. Industrial or B2B marketing must account for the long term contractual agreements that are typical in supply chain transactions. Relationship marketing attempts to do this by looking at marketing from a long term relationship perspective rather than individual transactions.

What is the Marketing Objective of Corona?

1. Come in under the radar

"Building a brand is a roll-out process, not a drop everywhere in the world at one time. Do

you know what the best selling imported beer is in the United States? It's Corona. Who would expect a beer from Mexico to be popular? The fact is it's a terrific beer. But they didn't just come to the U.S. and put it everywhere. They went to the cities with a Mexican population -- Los Angeles, Chicago, New York -- and then they put it in restaurants and stores there. The key to brand-building is to have something good that you roll-out in a very intelligent way. Maybe even invisibly for a while because you want to be under the radar screen of competitors."

2. Know your customer

"There are still too many CEOs who identify marketing with selling and advertising. But marketing has evolved to be not only product centered but customer centered. We are saying you've got to understand and choose the customers you want to serve. Don't just go after everyone. Define the target market carefully through segmentation and then really position yourself as different and as superior to that target market. Don't go into that target market if you're not superior.

"We are trying to make the case that it's much more important for a company to be customer-centric than product-centric. The same customer you have for product X, may be available for product Y and Z and so on. And you won't know that if you have separate product managers, each only concerned with selling his or her product."

3. Own your branding

"We are not in a state of competition anymore; we're in a state of hyper-competition. So people are desperately looking for handles -- functional features, emotional appeals -- that will draw people to their product. We should think of owning a word or a phrase that helps to build customer retention and loyalty. Look at how we buy the Mercedes because it's the best engineered car. We buy a BMW because it's the best driving performance. We buy the Volvo because it's the safest automobile. A lot of these companies lose that edge too, but they don't lose the impression."

4. Stay ahead of the competition

"The worst thing is that if something works, your competitors are going to clone it and before you know it anything that you had as a differentiator is imitated by the others. So you're in the business of constant innovation. Constantly asking yourself, 'Three years from now, what will our differentiator be?'"

"I had the CEO of a large company approach me and ask me to sign a copy of my book,

which I always do, but this was a first edition from 1967. I looked at the book and I said I won't sign it. 'Why not?' he asked. I said, 'That book is from before there was the Internet. It has very little on branding, so I think it's useless.' At which point he said to me, 'Are you trying to sell me a new copy?' And I said, 'Yes, but it's not for my benefit-- I don't need the money.'" Markets change, so marketing has to change."

5. Make it an experience

"Once in a while we find someone having a whole new approach to a mature market. Starbucks is a very good example where coffee is coffee but they decided to sell it differently, put a higher price, make it good-tasting and make it an experience rather than just some coffee. In fact, I've heard that if Starbucks closed its shops, a lot of people would go crazy. They are in such a habit of going to the Starbucks before work, taking the coffee, and they'd become desperate otherwise.

What is Corona's 4P strategy?

Price: Pricing of Corona differs in Mexico and the United States. In Mexico, where Modelo had engaged in a competitive price war with its competitors like FEMSA, Corona was not priced as a premium beer.

Product: Modelo adopts a clear glass bottles for Corona. Although darker glass protects the beer from light, which can degrade quality, clear glass allowed customers to see the beer's color and clarity, to view that lime wedge settling into the immaculate glass. This beer has nothing to hide. Corona stresses on quality control and timely delivery so as to keep the beers pristine and flavorful.

Corona also targets for different gender of customers. Men drink Corona while women drink Corona Light. Patriotism and Mexican pride are part of the Modelo success recipe. All the beers will only be produced in Mexico. The indelible image of the clear bottle, long neck and ceramic label of Corona has created a legend.

Promotion: Brand positioning is vital to expanding the company's international presence, and for that reason Modelo supports its importers in these efforts to ensure consistent brand identity across all its markets.

Corona's advertising theme had emphasized the "fun, sun, beach" theme since its inception. The original "vocation in a bottle" campaign evolved to "what you see is what you get" and to "change your latitude". Ads were filmed in Mexico and kept simple and clear with a beach environment, with little or no music, and no voiceover. There were no full images of people in

the ads. Using no spoken words and scored with a soundtrack composed of gentle waves, soft wind and tropical bird calls, the ads use understatement to link its beer to paradise.

By publicity, the company has campaigned widely for healthy lifestyles and responsible consumption. In 2006, Grupo Modelo focused its efforts on young adults, with a number of special programs and initiatives that included a campaign conducted with the non-profit Youth Reaction. In this campaign, messages were imparted through interactive programs, audiovisual experiences and celebrity presentations, along with participation in youth congresses and sporting events.

