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From colonial empires to developing countries and on to emerging economies: the international expansion of the Dutch brewery Heineken, 1930-2010

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Introduction

In each historical period events are described in their own language. While at present investment in Asia and South America is seen as investment in 'emerging markets', a century ago similar investments were considered 'colonial', or even imperialistic, while in the 1960s and 1970s the same investments would be seen as investments in 'developing countries'. Each period used its own terminology and had its own discussion about the rights or wrongs of these investments. Companies were either seen as promoting or hindering economic developments in host countries. And the challenges companies faced could be either abroad or at home. This paper highlights the changing perspectives on foreign investment in economically backward countries by studying the Dutch brewery Heineken.

By moving abroad companies always accepted extra risks in the expectation of pocketing higher rewards. Companies moved to colonial markets predominantly to trade, finance, extract raw materials or acquire agricultural products. Some companies, a clear minority, were involved with local production as was the case with Heineken. Producing in the colonies created challenges such as managing from a distance and working in different climates, in different cultures and dealing with different labour relations than in the mother country. On the other hand, colonies typically depended on the mother country, that recreated to a certain extent its own administration and institutions. Companies from the mother country could expect by and large a politically sympathetic environment. They also benefited from a network of personal relationships between the colony and its mother country.[1] As colonial rule

[1] Sluyterman, *Dutch Enterprise*, 41-45; Taselaar, *Nederlandse koloniale lobby*, 1-27.

ended in the period after the Second World War colonies became ‘developing countries’. Having won political freedom, the countries gradually aimed at more economic independence. At the same time they wanted to speed up economic growth to reach levels of prosperity that had been achieved in the developing nations. Companies working in developing countries had to deal with the same problems of distance and differences in climate and culture as in the colonies, but on top of that the political uncertainties were greater. It was also uncertain whether the developing countries would indeed show the economic growth that would create an attractive market.[2]

In contrast, emerging markets have already been indentified as future centres of economic growth. Still, companies have to face many of the same risks of developing countries though distance became less of an issue in the course of the 20th century. In 2003 McKinsey described the additional risks of investments in emerging markets as accelerated inflation, exchange rate fluctuations, adverse repatriation laws and fiscal measures, and macroeconomic and political distress. But the consultants argued that risks of overall investing in emerging markets need not be higher than in mature markets, as long as companies diversified their portfolios. They found low correlations among GDP growth rates in emerging-market economies or between their growth rates and those of the United States and Europe over the period 1980-2000.[3] Being present in many different markets was obviously the best solution to reduce risks.

This paper analyses how the brewery Heineken fared in these different environments as producer of a fast-moving consumer good. We examine the motives for Heineken to invest in colonies, developing countries and emerging economies, the variety of ways in which the company overcame the associated challenges, and the outcome of their efforts.

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[2] Jones, *Evolution*, 288-296; Jones, *Renewing Unilever*, 152-184.
[3] Goedhart and Haden, 'Emerging markets aren't as risky', 4-9.

Expansion within a colonial context

Right from the start in 1874, Heineken was interested in exporting beer. Neighbouring countries as well as Dutch colonies were the most logical places to begin. Beer sent to the colonies was first of all meant for the European expat community. However, exports remained modest in comparison to local sales which steeply increased till the First World War. After the war the Dutch beer industry struggled to reach the prewar levels of sales, in part because alcohol beverages in general had a negative connotation. The Dutch beer market was cartelized and thus offered few opportunities for expansion. Heineken looked abroad to find compensation for the stagnant sales in the Netherlands. During the interwar period exports doubled to 35.000 hl.[4] Apart from exporting beer Heineken invested increasingly in foreign breweries. In 1929 Heineken came in contact with the manager of the French/Swiss holding company Societé Financière de Brasseries (Sofibra) that had interests in breweries in Egypt, Morocco and Vietnam. The owners of Sofibra hoped that Heineken could open doors for them in the Far East. Heineken had indeed formed plans to set up a brewery in colonial Indonesia. Investment here offered the opportunity to serve the expat community with Heineken beer brewed locally. Exporting from the Netherlands affected the quality and was more expensive than brewing locally. Political risks were low because of the Dutch colonial administration was sympathetic towards Dutch business. Other European companies, however, could offer fierce competition. Heineken's initial plan did not go ahead, because a Belgian competitor, Brasserie Coloniale (Cobra) had just bought a piece of land to build a brewery in the same city (Surabaya) that Heineken had targeted. Instead, Heineken and Sofibra set up a brewery in Singapore. Together with a local partner, the soft drinks producer Fraser & Neave, they founded the Malayan Breweries. Heineken looked after the beer production and Fraser & Neave took care of the marketing. Heineken was not sure it would be able to brew in Singapore exactly the same quality beer as it did in the Netherlands. For that reason, the beer was sold under the brand name Tiger.

Heineken participated in Sofibra, and in 1934 both parties took over the shares of a Belgian bank in the Belgian company Interbra. This company owned shares in the holding company Cobra that had built the brewery in Surabya. So indirectly,

[4] Stadsarchief Amsterdam (SA), Heineken Archief, number 834, inv.no. 980.

Heineken became involved with the beer production in colonial Indonesia. After participating directly in the brewery in 1937, Heineken took over its management and changed its name in Heineken's Nederlandsch-Indische Bierbrouwerij Maatschappij (H.N.I.B.M.). Here Heineken decided also to brew its own Heineken branded bier. Apart from breweries in Europe, Interbra also owned breweries in Congo and Angola.[5]

At the end of the 1930s, Heineken's international activities were disrupted, but not by actions from the colonies, but by the Second World War that started in Europe. After the outbreak of the war it became difficult for Heineken to reach its overseas subsidiaries and export markets. Local managers had to survive without the support of the Amsterdam head office. Initially the Heineken brewery in colonial Indonesia served the market in USA to 'keep the Heineken brand alive'.[6] When the colonial government sequestered a brewery owned by the German company Beck's, Heineken representatives in Indonesia offered a bid, but it was too low. To the deep annoyance of Heineken managers in Amsterdam, the Dutch trading company Borsumij bought the brewery and became a fierce competitor. When Japan occupied Indonesia, Heineken lost control over its brewery. Not until 1946 did Heineken regain control.[7] In Singapore the British government confiscated the German brewery ABC, also owned by Beck's, which was the main competitor of Malayan Breweries. In this case, Fraser & Neave, and indirectly Heineken, was able to buy ABC and it was added to the Malayan Breweries. For some breweries the war brought great prosperity, as was the case for the breweries in Egypt thanks to the ample beer purchases of the British army.[8] None of the Heineken's foreign breweries suffered war damages, but there was a serious backlog in maintenance when the war ended.[9]

