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APPENDIX

APPENDIX A: RESEACH INTERVIEW GUIDE

RESEARCH TOPIC:

A FRAMEWORK FOR REVITALISING A BEVERAGE BRAND THROUGH AN UPSCAPE LINE EXTENSION

INTERVIEW GUIDELINE

Respondent's name : ____

Company : ____

Position : ____

Beverage Brand : ____

Other Beverage Brands of Relevance: _________________________________

SECTION A: SETTING THE SCENE

1. State research topic and explain research methodology
2. Define what a core or mainstream brand is:

A mainstream brand is usually a category leader and/or one that enjoys high levels of brand awareness, and related admiration. An example is Castle Lager in beer.

3. Define what a line extension is:

A line extension is where a new product is launched using the parent brand name as a foundation into markets already served. An example is Coca Cola and Coke Lite that co-exist in the soft drinks market.

SECTION B: LINE EXTENSIONS AS A REVITALISATION STRATEGY:

4. To revitalise a brand, marketers either reposition a brand or introduce a line extension. Which is riskier and why?
5. What benefits does a line extension offer the mainstream brand?
6. How strong must a brand be for its line extension to be successful?
7. What difficulties and cautions are there in upscaling a brand to a premium position?

SECTION C: RELATIONSHIP WITH PARENT BRAND:

8. How is the offering of a line extension different to that of the parent brand? (probe variant type)
9. To what extent does the line extension mirror the parent brand? (Probe positioning, identity, etc.)
10. How would you approach a campaign strategy? Different or same as parent brand?

SECTION D: MAXIMISING BENEFIT AND MINIMISING RISK:

11. Who does the line extension target and why? (Existing or new customers?)
12. What is the fundamental role of the line extension?
13. What would you caution against with regards its impact on the mainstream brand?

SECTION E: TIMING: WHEN TO INTRODUCE A LINE EXTENSION

14. What is the impact of being a line extension that is first-to-market on the parent brand?
15. What is the impact of being a line extension that is a late-entry on the parent brand?

SECTION F : MARKET CONTEXT

16. Give me your snapshot view of the key changes to the beverage market over the last 10 years
17. What are the key drivers of consumer choice in beverages? (probe affordability and status)
18. How loyal/disloyal are SA beverage consumers in their brand choice?

SECTION G : MAINSTREAM BRANDS

19. How have market leaders fared in performance in the last 10 years?
20. What are the indicators that a brand is stale?
21. How have new international brands have affected existing mainstream beverage brands?

APPENDIX B1: GLOBAL BEVERAGE MARKET DYNAMICS

The global beverage industry is dominated by a few global companies like The Coca Cola Company and Pepsi Cola in the soft drinks market, Anheuser-Busch, SABMiller, and Interbrew in the beer market. The aggressive consolidation of the industry is expected to continue as companies seek to maximise value from economies of scale.

Only on June 23 this year Heineken, the world's fourth largest brewer by sales warned that its first half profits would be flat due to sluggish global beer market (Matthews, 2003:14). This saw the sliding of share prices of SABMiller, dominant player in South Africa, along with other brewing heavyweights. Heineken, a Dutch-based company blamed the slowdown of the economic growth, the war in Iraq and bad weather for slump. Even the SARS virus was blamed for slumping sales in Asia as people were reluctant to got o pubs and bars.

To counter global business pressures, SABMiller enjoys "geographic reach and balance, a quality brand portfolio, a widespread distribution network and financial strength" according to Nick Chaloner, its director of corporate communications (Matthews, 2003:14).

Emerging markets are identified as areas of growth with economic development driving affordability and availability. Marketing spend is relatively low and translates to higher profit, especially in the larger emerging markets that provide economies of scale. There is also an influx of international competitors into emerging markets, particularly in the premium sector of the market where higher profit is derived from international brands.

Consumer trends show three dominant trends pertinent to the beverage industry. These are an ageing population, urbanisation and gender equity. These consumer-led phenomena have opened new market challenges in the beverage industry. There is a clear drift in consumer preferences for products positioned in the premium market where there is value beyond monetary worth that is derived. Today's consumers want variety and choice and line extensions provide the opportunity for brand to introduce new flavour and size variants, but it has also made consumers harder to reach (Aaker, 1991). In addition, the power of retailers has strengthened as they become more sophisticated and manage their product categories more efficiently (Nijssen, 1999). Many have introduced private labels and as a result competition between brands has increased (Nijssen, 1999).