Place: To reach customers and customers most effectively, Group Modelo relies on an extensive distribution network and services-oriented sales force that ensures the company's products are available in the right at the right time. In the domestic market, programs have been implemented to strengthen commercial relationships. The "Modelo de Atención Comercial" program provides a high level of service to each point of sale with segmentation by type of clients and by having differentiated execution. Domestic distribution also includes the Extra chain of proprietary convenience stores. In 2006, a restructuring process was initiated in order to better leverage its potential as a retail channel. As part of this process, two formats were established, the traditional Extra store with a broad product range, and the new smaller format Extra Express carrying a selection of high turnover items. The number of stores increased 32% during 2006, reaching a total of 2,043 units.

Corona can be found in 350 000 points of sale in Mexico. It is distributed through a network which consists of 695 distributorships and offices. Among those distributorships and offices, 492 of them are owned by Modelo. This direct distribution channel from manufacturer to consumers can create an effective and efficient distribution of beers. Mexico beer sales were predominately off-premises through grocery, convenience, and wine/spirits stores. Site selection for new stores is a critical success factor, and the company has implemented a methodology that prioritizes the regions and area with the greatest sales potential. As part of the restructuring of this business, Modelo plans to strengthen and scale the operation with an important number of new store openings in 2007.

Moreover, the sales and distribution processes were focused on the optimization of territories and routes, establishing models of distribution by channel and client segment in order to improve the effectiveness and efficiency of delivery to the point of sale, at the lowest possible cost.

The entire Modelo sales force is equipped with hand-held devices that capture and manage data more efficiently, allowing the company to gain accurate and timely information to support decision making.

With the aim of achieving administrative efficiencies, Grupo Modelo inaugurated a Shared Services Center in 2006 that integrates administrative and internal processes.

3.3 Competitors of Corona

As mentioned in 3.1 Corona has a majestic 62.3% of the total Mexican (domestic and export) market share. In fact, as reported in 3.2, Corona profits much from the sun-beach-image outside of Mexico, but in Mexico it is rather considered to be a “normal beer”, also in terms of the price. In a globalized world, the incoherent brand perception in and out of Mexico could result not only in dazzled consumers. But an even more alarming development is the resurgence of one main competitor in Coronas own country of origin; FEMSA-Cerveza uses its strong brand Sol to embody what Corona represents abroad:

“When market studies revealed that young people identified with the brand’s [remark: Sol’s] sunny individualism and enjoyed its clean, natural taste and smell, the company re-launched Sol domestically in 1993 as part of an innovative strategy that built buzz around the brand one region at a time.”⁶

According to Mexicans, Sol is the beer for the younger generation in Mexico and it has therefore much more growth potential to deal with, combined with the possibility to accompany their customers through the years by the means of CRM. Finally FEMSA-Cerveza is also seeking growth abroad e.g. by using Heineken’s supply chain in the U.S.: “Mexico’s No. 2 beermaker, Fomento Económico Mexicano (FEMSA), has inked an agreement with Heineken to distribute its Dos Equis, Sol, and Tecate brews in the U.S.”⁷ FEMSA also “exported more than 1.0 million cases to the United Kingdom and generated double-digit growth in many of our [their] Asian, European, and Latin American markets.”⁸ In Mexico, FEMSA-Cerveza kept a portfolio of 17 brands by which 3,215,000 clients were served in 2006.⁹ The producer sold 28,762,000 hl of beer¹⁰ (compared to Modelos’ 33,450,000 hl¹¹) based on a growth rate of 1.06%.¹²

There are also some small local beer producers in Mexico, though they probably won’t play a role in the domination of the beer market. It will rather be the great two who’ll fight it out among themselves: Grupo Modelo and FEMSA Cerveza. FEMSA for sure, won’t throw the

⁶ FEMSA. <http://www.femsa.com/en/business/cerveza/brands.htm> [downloaded on 01/10/2007]

⁷ Life is a beach for Corona.

⁸ FEMSA, Annual Report 2006, p. 16.

⁹ FEMSA, Annual Report 2006, p. 36.

¹⁰ Ebd.

¹¹ Grupo Modelo, Annual Report 2006, p. 2.

¹² Remark: this growth rate is computed on the base of the beer sales in hectolitres. (Annual report 2005, p. 30 and 2006, p. 36).

towel but combat for every Mexican consumer; and it knows its strengths: “Once again, our [FEMSA’s] flagship Tecate and Sol brand families drove our topline growth in Mexico.”¹³

4 Corona on the Global Market

4.1 Growth Key Markets

4.1.1 Canada

Canada is the world's second largest country with a total area of 9 984 670 km² and shares land borders with the United States to the south and northwest.