Expansion after the Second World War

The Second World War marked the beginning of the end for colonial empires, and that became first of all clear in Asia. The Philippines had gained self-government just before the Second World War, in 1936. Decolonisation achieved a milestone in 1947,

[5] Korthals, *Korte geschiedenis*, 376-378; SA, HA, inv.no. 1819.
[6] Heineken Annual Report 1939/40.
[7] Jacobs and Maas, *Heineken 1949-1988*, 218.
[8] SA, HA, inv.no.1951.
[9] Heineken Annual Report 1944/45.

when India, the biggest of all colonial nations, became independent. The ensuring war between India and Pakistan immediately demonstrated the complexity of many liberalisation movements, independence often giving way to internal struggles by groups feeling oppressed in their turn. Moreover, the colonial boundaries were rarely the most logical or desirable ones. Once India had become independent, other British colonial territories followed suit, including Sri Lanka, Burma, Malaya, and Singapore.[10] In the Dutch Indies the Indonesian nationalists proclaimed the independent Republic of Indonesia after Japan capitulated in August 1945. For four years the Dutch government tried to regain control. The military operations succeeded in returning more than thousand enterprises to Dutch authority, but they did not put an end to the unrest and armed attacks which continued to threaten ordinary daily business. Dutch business people working in the Dutch Indies began to accept the idea of an independent Indonesia as the most realistic solution. Thus they were relieved when in 1949 an agreement was signed between the Dutch government and the Republicans, formally acknowledging the existence of an independent Republic of the United States of Indonesia.[11]

After the war, it took the brewery Heineken a year to get back its premises in Indonesia and then nearly another year to produce its first beer. Despite (or perhaps because of) the political-military situation, sales in 1948 and 1949 surpassed pre-war levels. The Dutch soldiers were eager consumers of Heineken beer. After independence in 1949 the name of the brewery was changed from ‘Netherlands Indies’ to ‘Indonesian’. For a number of years the brewery was able to do good business, serving the Europeans as well as increasing numbers of Indonesians. However, in 1957 the curtain fell for Dutch interests in Indonesia. A political row over the position of Irian Jaya, still in Dutch hands, led to strikes and the occupation of Dutch establishments. In December 1957 all Dutch companies were put under government supervision. Dutch citizens left the country. The Heineken subsidiary happened to be formally part of the international financial group Cobra and thus was formally not ‘Dutch’. The brewery changed its name into Perusahaan Bir Bintang and the brand name into Bintang. Dutch managers were replaced by managers from other European countries. Heineken withdrew as technical advisor and manager of the

[10] Chamberlain, *Decolonization*, 2.
[11] Baudet and Fennema, *Nederlands belang*, 136-143.

brewery. Sales went down immediately, possibly because the Dutch consumers had left the country.[12]

The Heineken joint venture Malayan Breweries in Singapore was more successful in these years. In 1949 a Heineken manager commented on the favourable circumstances in Singapore: 'In the midst of a world in which nationalist and other passions flare up fiercely, there is Singapore, England's bastion in the Far East, still a colony, in which the white man can fully enjoy its ancient privileges'.[13] Malayan Breweries was so profitable that this joint venture of Heineken and Fraser & Neave followed an expansion policy in its own right. It took over a small brewery in Australia Papua New Guinea and another one in New Zealand. In 1957 Malayan Breweries decided to build a brewery in Kuala Lumpur in Malaya (Malaysia), which opened in 1962.[14]

The colonial powers remained in place in Africa longer than in Asia. Heineken became particularly active in Africa, together with the international trading companies United Africa Company (UAC), subsidiary of Unilever, and the French trading house Compagnie Française de l'Afrique Occidentale (CFAO). Even before import measures made markets in West-Africa difficult to penetrate, the local manufacture of beer could be very advantageous as long as consumer demand was sufficient, because of the high freight cost of imported beer. In 1945 UAC and Heineken agreed to set up the joint venture Nigerian Breweries Ltd (NBL).[15] They included the other main importing firms in the joint venture who might otherwise be negatively affected by the expected reduction in beer imports. Heineken became responsible for building and running the brewery in Lagos, which came into production in 1949, while UAC looked after the marketing and distribution. Dutch expats held the crucial positions in the brewery, but in due time trained the local population for the middle management positions. According to the joint venture agreement NBL was not allowed to use Heineken as a brand name. Heineken continued to import its Heineken brand from the Netherlands. The locally brewed beer was called 'STAR'.[16] Initially, this beer met with fierce competition from the established European importers of beer, but in the cause of time it became very successful. The chauvinistic Nigerian population

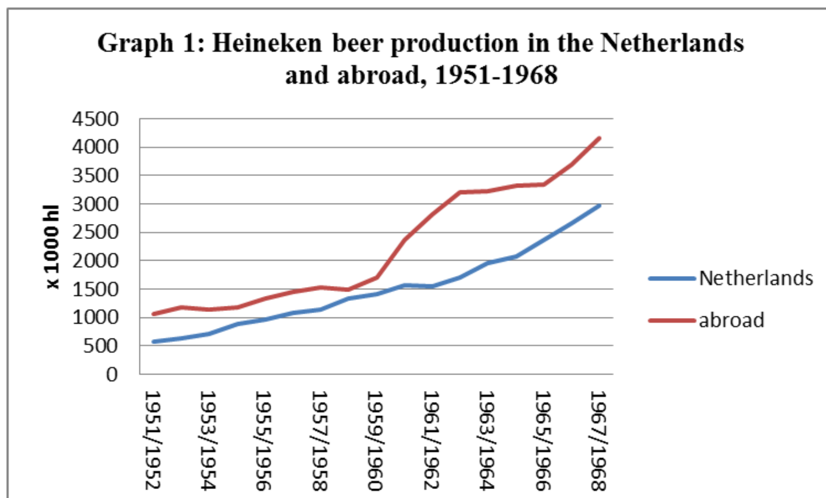
[12] SA, HA, inv. no.1945. In 1965 the factory was placed under Indonesian control, while all European staff were dismissed. Two years later the much-diminished business was returned to Heineken.
[13] SA, HA, inv. no.1098.
[14] Heineken Annual Reports 1956/57-1962/63.
[15] SA, HA, inv.no. 1180.
[16] Fieldhouse, *Merchant capital*, 306-307, 384-385.

