



PRESS RELEASE

Season opener for the beverage industry: Business models left high and dry?

[April 12th, 2012] Things are bubbling over in the beverage industry. In terms of revenue and earnings, the greater part of beverage companies are under massive pressure, as the margins for producers are extremely low due to the high purchasing control that retailers and traders have, based on product demand. As a result, it is often the case that only a single percentage point of sales volume is the decider between a profit and a loss, depending on seasonal developments like weather or sporting results, which cannot be influenced in any way. The managements of beverage companies are in a difficult situation, as it is precisely questions concerning financing, the consequences and impact of economic and cyclical developments, social, political and strategic determining factors and conditions, as well as product and marketing success which often remain unanswered. They fall under the radar on account of the operative preparations for the coming season. Yet answers to these questions are crucial for companies' survival. It's only those who adapt their business models accordingly, who in future will withstand the increasing pressure of market-related and purchasing-related uncertainties in the beverage industry – and not sooner or later be left high and dry. This is the conclusion arrived at by the current publication '*Management of Business Models in the Beverage Industry*' from Dr. Wieselhuber & Partner.

The limits of organic growth in the beverage market have already been reached – and in any case, the German domestic beverage markets are at maximum saturation. In many cases the market volume is even subtly declining. In addition, powerful, external fluctuations are a common occurrence. As an example, in the crisis years of 2008 and 2009, one of the established sales markets for the industry was definitely shaken, namely, the gastronomy market. Double-digit declines in sales continue to exert an influence on beverage producers even after the strong growth in sales



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volume from last year. Current economic and political crises are increasingly exacerbating the situation. Moreover, the formidable pressure for promotional campaigns coming from the supermarkets and retailers is also placing the beverage industry under pressure, as in many sub-segments, up to two thirds of sales is consumed by promotional campaigns. The situation on the purchasing and procurement side of things looks no better, according to Jürgen-Michael Gottinger, industry sector expert at Dr. Wieselhuber & Partner and author of this publication: *“All raw materials really know only one direction in prices; and that’s upwards. In the long term, a minimum cost increase of three to five per cent per year for raw materials, additives and working materials is to be expected in many cases. In some cases even shortages are to be expected”*. In light of this, companies need to be robustly positioned; their business model must manifest a high power of resistance against external fluctuations.

On the social level, consumer behaviour is inducing massive changes to the established structures: as a result of the ‘de-structuring of daily, everyday life’ – geographically as well as temporally – food and drink are being consumed at a wide range of times of the day, and less and less at home, but instead increasingly in canteens, cafeterias, restaurants or to take away: *“Companies should not perceive these changes as a threat, they need to recognise the opportunities they present! The coffee shop chains with their innovative business models have best set the precedent and have drawn the coffee producers, originally lacking in innovation, along with them. The best example is that of Nestlé. By means of changes to its business model, through to being a system provider of coffee capsules and the associated coffee machines, Nestlé has simply cut out the competition”*, Gottinger says.

If it’s about putting the ‘robustness’ and ‘sustainability’ of a business model to the test, in a form of stress testing, then of course, the factor costs of the front end (such as products and services, market and competition scenarios) as well as the back end (such as organisation, value creation, processes) must also be analysed closely and precisely. A critical look at the business model concerning financing also must not be left out: *“The more secure the business model is with regard to the possibility of*



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achieving a profit sustainably, the more secure financing is – because it's only when a company can demonstrate how it can not only achieve profits, but also repay external funds on time, that it can also obtain credits and loans”, explains Gottinger.

What is clear is that the challenges for business management in the beverage industry are exceedingly diverse. They demand the courage to change. For this reason, only those who, in the first place, seek out new opportunities and, in the second place, stave off threats, will develop a business model that is sustainable, robust and viable for the long term future.

The current W&P brochure “*Management of Business Models in the Beverage Industry*” is available upon request.

About Dr. Wieselhuber & Partner

Dr. Wieselhuber & Partner (W&P) is an independent, cross-sector top management consultancy for family-owned businesses, as well as public institutions. This consistent orientation to particular target groups and the expertise resulting from it has led W&P in the past twenty-five years to become the leading management consultancy firm for family-owned businesses in Germany. With its head office in Munich, Dr. Wieselhuber & Partner affords its clients comprehensive expertise in business sectors and methods and stands out above all due to its competency in the area of conflicting priorities of family, management and business.

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