According to a report¹⁴ made by the US embassy in Ottawa and published by the Canadian government, Canadian people drink red wines but “*the beer sales continue to far outweigh the sale of other alcohol, accounting for 83% of all alcohol sold (2.1-billion liters out of a total of 2.5 billion)*”. That makes it interesting in our case to see the position of Corona on this “famous” beer market.

Corona’s success as an imported beer on the beverage market in Canada began in 1980’s and has become the top imported beer brand since 1998 due to several effects that we will see later on. Actually it was from 1985 that Cervecería Modelo began to exploit other markets and they started by Canada. Grupo Modelo had a lot of brands established in Mexico but they remembered that they had to adjust to a new market with new clients and came up with a brand called “Corona Light”. This beer was produced exclusively for export to the United States and Canada. By the year 2003, more than 90% of Grupo Modelo’s exports went to the US and Canada. So Grupo Modelo’s top management decided to concentrate on tackling the non NAFTA¹⁵ market (European market). In 2003, Grupo Modelo sold 2.9 million hectoliters of beer in Canada and Corona was the top-selling imported beer.

If it was going so well in North America then they must try to repeat this success because Corona’s goal is to become the main beer export. In 2003, due to Corona’s expansion on several markets like the Canadian one, they needed support by subsidiaries, which are entities that are controlled by other entities. The Canadian subsidiary, which includes importers like Molson Breweries Ltd. and the Mark Anthony Group, is called Canacermex. The latter has helped Corona to gain popularity among Canadian consumers.

Nowadays, The United States and Canada are Grupo Modelo’s largest export countries and the phenomenon is not stopping there. Thanks to this schedule that Professor Miguel Angel

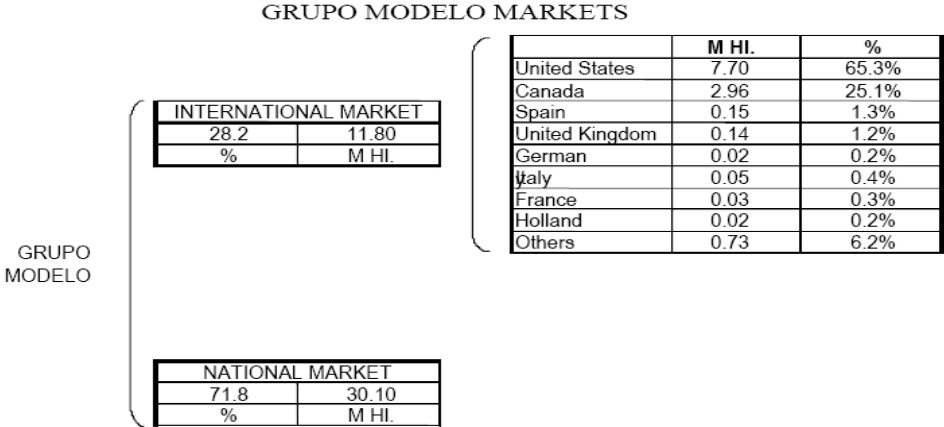
¹³ FEMSA, Annual report, p. 37

¹⁴ GAIN report, 28/6/2000, Alcoholic Beverage Consumption in Canada

¹⁵ North American Free Trade Agreement

Llano Irusta has made in 2007, we can see that Grupo Modelo exported 28,2% of its production and that 25,1% of these went to Canada.

Actually in 2006, Canada received a new Grupo Modelo brand on their market called Negra Modelo. Canada is known to be a country where drinkers prefer the dark beer; so Grupo Modelo wanted to take advantage of the consumers request and answered to it by producing a new brand.



4.1.2 United States of America

The United States of America is the third largest country in the world by area and has a population of around 300 million people, making it a very important consumer market. The US beer market happens to be one of the leading beer producing and consuming markets in the world as well as one of the most competitive for market shares. Companies like Grupo Modelo, with their beer Corona Extra have managed to enter the American beer industry in 1979 and have since been amongst the top 10 most important selling imported beers.

In the early 1980's, the United States had the largest overall beer consumption with an average of 23 million kiloliters of beer. They were also ranked 12th in beer consumption per capita totalling 82 litres.¹⁶ Today the American's are still considered an important consumer market for the beer industry even if the general consumption has decreased.