increasingly bought the local brand. The new brewery in Lagos became a great success and a source of very satisfactory profits. During the 1950s it had to be enlarged several times. The good results encouraged Heineken and UAC to set up more breweries in Nigeria, including one in Aba and one in Kaduna.[17] The partners also established a brewery in Kumasi (Ghana) in 1958, in Freetown (Sierra Leone) in 1962 and in Moundou (Chad) in 1963. With Belgian partners Heineken built a number of breweries in Central Africa, which sold beer under the brand name Primus.[18]

Heineken also tried its luck in South America. In the early 1950s moving to Venezuela also seemed an interesting option for Heineken. The country was booming thanks to the oil production. Several Dutch companies were active in Venezuela, including Royal Dutch Shell, Van Leer (oil drums), HAM (dredging) and Hollandse Bank Unie (banking).[19] No wonder Heineken was interested in opening a brewery in that country. Initially Heineken intended to build a new brewery, but in 1951 it decided to buy a newly built brewery in Caracas that happened to be for sale. It took some time to turnaround the acquired brewery by bringing in administrative order and raising the quality of the output. However, more serious than these teething problems was the heavy competition from two powerful local brewery groups, who started a price war. Even with locally produced Heineken beer the subsidiary was unable to raise prices. In 1963 Heineken sold the brewery to one of its competitors.[20] Why did this project fail while so many others succeeded? In this particular venture Heineken did not work together with a locally established trading house as it did in Africa and in Asia. Heineken had a long experience with building and running breweries but less so with distributing its products profitably in local markets. Moreover, and perhaps even more importantly, in contrast to the African countries, Venezuela possessed strong national brewing groups, who obviously worked hard to save their own market share. Consequently, competition was stronger than Heineken bargained for. Heineken left the country for the time being.

Graph 1 shows the Heineken beer production at home and abroad.[21]

[17] Jones, *Renewing Unilever*, 1-27.
[18] Jacobs and Maas, *Heineken 1949-1988*, 242-244.
[19] Sluyterman and Wubs, *Over grenzen*, 105.
[20] SA, HA, inv.no. 1200.
[21] Source: Heineken Annual Reports 1951/52-1967/68.



As early as the 1950s the production abroad was larger than that at home. Though it is not quite clear, Heineken probably included the complete volume of all breweries under their technical direction, even if the company had only partial ownership of the foreign subsidiary. A further geographical breakdown, however, was not available.

For servicing the breweries abroad, Heineken set up a separate department, 'Technisch Beheer Buitenland', which in 1963 became part of Heineken Technisch Beheer (HTB). This department was responsible for all technical and technological issues, including research, it designed breweries, ordered the equipment, looked after the expats and gave brewery courses working abroad or at home. It was not difficult to find Dutch employees willing to work abroad. In the 1960s the Heineken expats in Africa organised their own conferences to exchange information and add to the team spirit. [22]

From colonies to developing countries

In the late 1950s the process of decolonization gathered speed. During the 1950s Britain introduced limited forms of democratic government in its East African colonies, after which Uganda, Tanzania, and Kenya successively achieved independence between 1961 and 1963. In West-Africa Nigeria became independent in

[22] *Vers van 't Vat*, 7/1963, 2/1965, 11/1965, 11/1966, 7/1967, 7/1968.

1960. The Belgian Congo was regarded as one of the most traditional colonies. As late as 1955, the very idea of self-government within thirty years seemed far-fetched. During 1959, serious riots made the Belgian government change its mind, and a year later the independent republic of Congo was proclaimed. This abrupt declaration of independence was followed by years of fighting and chaos. The Suez crisis in 1956 ended the British reign in Egypt.[23] The end of colonialism had obviously consequence for Western business in those countries. The fighting caused disruption in the daily business, but the independence led to different working conditions. Newly established national governments had other priorities than the former colonial administrators. They were tough on the transfer of profits, tended to raise import duties, pressed for more involvement of local managers, and wanted their own people to participate in the local subsidiaries of multinational companies.[24] On the other hand, governments found alcoholic drinks attractive products for levying taxes, and therefore they had strong incentives to protect its production. In the 1960s and 1970s many multinationals decided to leave the former colonies in response to government insistence on ownership, increasing taxes and regulations, and insecure political situations.[25] But Heineken was not one of them. The company stayed the course.

In the Far East the Heineken joint venture Malayan Breweries (MBL) showed steady growth during the 1960s. It extended its activities to other countries, including the establishment of a new brewery in Kuala Lumpur. The break-up of the Malayan Federation in 1965 had no negative impact on the development of MBL. After a change of government in 1967 the Indonesian government decided to return to the original owners the brewery P.T. Perusahaan Bir Indonesia, which it had sequestered two years before. Running a brewery had clearly been more difficult than expected, because in those two year the brewery had rapidly declined in turnover and quality of beer. It was time to call the experts back in.[26] In its annual report of 1961/62 Heineken explicitly mentioned the risks of working in 'developing countries'. Its two breweries in Egypt were sequestered and later nationalized in the aftermath of the Suez crisis,

Met opmaak: Engels (V.S.)

[23] Fage, *History of Africa*, 460-490; Reid, *History of modern Africa*, 276-295.
[24] Sluyterman, *Dutch Enterprise*, 167-179.
[25] Geoffry Jones, 'Multinational Strategies and Developing countries in Historical Perspective' Harvard Business School, working paper 10-076.
[26] SA, HA, inv.no. 1192; Annual Report Heineken, 1966/67; Unilever's Indonesian company had also been put under 'government control' in 1964 and was handed back three years later: Jones, *Renewing Unilever*, 154.

which marked the end of British colonial rule.[27] The Dutch Employers Association urged the government to set up scheme to insure companies against political risks. In 1966 such an insurance scheme was indeed introduced.[28] It was considered positive that companies would invest in developing countries, because that was supposed to stimulate economic growth. In the 1960s economists were fairly optimistic that developing countries would be able to follow the growth path of Europe and the United States, and investment in industrial activities would be paving the way to that end.[29] The 1960s were a period of growth for many countries. Though the political situation made working in Africa risky and sometimes dangerous, its economic growth during that period made it still an attractive continent to invest in. Heineken reported year after year overall rising beer sales in Africa and responded with increases in production capacity.