In the once value-driven category, beer, new high-end players have entered the market. Industry players have turned their efforts towards innovation and new consumers have been drawn into the category as they become aware of the product variations. Also, value-conscious consumers are willing to buy premium brands because they find the higher prices acceptable. "Today the entire beer category is becoming more premium: a large number of companies are competing on brand equity rather than on price." (Vishwanath & Mark, 1999:169)

All these factors point to the appropriateness of positioning a brand as a mainstream brand and the need to move up a few notches into the premium offering sector (or down into value-for-money and lose brand equity). This is further supported by economic studies on the Gini co-efficient where the rich are getting richer and the poor, poorer in global markets.

APPENDIX B2: SOUTH AFRICAN BEVERAGE MARKET DYNAMICS

According to Scannel, MD of Distell, the total alcohol beverage industry was growing at 2 percent in volume and 11.9 percent in rands. The bulk of the market is dominated by beer at 54 percent, followed by spirits at 24 percent and wine and Flavoured alcoholic beverages (FABs) at a combined 8 percent. (Business Report, 2003).

South Africa's food and beverages industry is a strongly competitive sector producing high quality commodity and niche products for local and international markets. The South African food and beverage industry had, in 2000/2001, an annual turnover of R42 billion, employing approx 216,000 people (2% of the economically active population). The agricultural sector is closely linked to food and beverage production. The South African food and beverage industry reflects sophisticated first world consumer demands, within the context of a larger third world economy. South Africa is generally considered a net exporter (South Africa Business Guidebook).

South Africa has a mature and established beverage industry with brewing (beer) and wine sectors being the healthiest. South African Breweries (SAB) dominates the local brewing industry (including sorghum beer) with a market share over 50%. It is the second-largest brewing group in the world, with a footprint over four continents. SAB is the beer price leader in the market and has managed to keep beer prices to CPI until last year. For this reason, as well as other factors like legislation, relatively high manufacturing, distribution and labour costs and good brand portfolio management, barriers to entry have been high for potential investors.

Further, the beverage market in urban areas is relatively sophisticated with formal establishments for on-premise beer consumption. However peri-urban and rural infrastructure has minimal formalisation but contributes the bulk (just under 90%) of total beer volume, for instance. Most of these shebeens and taverns are unlicensed and are serviced predominantly by independent redistributors.

The beer category must be seen in the context of the broader alcohol market, which also includes hard liquor and wine. Malt-based alcoholic drinks (beer) has the greatest share of the domestic alcoholic beverage market, with 2000/2001 figures at