Analysts describe the US beer market as a mature market with a flat consummation caused mainly by the American's concerns about their health. Although the consumption of beer has decreased, numbers indicate that imported beers are becoming more popular in the below 45 year old age group. This age group consumes about 68% of imported beers and 62% of domestic beers. Another significant age group, the under 25's, average out to spend twice as

¹⁶ All About Beer, 2007. www.allaboutbeer.com (01.11.07)

much per capita on alcoholic beverages than people over 35 years old.¹⁷ According to the US demographical trends, this age group is meant to grow over the next 10 years creating a bigger consumer market.

Here are a few facts concerning the growth of the beer consumption industry in the US¹⁸ :

- An important growth in the beer sector due to a increase in the amount of local breweries and imported beers;
- Overall growth in the beer sector in the US in the 1990's and the early 2000's due to the growing adult population;
- 2800 malt brands were produced in the United States in 2004, that is twice the amount of what was produced ten years ago;
- There was 1800 micro brewers in the US by 2004, that is five times more than in 1992;
- By 2000, 7 out of 10 main breweries in the US were either affiliated with a breweries abroad or were importing beer;
- The volume of imported beer grew by about 300% between 1989 and 2000.

Grupo Modelo's Corona on the US Market

At least 80% of the imported beers in the US come from Mexico, the Netherlands or Germany. Mexico remains the biggest exporter of beer to the United States with about 44% of its exports going to the US. More precisely, one out of four beers being exported from Mexico to the US is a Grupo Modelo product. In 2003, Grupo Modelo's Corona was the most popular imported beer on the US market. Also Grupo Modelo's Especial Modelo, Corona Light, Pacifico and Negra Modelo were amongst the 25 biggest imports in the US.

Table 3: Imported beers

Total imported beers in the US 2005 – 2006 (thousands of cases)			
	2005	2006 (E)	Change
Corona Extra (GM)	104,815	115,295	10,0%
Heineken	64,350	69,050	7,0%
Modelo Especial (GM)	14,635	19,757	35,0%
Tecate	15,800	16,906	7,0%
Labatt Blue	13,315	13,715	3,0%
Guinness	11,415	11,870	4,0%
Corona Light (GM)	9,610	11,147	16,0%
Amstel Light	9,955	9,955	0,0%
Beck's	7,410	7,745	4,5%
Heineken Light		7,500	

Source : Grupo Modelo 2006 Annual Report

¹⁷ The Consumer Expenditures Survey, U.S. Bureau of Labor Statistics

¹⁸ Harvard Business School Review – June 30, 2004

In 1979, when Corona entered the US market, its original form was completely different from what it is today. It was a dark brown bottle with Mayan designs and a Mexican Flag. Unfortunately this attempt wasn't so successful. The second attempt made a great sensation; the transparent bottle with a long neck that targeted mainly University parties and social events was well accepted. Today Corona holds the first position on the US market as the number one selling import beer.

4.1.3 Europe

Now that Corona has known a big success on the US and Canadian market, as we have seen earlier, they began to think of new expansion ways. They wanted to concentrate on tackling the non NAFTA market, especially in Europe.

They decided to enter the European Market in 1989 by opening a subsidiary¹⁹ in Brussels (Eurocermex). They chose February 1989 as the date of penetrating the European market because the Mexican president was on a visit in Europe at that time. Corona decided to use this opportunity to make a free commercial out of Mexican beer and maybe start making a well-known image. For Corona, the target of this expansion was very clear: first of all, they wanted to repeat the success that they had on the US market and they wanted to beat Heineken, their main competitor, on their "home market"²⁰. On 23/11/2003, Grupo Modelo started quoting in Latibex, the Euros market for Latin-American companies in Madrid Stock Exchange, with the intention of starting negotiations about its shares with the Spanish and European investors. We can say that from this moment, Corona really entered the market. By choosing the Spanish stock market, Corona felt closer to their origins and they could understand the market.

In short Europe seemed like a good idea to expand its market on if you're interested in selling beers. Countries like Germany and Denmark are known as countries where beer is a famous alcohol beverage but a recent article²¹, made by United States Department of Agriculture, revealed some interesting information. Between 1996 and 2005, Italy was the only European market where beer consumption consistently increased. For example, in 2004 alone, Italy's beer imports rose 4.5 percent. Apparently Europe isn't increasing its beer consumption as much as on the US market or Canada. Beer consumption in Italy is increasing thanks to the youngest part of the population. They see beer as a substitute for wine because it is cheaper and they see beer as a healthy drink. In this article, they also tell us that they made a recent survey about how many drink beer regularly: 43 percent of Italian

¹⁹ A subsidiary, in business, is an entity that is controlled by another entity

²⁰ Grupo Modelo at the beginning of the xxi century, case study, Professor Miguel Angel Llano Irusta, page 2

²¹ <http://www.fas.usda.gov/info/fasworldwide/2006/06-2006/ItalyBeer.htm>

men and 20 percent of Italian women drink beer regularly. Even though the numbers of consumption are increasing, beer still remains a reasonable drink. In Italy, the sales double in the summer months.