Managing breweries in exotic places belonged to the most important skills of the company. Managing the financial organization was another. Originally Heineken's international activities formed part of the holding company Cobra. From the late 1940s onward two-third of the investments in foreign breweries were financed by Heineken, while the rest came from the other partners in Cobra.[30] During the 1950s and 1960s Heineken successively acquired Cobra shares until it owned 99,7 per cent, so that Cobra could be incorporated in Heineken International.

Around 1970s Heineken's beer sales were highest in Europe (also due to the merger with Amstel breweries in 1968), but second came Africa with 32 per cent of sales of beer brewed under Heineken direction, as can be seen in graph 2.

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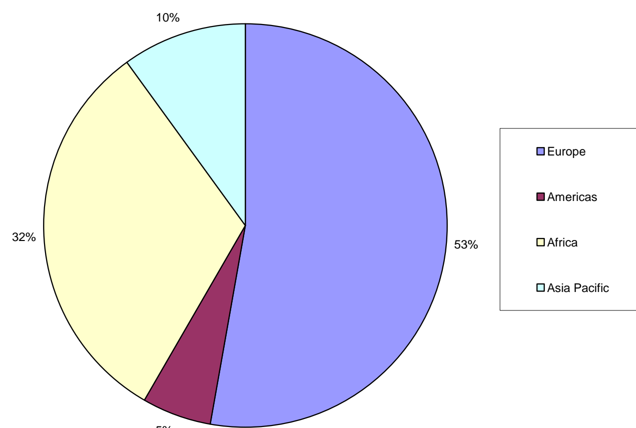
[27] Annual Report Heineken, 1960/61 en 1961/62.
[28] Annual Report Heineken, 1966/67.
[29] See for instance: Rostow, *Stages of economic growth*.
[30] SA, HA, inv.nr. 1010.

Graph 2: Geographical breakdown of Heineken beer sales around 1970



In the annual report of 1970/71 Heineken reflected on recent developments in Africa. It mentioned that the possibilities open to the company were plentiful, particular for the local production of beer (in contrast to exports). However, there were also some worrying developments:

> ‘A fundamental change in the relationship between Western industry and Africa is reflected in the explicit endeavour by various African governments to strengthen the position of their nationals with regard to the ownership and management of firms which are controlled by Western enterprises. Although our training possibilities for local employees have been utilized to the maximum, in several countries where we operate the replacement of expatriate European managers has proceeded faster than a proper training allows. It is self-evident that this is prejudicial to the efficiency of the management. Furthermore, especially recently, we have to contend with incidental and hardly predictable interventions in business transactions, e.g. in the form of import regulations, transfer restrictions and tax increases.’[31]

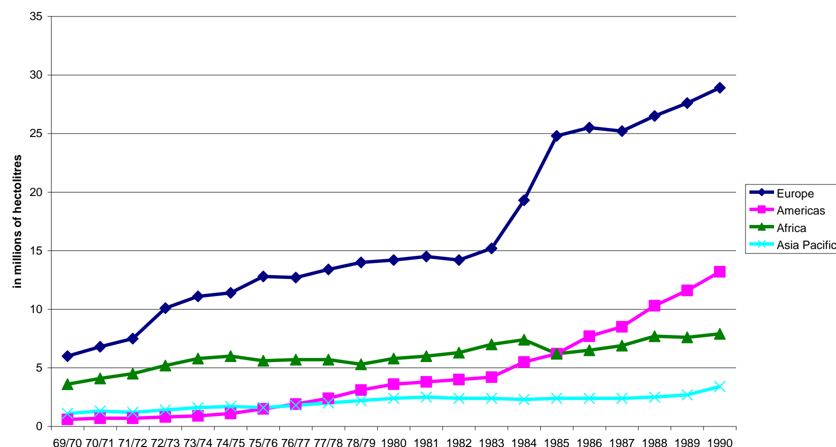
The company realized that these measures largely arose from the less favourable economic situation in these countries as a consequence of decreasing world market prices for tropical products and minerals. These circumstances made their investments in these countries less secure. To remain relevant for developing countries Heineken treasured its technical excellence in building and running breweries.

[31] Annual Report Heineken 1971/72.

Multinationals and developing countries: partners or opposites

During the 1970s, therefore, Heineken began to explore more vigorously than before the markets in politically more stable countries. Graph 3 highlights the geographical division of the Heineken sales between 1969 and 1990. The figures contain all beer brewed under Heineken direction, including fully most of the joint ventures beer sales.[32] The figures show the relative shift away from Africa and towards European countries and the US. In the 1970s Heineken took over breweries in France, Spain and Italy in the expectation that beer would 'travel South', that the population in Southern Europe would increase the consumption of beer to the same level as the population in Northern Europe. However, Heineken did not leave Africa. Its sales in Africa remained higher than in Asia throughout the 1970s and 1980s.

Graph 3: Geographical breakdown of Heineken beer sales, 1969/70-1990



During the 1970s the economic growth in the advanced economies began to stagnate and that also had its negative impact on developing countries. This was particularly true for developing countries without access to oil after the oil price shock in 1973. On the other hand, the success of the OPEC cartel in its action against the major oil companies further emboldened the governments of developing countries to take their countries' future in their own hands. In 1973 the Nigerian government demanded that 40 percent of the shares of the Nigerian Breweries were sold to the population of

[32] Source: Annual Reports Heineken, 1969/70-1990.