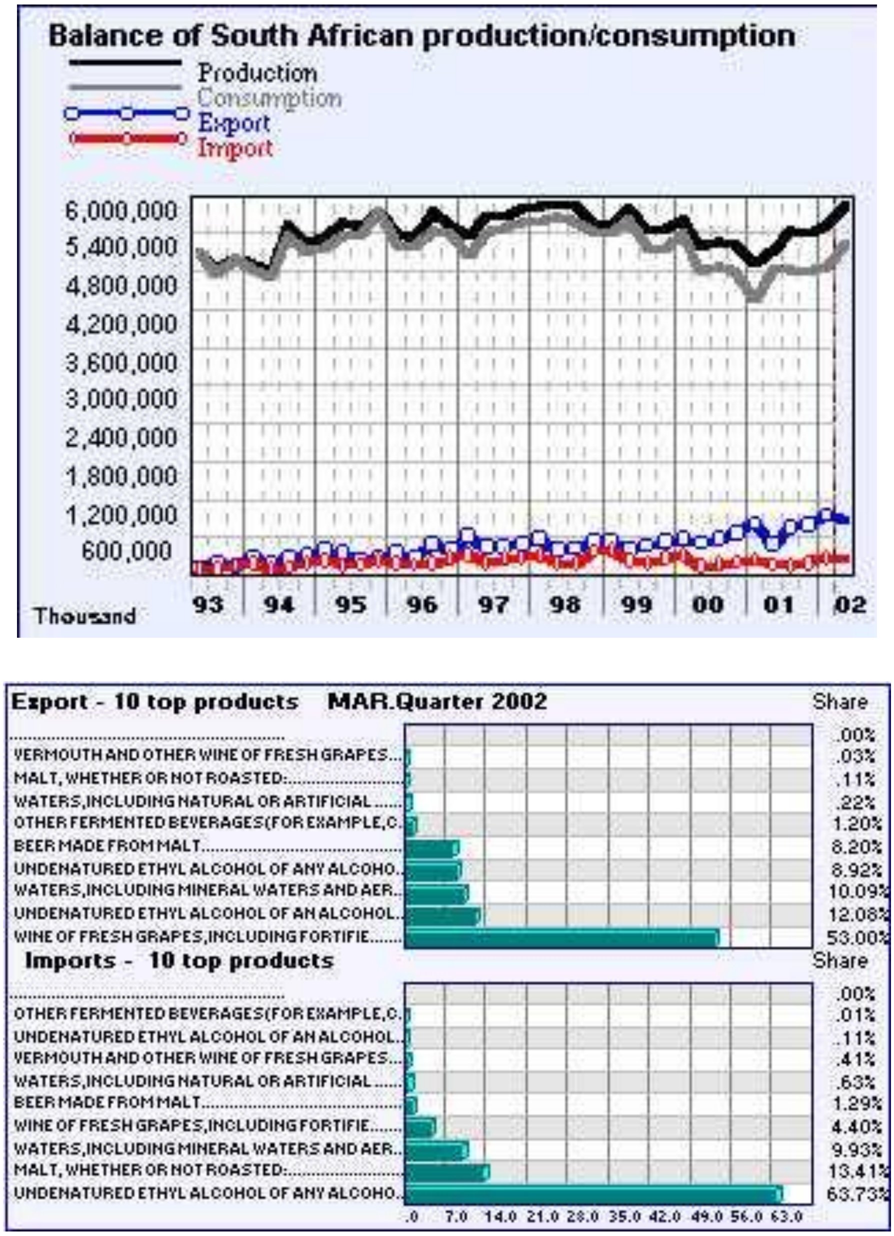
47.3%, followed by sorghum beer (21.5%), natural wine (14.8%) and brandy (7.1%). The balance is made up of cane and grain spirit, whiskey, fortified wine and sparkling wine (South Africa Business Guidebook 2001).

The wine industry is also relatively large, ranked eighth in world output in 2000/2001. A total of 250 cellars operate, producing three times the Australian harvest. Per capita consumption of wine is low at just under 9 litres, compared to Australia (20 litres) and France (60 litres) (South Africa Business Guidebook, 2001). The wine industry has historically been protected by the government and has significant impact on beer consumption, specifically in the wine-growing areas like the Cape.

The soft drink business is dominated by Cadbury Schweppes (bought by Coca-Cola in 1999), which sells and distributes its products through Amalgamated Beverages Industries (ABI), which is the leading Coca-Cola system bottler. In 1998 the ready-to-drink equivalent volume for soft drinks was about 312m litres. Mark Bowman, CEO of ABI in the Annual results 2003 said there was a 4% growth in sales of carbonated soft drinks; and 22 % growth on last year in other soft drinks (ABI website).

South Africa exports a large percentage of its alcoholic beverage production (Figure 5), and domestic consumption of wine and spirits is ranked fairly low by international standards (Department of Trade & Industry, 2003). Liquor is sold only through licensed outlets, and beer and liquor may not be sold on a Sunday at supermarkets. There is the pending Liquor Bill that suggests certain anti-monopoly legislation that, if instituted, will impact on major beverage industry players.

Figure 28: SA Beverage Exports & Imports



source: Department of Trade & Industry, 2003

Currently macroeconomic variables show a widening gap between the rich and poor. As a result purchase behaviour has also changed, making beverage marketing a challenge. Consumers are also exposed to more brand choices since the liberalisation of the market and concurrently have become more knowledgeable about their purchase decisions.

The market has expanded off a large mainstream centre with entrenched big brands into value offerings at the bottom-end of affordability and premium offerings where most of the competitors to mainstream beverage brands operate. Recently reported, Heineken announced a new South African joint venture with Diageo and Namibia Breweries that would drive premium sector growth, harnessing their strengths to challenge the SABMiller, a near monopoly of more than 98 percent of South Africa's beer market. (Business Report, April 20, 2004)

Heineken's managing director for Africa, Thomas de Man, said the small and fast-growing premium sector is much more diverse and starting to alter the South African beer market. De Man said that with good growth prospects in the premium beer sector was helped by the emergence of a black middle class in South Africa. (Business Report, April 20, 2004)