4.2 In Which Countries did Corona Have Success and in which not? What Strategies Were Used and How Did They Apply Them?

First of all, Corona's expansion on every new market wasn't a failure because they made a lot of research about their consumer and their penetration of each new market was well studied, which was also necessary every single time in order to avoid failure. Corona has only known some difficulties due to seasonal features, because we have to remember that beer sales are likely to double during the summer period. Once in 2002, Spain beer sales dropped by 3% because the summer wasn't so hot as expected but in 2003, there was a "heat wave" that hits the country is the sales reincrease²².

Corona has also suffered from numerous rumors, which damaged the company for several years, like that "Corona was contaminated with urine", "Corona has 400-500 calories per bottle" or that "excess nitrosamin in Corona beer caused cancer"²³. These are examples of very serious charges against Corona.

Corona's choice about what countries to enter, is, according to Alejandro Osorio, Sales Manager for Latin America, based on three measures²⁴:

- total beer consumption volume
- share of beer imports in each market
- the existence of a Mexican food retail market

Strategies:

Before we begin to deal with the strategies Corona is using we should refresh our memories with what its goals are²⁵:

- 1) The goal is to repeat the success that Corona has had in the US.
- 2) To beat Heineken (their main competitor) on their home turf.
- 3) To become the number one imported beer in every market that they serve.

The latter is of course the most important goal.

In order to achieve these aims, Corona's growth in sales is due to some better knowledge

²² GRUPO MODELO AT THE BEGINNING OF THE XXI CENTURY, case study, Professor Miguel Angel Llano Irusta, page 17

²³ Corona Beer, Harvard Business School, page 8

²⁴ Corona Beer, Harvard Business School, page 6

²⁵ Corona Beer, Harvard Business School, page 2 and GRUPO MODELO AT THE BEGINNING OF THE XXI CENTURY, case study, Professor Miguel Angel Llano Irusta, page 7

about the consumer with the time but also and mostly thanks to a “new product development strategy”²⁶

- 1) The positioning of the beer on a niche market strategy with high prices.
- 2) The focus to bring to consumer’s memory those beach vacations in a neighboring country.
- 3) The product itself: identical to the one sold and produced in Mexico.

The strategy is to sell a cheap beer, compared to the competitors of course, and also to get the consumer back to its vacancy memory about sun and beach but also to sell a Mexican product. This beer is not just a beer but it has a signification, it has a personality. Corona has created an image on the beer market as we already have discussed it earlier. Actually in June 2005, Corona appealed to the European Court of Justice in order to conserve a monopoly over the idea of putting a lime in the neck of a beer bottle but the court rejected that idea. Corona lost the trade mark battle against the European Court of Justice²⁷.

In the latest report of Corona (2006), the company says that they have made several improvements during the year and that they have a new program for competitiveness in distribution and client service, which would be interesting to see in the next few years.

Besides these marketing strategies, we have to remember that there exists other ways to compete like the fact that labour prices and material costs in Mexico are cheaper compared to the European or American labour prices and material costs. In order to avoid the import taxes in the US, Americans usually cross the border and buy beer in Mexico: a 20 pack beer in Mexico is at the same price as a 6 pack in the United States²⁸.

Furthermore most of Corona’s productions are made in Mexico but we will see more about these global distribution ways in the next part.

4.3 Global Distribution

In the beginning, Grupo Modelo’s distribution network was limited to the Mexican market. As the company’s sales grew, its production capacity also needed to increase. To achieve this, they acquired previously established Mexican beer companies and also built new ones situated in strategic locations in Mexico. Eventually, Corona entered the US market and is now very successful in over 150 countries. This part will explain how Corona manages its distribution on a Global level.

Even though Corona is a product of globalization, it has managed to keep its beer home made. In other words, all the production factories are located in Mexico and then distributed

²⁶ Grupo Modelo at the beginning of the xxi century, case study, Professor Miguel Angel Llano Irusta, page 2

²⁷ http://www.marks-clerk.com/attorneys/news_one.aspx?newsid=52.