Nigeria.[33] A year later the government of Ghana claimed 55 percent of the shares in Kumasi Breweries. In Zaïre the government simply sequestered the brewery in 1975. However, the sequestration of the Zambian brewery was ended in 1976, because the new managers had been unable to run the brewery properly. The brewery was returned to its original owners but the government demanded a 40 percent share.[34] By this time, Heineken began to feel deserted by the Dutch government. It used its annual report to complain about the fact that the governments of the industrialised countries encouraged investment in developing countries to contribute to a more equal provision of welfare, but were apparently not able to reach acceptable agreements regarding the fate of those investments by individual companies in developing regions. Moreover, in giving aid, the Dutch government seemed to pay far less attention to the interests of Dutch business than the French and German governments. Heineken pleaded for a constructive dialogue between government and industry in this field.[35]

In the 1970s, the Dutch government, and the public more generally, had not much sympathy to spare for multinational companies. Though opinions were divided, many looked with suspicion at multinationals. This was illustrated by a report from the Social and Economic Council in the Netherlands, published in 1979 to discuss some UNCTAD subjects. The report highlighted a majority and minority view. In majority the members were of the opinion that investment from multinationals in developing countries had first of all to benefit those countries. The multinationals obviously had to upheld high standards in labour relations and safety, but they were also supposed to transfer the technology and knowhow that would stimulate the local economic development in those countries. Their industrial activities should certainly not hinder the local development. A minority thought that multinationals needed more protection against the governments of developing countries.[36] Not only multinationals, but more generally the national economy of developed countries should allow more space for developing countries to produce industrial products and export them. However, when the developing countries faced an economic recession in the early

[33] Annual Report Heineken, 1973/74; Jacobs and Maas, *Heineken 1949-1988*, 254. In 1978 another 20 percent had to come in the hands of Nigerians. As a consequence, Heineken's share in the company was reduced from the original 33,33 percent to 13,38 percent.
[34] Annual Report Heineken, 1974/75 and 1975/76.
[35] Annual Report Heineken, 1975/76.
[36] SER, Advies over enkele onderwerpen die op de vijfde VN-Conferentie inzake handel en ontwikkeling (UNCTAD) aan de orde komen (1979, nr. 7), 22-23: Sluyterman, 'De economische integratie van Nederland in Europa en in de wereld', 202.

1980s, such altruistic thoughts moved to the background. Both developed and developing countries became locked into a debt crisis that took a number of years to sort out.[37]

During the 1980s Heineken remained active in Africa. In a number of cases it could increase its participation. When the growth prospects were diminishing, local shareholders were less eager to hang on to their participations. Heineken's activities in Asia showed a modest growth during the 1970s, but remained steady during the 1980s. Ups and downs in consumer demand were closely related to the prices of export products on world markets. In particular during the 1980s falling prices on world markets the breweries saw their growth curtailed by a combination of higher taxes and lower consumer spending.[38] To increase business in this region, Heineken preferred licensing agreements over direct investment. In 1981 it concluded an agreement with the South Korean firm Oriental Breweries, and in 1983 followed an agreement with the Japanese firm Kirin. In the same year Heineken took a small participation in a brewery in Brazil. Though Heineken was not yet ready to invest large amount outside Europe, it began to increase its international footprint.

In its annual report of 1989 Heineken remarked that beer markets in Europe and the US were stagnating. The solution to this problem was not immediately sought in moving to emerging markets, but in trying to find out more about consumer preferences, because consumers seemed to have developed more individual tastes. This called for more attention for special beers as well as more marketing and branding to convince the consumers that the special beers were just what they needed. In her study on global brands in the alcohol beverages industry, Teresa da Silva Lopes concluded that drinks companies moved abroad through acquisitions and that strong brands and marketing knowledge played an important role in the selection of acquisition targets.[39] Heineken was indeed interested in acquiring breweries that had a good distribution system and a considerable share of the local market. If the local brands were strong, Heineken certainly supported them, but it had no wish to build them further into global brands. Instead it preferred to use the acquired local distribution infrastructure to introduce its own global brands, which could either be the Amstel or Heineken brand. Abroad the Heineken brand was positioned as the most

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[37] Lever and Huhne, *Debt and danger*; Frieden, *Global capitalism*, 374-378.
[38] Annual Reports Heineken 1980-1985.
[39] Lopes, *Global brands*, 1-5; 251-256.

expensive and prestigious brand of the company, a premium brand for which consumers were prepared to pay a higher price. This policy was applied in the 1990s and clearly formulated in the annual report of 2000:

> ‘The Heineken brand is strong and dynamic, and therefore is able to capture a position in a beer market based on its own strength. The strength of the brand is increased if Heineken is added to a portfolio containing local and regional brands. For this reason we participate in many countries in local companies which not only have good distribution networks and breweries with an efficient cost structure, but also have good market positions and strong local brands. (…) Combining strong local positions and brands with the marketing and sales of the international premium brand Heineken is our key competence in the beer industry.’[40]

Unkindly formulated you could argue that Heineken wanted to acquire foreign breweries for their marketing knowledge and distribution power in order to use that power to promote its own corporate brands.

Emerging economies the place to be

In 2001 Jim O’Neill, economist at Goldman Sachs, wrote a report titled ‘Building Better Economic BRICs’. With the term ‘BRIC’ he meant Brazil, Russia, India and China and he argued that these countries would grow faster than the G7 countries.[41] In this last section we will look at Heineken’s attitude to new emerging markets and especially to these four countries. When did Heineken invest in these countries? How did Heineken invest? How successful were those investments?

The last two decades of the 20th century saw a period of renewed globalization. Developing countries became less inclined to restrict foreign ownership and more inclined to reduce trade barriers and lift exchange controls. Deregulation and privatisation opened new opportunities for multinational companies. Often their investments were actively stimulated with all sorts of incentives. However, national institutions, such as the protection of intellectual property, remained very different and multinationals could still face expropriation. Multinationals also faced new forms of political risks related to claims of human rights abuse or environmental damage.