²⁸ Corona beer, Harvard Business School, page 6.

to its final market. Grupo Modelo manages to keep the production costs low because almost the totality of the raw material used in the production of Corona (boxes, bottles, caps, transport equipment, etc) come from factories that are integrated within the company.²⁹

The first country Mexico exported to was the United States of America with the help of an importing agent. In 2003, the importing agent was divided into two importing agencies who would insure the distribution in 26 states each. Barton Beers Ltd. was responsible for the 26 western states and Gabrinus Importing Company was responsible for the 26 eastern states. That same year, Grupo Modelo created six subsidiaries around the world that would be responsible of the coordination of distribution and imports in their surrounding countries. The allocation goes as follows:

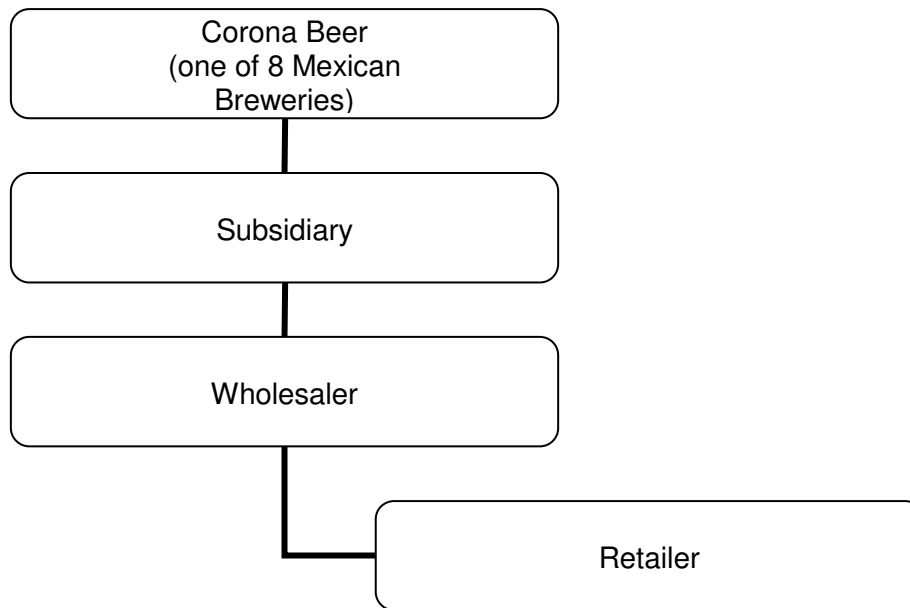
Table 5: Overseas Operations of Grupo Modelo

Subsidiary	Countries (overseeing operations)	Location of the Subsidiary headquarters
Asiacermex	Asian countries	Singapore
Canacermex	Canada	
Eurocermex	Africa, Middle Eastern Countries, European countries (except Spain)	Brussels
Iberocermex	Spain	
Latincermex	Latin America	Buenos Aires Costa Rica
Procermex	United States	San Antonio, Texas

Source: Grupo Modelo at the beginning of the XX1 Century case study” Professor Miguel Angel Llano Irusta

The subsidiaries are a network of importers situated in strategic points around the world whose main role is to coordinate the distribution of Corona to wholesalers and retailers. They also are responsible for finding the advertising agencies and conducting an appropriate marketing campaign. Basically, the subsidiaries are importers who sell to wholesalers or distributors under the supervision of the importers. The distributors then sell to retailers.

²⁹ ”Grupo Modelo at the beginning of the XX1 Century case study” Professor Miguel Angel Llano Irusta



4.4 Finance ³⁰

Corona happens to be Grupo Modelo's highest selling beer. It is the USA's biggest import and is now ranked the 4th most imported beer in the world. In 2006, the sales volume in Mexico rose 5.2% and the sales volume in the international market increased 15.7%.

The financial position of Grupo Modelo can be regarded as being successful at maintaining its policy of having no long-term debt. Over the past decade, it has maintained the same average of sales in its domestic market with a slight increase due to the growth of the population. On the export market, the overall sales have been growing due to a well coordinate distribution network with the help of its six subsidiaries around the world.

Table 6: Sales of beer

Sales of Beer (million hectolitres)	2006	2005	2004	2003	2002	2001	2000	1999	1998
Domestic	33,45	31,8	30,59	30,10	28,87	28,59	27,85	26,56	25,57
Export	15,89	13,74	12,23	11,82	11,12	9,99	8,55	7,55	6,46
Total	49,34	45,54	42,82	41,92	39,98	38,58	36,40	34,11	32,03

Source: Grupo Modelo's 2006 annual report

In the past year, Grupo Modelo has registered an EBITDA \$1,7 billion USD on a total income of \$5,3 billion USD. Also their non-beer income which includes royalties, sales of soft drinks,

³⁰ Information found in Grupo Modelo's 2006 annual report.

wine, liquor, food and other items sold through the company's convenience stores has increased 20,1 % compared to 2005. As a result of cost efficiency, Grupo Modelo has managed to have an increase of its gross profit of 11,9% over 2005. Their local sales still represent its biggest source of revenue with 58% of its total net sales revenue. As for the exports, there's been an increase of their net sales of 15,6% over 2005.