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[40] Annual Report Heineken, 2000.
[41] http://www.goldmansachs.com/our-thinking/topics/brics/brics-reports-pdfs/build-better-brics.pdf

On the other hand, managing from a distance became easier thanks to innovation in communication and information technologies.[42]

When the Berlin Wall came down in 1989, this unexpectedly opened new possibilities in Eastern Europe[43] and Heineken was keen to move to these markets. In 1991 a first step in this direction was made by buying a brewery in Hungary. This participation was followed by a minority participation in Poland in 1994 which was gradually increased while the brewery was extended. A merger with another Polish brewery further strengthened Heineken's position in Poland. An opportunity to acquire the Czech company Pilsner Urquell was missed, but Heineken succeeded in buying a participation in the Slovak brewery Zlaty Bazant. The acquisition of the Austrian holding company Brau Beteiligungs AG in 2003 gave Heineken not just breweries in that country, but also in Eastern and Middle Europe. The expected growth of the beer consumption in this region, however, was not as large as expected. It certainly was not high enough to compensate for stagnating growth in Western Europe. Overall, sales in Europe went down after 2008.

It took Heineken a long time to move to Russia. Not until 2002 did Heineken buy its first brewery in Russia. This company, Bravo International, was the fourth largest brewer in Russia in terms of production volume. The purchase seemed to make sense in the light of the high import duties. In 2003 Heineken started the local production of beer under the Heineken brand to save payments on import duties.[44] With the acquisition of six breweries in 2005 Heineken reached a market share of 14 per cent and a number 3 position on the Russian beer market. Russia had become Heineken's single biggest market by volume.[45] The production capacities of the acquired breweries was upgraded and expanded, while the number of employees went down. The rising trend in beer consumption, however, came to a halt in 2008 as a consequence of the economic recession. Higher purchase prices and increasing excise duties negatively affected the beer market. Heineken decided to change its strategy and focus on a smaller number of national and local brands. Two breweries were closed and sales in Russia went down. High competition and low prices did little for profitability. Thus, Russia as emerging market did not yet fulfil its high expectations.

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[42] Geoffry Jones, 'Multinational Strategies and Developing countries in Historical Perspective' Harvard Business School, working paper 10-076.
[43] Judt, *Postwar*, 637-664.
[44] Annual Report Heineken, 2001-2003.
[45] Annual Report Heineken, 2005.

In another emerging market, Brazil, Heineken also struggled to build up a profitable position. Heineken first entered Brazil in 1983, when it joined local Coke bottlers to create a brewery (Kaiser) that challenged the two leading Brazilian brewers Brahma and Antarctica in the country's market. Heineken provided brewing expertise, the Coke bottlers a distribution system. Together, they managed to win a 15 per cent market share in just a few years. In 1999 the consultant McKinsey praised this initiative as a 'creative cross-category move' that might eventually 'let a few beverages companies reshape local distribution – and indeed the industry's structure – by eliminating surplus costs and redundant assets'.[46] In 1990 Heineken had licensed Kaiser to brew the Heineken brand. Despite the positive assessment by McKinsey, Heineken was less enthusiastic about the situation in Brazil. The company had only a small stake in the brewing company Kaiser (about 14 per cent), and Kaiser itself had only a modest (and shrinking) market share in Brazil. Thus Heineken's exposure to the fastest growing beer market in Latin America was weak at best.

In 1998 Heineken set up its own marketing organization in Brazil to promote the marketing, distribution and visibility of the Heineken brand. But Heineken had to compete with two very strong local producers, the breweries Brahma and Antarctica, who became even more dominant when they merged in 2000 to form Ambev. Their power even increased after the merger with the Belgian company Interbrew in 2004.[47] Heineken would have liked to increase its stake in the Kaiser group to strengthen its position in Brazil. However, when Kaiser came up for sale in 2002 the Canadian firm Molson took over the company in order to combine it with its Brazilian subsidiary Bavaria. To remain involved in Brazil, Heineken took a 20 per cent participation in the new Kaiser company. Unfortunately, the new company was not very successful. Three of its breweries were closed and market share went down from 17 per cent to about 9 per cent. In 2008 Molson sold its 68 per cent share in Kaiser to the Mexican company Femsa.[48] With this new partner Femsa Heineken had already a distribution agreement for the sale of their Mexican beer brands on the US-market. Heineken was finally able to increase its presence in Brazil when it acquired the beer interests of Femsa in 2010, which also gave Heineken a strong position in Mexico.[49]

[46] Benson-Armer, Leibowitz and Ramachandran, 'Global Beer'.
[47] Riepl, *Belgische bierbaronnen*, 212-242.
[48] *Impact*, vol. 36, no. 3&4, February 1&15, 2006.
[49] Annual Report Heineken, 2010.

It took Heineken a long time to establish itself in Brazil, but it was not the only country in Latin America that drew Heineken's attention. Heineken acquired participations in breweries in Argentina, Chili, the Carribean and Mexico. Some of them were combined with licences to brew the Heineken branded beer. The participations in Latin America showed mixed results, but often the disappointing results in one country were be balanced by good results elsewhere. The strength lay in the overall packages.[50]

Beer consumption in the People's Republic of China showed a tremendous growth in the 1990s. In 2006 China had overtaken the US as largest beer market in the world.[51] This was a surprising development, because in the 1970s the beer industry in China had been unimportant. In 1978 there were no more than 90 breweries and most of them were small and local. However, during the 1980s local governments took the initiative to build local breweries, and as a consequence a rapid growth in new breweries took place. Every city, county or province wanted to have its own brewery. In 1990 the expansion reached its peak with 900 breweries.[52]

After 1979 China opened up the country for foreign investment.[53] International breweries were eager to enter the Chinese market, because they expected a rapid growth of beer consumption. Also Heineken studied the possibilities to enter the Chinese market. Because of the cultural and language differences between China and the Netherlands, Heineken wanted to enter the Chinese market together with Asian partners. In 1988 Heineken participated in an existing brewery in Shanghai together with Fraser & Neave, and the Chia Tai Group of Hongkong.[54] After the deal had been concluded, expats from Heineken travelled to China to manage the Mila brewery and train the Chinese employees.[55] The start was not auspicious because in the summer of 1989 student's protests and demonstrations for freedom of expression were smothered in violence. However, the Heineken expats remained in Shanghai because they could work there in peace.[56] Though the Mila brewery was only a few years old, Heineken people saw much to improve. It was not just a matter of installing new machinery but more of introducing systems to maintain the facilities and making employees feel

[50] Annual Reports Heineken, 2000-2011.
[51] Bai *et al*, 'Beer battles in China'.
[52] Bai *et al*, 'Beer battles in China', 268 and 275.
[53] Guthrie, *China and globalization*, 37-42, 60-63.
[54] Annual report Heineken 1988.
[55] HC, *Vers van 't Vat*, Nov. 1988.
[56] HC, *Vers van 't Vat,* June 1989 and Aug. 1989.