Table 7: Net sales

Net Sales (millions of \$)	2006	2005
Local Sales	3,054 million	2,891 million
Foreign Sales	1,545 million	1,337 million
Other Revenue income	649 million	541 million
Total	5,248 million	4,763 million

Source: Grupo Modelo's 2006 annual report

Table 8: Market Profile

Market Profile	
52 week price range	\$49,00 – \$63,20
Average Daily Volume	3,238 m
Beta	0,74
Dividend Yield (Estimated)	1,91%
Shares Outstanding	3,252 m
Book Value per Share (31.12.2006)	1,29%
Debt to Total Capital	0%
Return on Equity	15,33%

Source: Grupo Modelo's 2006 annual report

The International beer industry has many dominant players competing on the Global Market. Companies like Anheuser Bush, Interbrew-Ambev, Heineken, SABMiller, Carlsberg and Coors are present on most continents and are direct competitors to Modelo's Corona. Although in Mexico, Grupo Modelo dominates the market but is also sharing the market with another major player FEMSA.

Graph 1: Stock Price of Modelo



5 SWOT - Analysis of Corona

5.1 Strengths

- One of its more powerful strengths is certainly not only its taste, but most notably its marketing.
- Corona is a brand whose job is not to fill bellies, but to “fill the souls” of its adherents: It is perceived as a fun brand connected with beach and sun. While drinking Corona, the customers want to escape their daily life full of stress and dive into something surreal and utopic. Grupo Modelo understands to absorb these wishes and to reflect them in its advertisements as shown in 3.2. Also for the future, it will be essential to seek growth by the means of pointed marketing, in order to satisfy the customer’s needs.
- Another important aspect for Corona is its tradition and its unique success story: Squeezing a lime into Corona bottles is a typical gesture and crucial for the vast brand loyalty. Even though the European Court of Justice decided against Corona’s shot to register “a 3-dimensional trade mark consisting of a clear bottle containing yellow liquid with a slice of lime plugged in the neck”³¹ it is definitely the way Grupo Modelo has to take in the next years: Modelo will have to defend its brand (and differentiating characteristics like the clear-glass long-neck bottle, too) on an international level.
- Corona’s worldwide engagement and the coherent perception (except Mexico) as a premium beer is a very convenient position for further growth and also an enlargement of the product line. Its position as a premium beer also keeps Modelo away from fatal price wars, guaranteeing high margins and bumper profits.
- Supply chain systems are highly profitable. In the whole world, Corona is sold in its authentic Mexican form: it is “brewed entirely in Mexico, and exported with minimal changes to the packaging.”³² In the past years operating income increased steadily and achieved a growth rate of 13.4% in 2006.³³ Modelo’s CEO and chairman Carlos Fernández stated in April 2007: “The implementation of new technology and better means of servicing the market enabled us to optimize routes, client visits and customer service, by channel and market. As a result, we increased the quantity of products delivered to each point of sale, offered the right mix of brands and improved the margins in our distribution network.”³⁴

³¹ Marks & Clerk: Corona loses Trade Mark Battle, 30.06.2005

³² Harvard Business School, Corona Beer, p. 6.

³³ Annual Report 2006, Grupo Modelo, p. 10.

³⁴ Annual Report 2006, Grupo Modelo, p. 4.

5.2 Weaknesses

- Consumers might feel betrayed because of the pricing differences.
- As the beer has different connotations in several countries, the core of the brand may be damaged, or even worse, lost.
- Mexican competitors have merged and competition gets harder not only in the international but in the domestic market.
- FEMSA has launched Sol beer into the international market. This beer is the same type as Corona and the marketing strategy is similar. If Corona does not act soon, it will lose market share.
- Distribution costs keep getting higher as they refuse to brew in any other country, except for Mexico.
- When they refuse to brew somewhere else, they refuse to the opportunity of getting know-how from other countries, As well as the creation of mergers, deals with suppliers, customers, etc.