responsible for cleaning and maintenance.[57] In 1993 Heineken called the marked increase in beer consumption in China a ‘striking feature’.[58] It therefore acquired more participations in Chinese breweries with APB and local partners. In 1994 Heineken even agreed to build a completely new brewery at the island of Hainan, which began to operate in 1997.[59]

Between 1995 and 2000 the beer sales world wide increased with 2,6 per cent, but the beer consumption in China grew with 8,6 per cent. No wonder, the international brewers all wanted to be in China. In 1992 there were only four foreign brewers in China, including the Heineken joint venture APB, San Miguel, Pabst and Beck & Co. In 2001 all large international breweries were established in China. Yet, the strong growth did not mean foreign investors made profits easily. The Chinese market turned out to be difficult for foreign companies. In the first place, Chinese consumers preferred light and cheap beer and they were attached to local brands. The extensive marketing by foreign brewers had made Chinese consumers aware of global brands, but they were not inclined to buy the foreign brands. The distribution systems were underdeveloped, which made the Chinese market very fragmented. Some brewers even left China, others looked at the country as an investment for the very long term.[60] In the meantime the Chinese beer industry went through a process of concentration that mostly benefited the private Chinese brewers. The number of independent breweries decreased from nearly 900 in 1990 to 400 in 2007.[61] In this process of consolidation Heineken/APB sold some its participations in Chinese breweries, but not all of them. The company changed its strategy. It no longer had the ambition to be present in the Chinese market with local brands, because it was hard to produce the cheap local produce profitable. Instead, Heineken/APB focused on the production and distribution of premium brands, and in particular the Tiger and Heineken brands. The production took place in a Greenfield brewery in Guangzhou, that Heineken/APB had built in 2010.[62]

The initial strategy to become an important brewer in China had not worked, but Heineken achieved some success with the distribution of the premium brands Heineken and Tiger. In other countries in the Asia/Pacific region Heineken and its

[57] HC, *Vers van ’t Vat*, Aug. 1989, May 1990, July 1993.
[58] Heineken Annual Reports 1989-1993.
[59] Heineken Annual Reports, 1994- 1997.
[60] Heracleous, 'When local beat global', 39-40.
[61] Bai *et al*, 'Beer battles in China', 274-276.
[62] Heineken Annual Reports, 2009 and 2010.

main partner APB had considerable success. In Singapore, Malaysia and Indonesia, Heineken remained well established. In Vietnam it became the number one brewer. For Heineken APB had become such an important vehicle for the Asian market that it wanted to turn ABP from a joint venture with Fraser and Neave into a fully owned subsidiary. In 2012, after a two month battle with Thailand's biggest brewer ThaiBev, Heineken convinced the shareholders of Fraser and Neave to sell their APB shares to Heineken.[63]

Though Heineken was interested in entering China from the early 1980s onwards, neighbouring India received scant attention. Just as China, India showed an impressive economic growth at the start of the 21st century, but India was not a beer country. In some of its states alcohol was actually discouraged or even prohibited.[64] Heineken beer was available in the country, but Heineken had no production facilities until 2006. In that year Heineken entered India through its joint venture APB, which purchased a majority stake in an existing brewery in Aurangabad. At the same time, APB set up a company to build a new brewery in Hyderabad. This situation in India changed in 2008. Heineken together with Carlsberg acquired the Scottish brewer Scottish & Newcastle, which among others owned a participation in the largest Indian brewery group, United Breweries, with the well known brand Kingsfisher.[65] The Indian entrepreneur Vijay Mallya had teamed up with Scottish & Newcastle only four years earlier with the ambition to garner the support of a multinational player in India and expand Kingsfisher's global presence. As he explained himself: 'Scottish & Newcastle gets access to the Indian market, and we get strong overseas distribution.'[66]

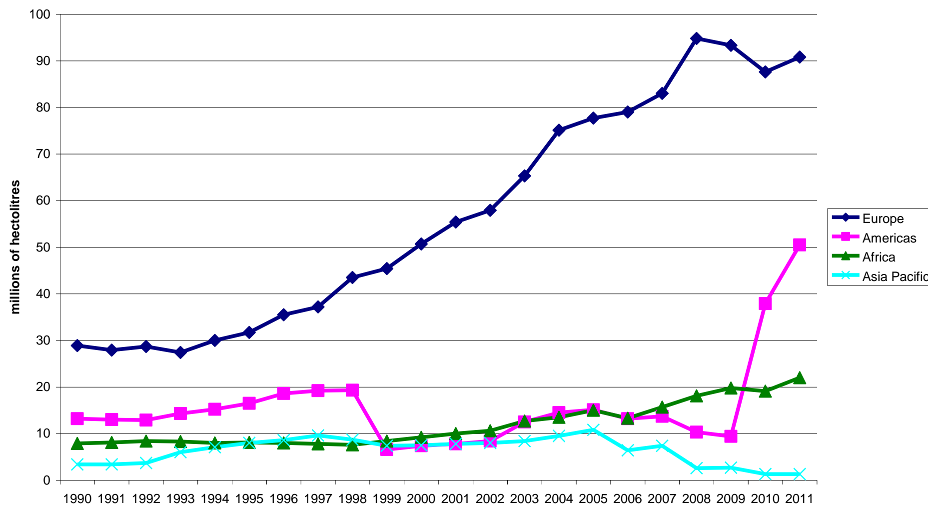
Heineken was not able to simply take over the shareholders' agreements between Scottish & Newcastle and United Breweries, because Heineken already owned breweries in India through APB. United Breweries as well as APB claimed a conflict of interest. A tangled web of joint ventures and participations had to be unravelled, before Heineken, United Breweries and Vijay Mallay could announce their new partnership for growth. To make this partnership possible Heineken acquired APB's operations in India and transferred these operations to United Breweries. The enthusiastic regional commercial manager of Heineken Asia Pacific

[63] *Financial Times*, 28 September 2012.
[64] Arora *et al*, 'Opening the beer gates', 310-318.
[65] About the growth of Scottish & Newcastle in the 1990s see: Bower and Cox, 'How Scottish & Newcastle', 51-66.
[66] *Impact*, vol. 36, no. 3&4, February 1&15, 2006.

commented on the deal: ‘The potential for the Heineken brand in this largely untapped market is enormous and we have found Indian consumers to be immensely savvy about the brands they choose. We believe the combination of the Kingfisher and Heineken brands will fortify our ability to shape the premium segment and the overall beer market in India’. [67]

Numerous small takeovers and major acquisitions turned Heineken from an international player to a true global company. Graph 4 shows the geographical division of the Heineken sales from 1990 to 2011.[68] Until 2008 Heineken realised most of its growth in Europe, which included Eastern Europe and Russia. The acquisition of Femsa had a marked impact on the sales in the Americas. Though Africa was not specifically targeted as growth area, the sales gradually went up in the 21st century after stagnation during the 1990s. More importantly, it was very profitable. In contrast, the sales in Asia went down, mostly because Heineken worked through joint ventures in that region and for that reason could not consolidate the sales in its annual report. The recent acquisition of the 62 percent of APB shares Heineken did not yet own will highlight the strong position the company acquired in recent years.

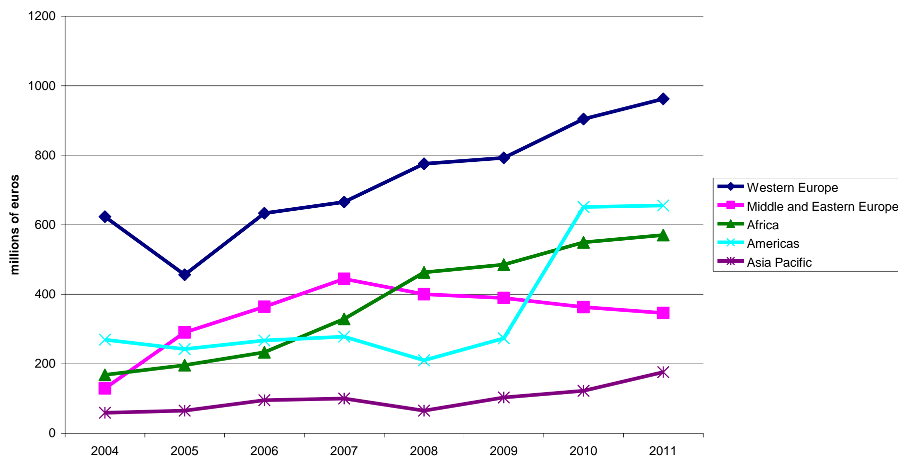
Graph 4: Geographical breakdown of Heineken beer sales, 1990-2011



[67] Heineken Annual Report, 2009.
[68] Source: Heineken Annual Reports, 1980-2010.

For the period 2004-2011 it is also possible to give a geographical breakdown of the earnings. The earnings presented in graph 5 are measured in EBIT, beia, which means earnings before interest and taxes and net finance expenses, before exceptional items and amortisation of brands and customer relationships.[69]

Graph 5: Geographical breakdown of earnings (measured in EBIT, beia), 2004-2011



Middle and Eastern Europe were clearly seriously affected by the economic crisis, as earnings declined steadily after 2007. In comparison, Western Europe remained very profitable, despite the stagnating demand. Here Heineken systematically increased efficiency and lowered production costs. The increase of earnings from the Americas reflected the acquisition of the Femsa beer division in 2010. Asia Pacific showed a steady growth of earnings. Most striking, however, are the rising earnings from Africa. The 'lost continent' was able to contribute substantial to Heineken's earning in the period 2004-2011.

Through the acquisition of so many national and local breweries, Heineken acquired a large number of beer brands. Though the Heineken brand remained the company's flagship brand, the company became more inclusive towards other brands and made efforts to introduce acquired local brands in other markets. In 2011 it even changed the house style to create a difference between the Heineken brand name and

[69] Heineken Annual Reports, 2004-2011.

the company name Heineken. But the difference was so subtle that the public may not have got the message.[70]

[70] The main difference was the spelling of the name HEINEKEN for company and Heineken for brand: Heineken Annual Report 2011.

Conclusion

Heineken's most important motive for moving abroad was the wish to reach markets with untapped demand for beer. To make its foreign activities into a profitable venture, Heineken had to balance opportunities against risks. In moving abroad Heineken used a number of instruments, often in combination. Exporting from the home country was an option and Heineken followed that route, but exporting bottled beer was expensive. It was only worthwhile if consumers were prepared to pay a high price for their beer, and therefore with export you could only address the top segment of the market. To reach a larger segment of the market, local production was required. Investing in production facilities posed more risks than exporting. In colonial markets political risks were modest. Institutions resembled, to a certain extent, the formal rules the firm was used to in the mother country. Conditions for production and distribution were, however, quite different and distance was an issue. In developing economies the conditions for production and distribution remained very different, and political risks increased, but during the 20th century covering distances became easier. Emerging markets often posed the same risks as developing countries, though in the global economy these risks declined and their nature changed.

After building or acquiring local production facilities for brewing a local brand, Heineken might give a license to brew the Heineken brand, but it could also continue to export the Heineken brand from the Netherlands. Heineken's competitive advantage was clearly located in its technical expertise. It knew how to build and run a brewery, and partners turned to Heineken because of that expertise. Until the 1990s Heineken expats had a technical background. This changed in the 1990s, when Heineken became closer involved with the general management of its breweries abroad, and branding became an important aspect of marketing.

Heineken's most important strategy to reduce risks in entering unfamiliar markets was finding partners. In the colonial time, partners were mostly other European companies with experience in distribution. In developing countries Heineken had to accept local participation and continued to rely on the logistical skills of trading houses. In emerging markets Heineken sought local partners, with local knowledge and connections, and sometimes in possession of strong brands and a distribution network. When the beer industry began to consolidate world wide, the network of partnerships could easily lead to conflicts of interests. This led to a process

of constant negotiations. Heineken's second strategy to reduce risks was spreading investments over a large number of countries. Heineken went to the BRIC countries that were identified as the most attractive emerging markets, but it also went to many other countries that received less media attention but also offered attractive prospects. Overall, Heineken has a stronger presence in small than in large countries, and that may well be a reflection of its home country.

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