5.3 Opportunities

- Main revenues of Grupo Modelo come from the Mexican and the US market. Grupo Modelo should use a marketing strategy on the global market as effective as the US marketing strategy.
- The purchasing power in Asia is improving especially in China where Grupo Modelo is already exporting approximately 2% of its total imports. Also the total consumption of beer has grown by 33,56% between 2000 and 2006 and is expected to reach a total market volume of 30,47 billion litres.³⁵
- Grupo Modelo should tackle a greater amount of markets and build more infrastructures with the help of new subsidiaries as the Corona sales increase.
- Since the 25 to 45 years old age group is meant to not only grow in the next following years, but this is the group that consumes the most alcoholic beverages. Therefore Corona should have appropriate advertisement targeted to this age group.
- The more the product is accessible to the customers, the greater are the chances of the consumers buying your product. Therefore, Corona should persevere in making it more accessible to its chosen target market.

³⁵ Just Drinks. <http://www.just-drinks.com/store/product.aspx?id=47341&lk=sfd> (06.11.07)

5.4 Threats

- Heineken is Corona's main competitor. For about 80 years Heineken dominated the US market and only recently Corona has surpassed Heineken. Corona should work hard in maintaining their dominance.
- "Nice warm sunny days" is part of the main advertising campaign of Corona. Bad weather does influence the sales of Corona therefore Corona should find another message that can convince consumers to not constantly associate nice weather with Corona.
- One of Corona's most important market is the US. If the US decides to boycott Mexican products it can have a huge impact on Corona sales.
- Rumours about Corona containing illicit or dangerous substances have harmed the company in the past followed by a sudden decrease in sales.
- Beer sales can be affected by new laws and trends and Corona is not an exception.
- Recent concerns about health have become an important factor for the consumers around the world. Unfortunately, beer isn't considered a healthy product. This unhealthy feature has been responsible for the decrease in beer sales in the past few years.

6 Challenges

In order to get a better understanding of Grupo Modelo's strategies and their future plans we tried to get in touch with some of the managers. Because of the different time zones and the uptight schedules of the managers we were not able to speak directly to them. Nonetheless, we got some valuable information due to the fact that one of the cousins of a Mexican member of the team works at Grupo Modelo.

Our contact name was Cesar Campuzano Ponce de Leon. He has been working in the manufacturing area for three years. We could get information thanks to his experience but most important, because he is inside the company, he understands it and knows about its real challenges and opportunities. Talking to him gave us a better understanding on Grupo Modelo's policies and the way they are planning to affront the future.

Nowadays, there is no company that doesn't want to enter the largest market in the world, China. Grupo Modelo is not the exception, that's why it has been doing businesses with this country and year after year their affairs become more numerous.

Cesar Campuzano explained us that Grupo Modelo signed a contract with the Tsintao Brewery Company, in order to be the Mexican distributor of their beer. This brewery is the most important in China with 68 production plants in their country. The name of the Chinese beer is Tsingtao, is a premium beer and it is sold in more than 50 countries around the world.

Grupo Modelo is aware about the global challenges; they have been in the China market for years. In 2006 their sales had grown 20% in this attractive market, reaching an excellent exporting strategy. The goals of Grupo Modelo for the next 10 years is having at least an annual growing average of 20%, and remain as one of the most imported beers worldwide.

Grupo Modelo also needs to be aware of the increasing cases of counterfeit in China. Mexico appealed to the OMC in order to get a resolution about this case of unfair competition. And here is born a new challenge to Grupo Modelo, being in the biggest market of the world has also a cost. The Chinese market is able to copy and reproduce de luxe brands such as Corona, and of course, at lower costs. Grupo Modelo needs to face up to this issue. They know that fighting against counterfeit is almost impossible. Good news are that as Corona is positioned as a premium beer for the high sector market, and by developing a strong marketing campaign they can easily encourage this sector to buy the original Corona .

7 Conclusion

After working on this paper we were able to understand the way Grupo Modelo has positioned its beer, Corona, in the worldwide market. We have realized that previous investigation of the market is vital in order to make an accurate selection. Once this is done, the marketing strategy selection can be done. We learned that it is not possible to use the same strategy for every country. And even though, the core of the product is the same, adjustments have to be done in order to succeed.

Corona has faced this issue in the right way. It has made an accurate market selection and an accurate marketing strategy as well. It has known how to deal with the obstacles that new markets come with, and that is the reason it has positioned itself high in the imported beer rankings. Of course, being in the top does not assure that you will remain there. That is why Grupo Modelo's managers are already thinking about the future. They know that the only way to survive in this globalized world is keeping up to date, entering new markets, achieving new alliances and mergers and adapting the product constantly. That is exactly what they are doing, so we can be sure that we will enjoy Corona beer for many more years.

We believe that the purpose of our project was accomplished. We were able to exemplify the way a company can not only survive globalization but actually become better and grow with it. Corona beer is a perfect example, that, when companies work hard and learn to adapt themselves to the new demands of the global markets they will succeed.

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