

THE INDIAN BEER MARKET:

THE NEXT “CHINA” OR A HYPED MARKET WITH LITTLE FUTURE GROWTH?

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Michael Knoth and Jonas Borrit were awarded the Danish Brewers’ Guild’s travel scholarship in 2013 and visited the Indian cities of Mumbai, Pune, Bangalore and New Delhi in November 2013, visiting and talking with a number of breweries, equipment suppliers and other brewing industry-related people.

In the near future, India – which currently has more than 1.2 billion inhabitants – is foreseen to overtake China as the most highly populated country in the world. But whilst the Chinese thirst for beer has increased along with the increase in income level, it is still uncertain whether we shall see a similar growth in India as it is very difficult to compare the development in the two countries. The fact that India has the potential to become a “2nd China” with respect to beer growth was one of the main motivators for the authors to apply for the Danish Brewers’ Guild travel scholarship – we wanted to explore the Indian beer scene and report back to the Danish Brewers.

The current annual beer consumption in India is approx. 2 litres/per capita – in China, it is currently 35 litres/per capita, increasing from 2 litres/per capita only 25 years ago – which among some global players has given rise to very positive expectations for the potential developments in the Indian beer market. Suppose India increases its annual beer consumption by just 1 l/per capita; then, for example, 12 new, 1 million hl breweries need to be built. And should Indian consumption sometime in the future reach China’s current level, more than 400 new breweries of the above size will be needed!

The question is whether this increase will indeed occur and, if at all, then to what extent? China has gone from an annual consumption of approx. 20 litres/per capita in 2003 to approx. 35 litres/per capita today, and large increases have already been seen in Asia. So why has something similar not yet happened in India? With generally hot weather, spicy food and the fact that 50% of its population is under 25 years, India should be every brewer’s dream.

The answer is found in a variety of factors that characterize the country and its consumers. First, let us look at the current beer drinkers in India to get a better understanding of the market.

THE INDIAN BEER CONSUMERS

The thing is that there is no typical beer consumer in India. Among the estimated only 20 million premium beer consumers, some drink it for the same reason they have a smartphone, eat sushi and drive a car produced in Western Europe. It is all about trends, lifestyle and self-branding. Since beer is still relatively “new” to the Indian people, these typically young and recently moneyed consumers are only now in a discovery phase, choosing brands and products for future consumption.

Another type of beer consumer is the “working man”, e.g. a taxi driver or the like, who visits one of the approx. 2,000 beer and hard liquor-selling outlets in New Delhi, where he buys and consumes his drink before returning to his job/home. He does not usually drink with friends and family because they cannot know he spent money meant for food and the kids’ education on beer – the “moral” prevents it.

Common for both of them, besides being male, is that they are part of a selected elite of “just” 200 million people who can actually afford beer (though their families may not agree). They belong to the lower middle to upper classes of the enormous Indian population.

RELIGION AND POLITICS AFFECT CONSUMPTION

In general, there are two main reasons why Indians do not drink (more) beer: one is related to religion, the other to politics.



Heavy traffic and many people in Mumbai

Religion is a significant factor, as 80% of all Indians are Hindu whilst 15% practice Islam. Muslims are, as we all know, not allowed to drink alcohol at all, and whilst Hindus may do so, a “good” Hindu is taught to acknowledge potential side effects and use substances like alcohol with much greater restraint than seen in the Western world.

In fact, in Gujarat, one of the 29 states in India, alcohol is completely forbidden. Officially, the reason is that the state used to be home to Gandhi, who was against alcohol (as well as tobacco and sex). However, the commonly accepted explanation among the Indians is that local politicians refuse to change the law because of the profits they make producing and selling moonshine (illegal hard liquor).

In addition to this, we came across an interesting fact during our interviews. Incidentally, local politicians co-own the spirit production (to a large degree illegal) in most Indian states and hence control the beer sales by increasing taxes on alcohol. Since moonshine producers do not pay tax, their prices are kept low, which increases the demand, hence profit. As it was explained, whenever beer consumption increases in a state, politicians use “the protection of consumers from the evils of alcohol” as an excuse to increase their own unofficial income.

For the same reason and to maintain control, it is illegal to transport beer across state borders. Consequently, the tax uncertainty makes it difficult to forecast local consumption, so the brewers need to keep their production risks at a minimum, resulting in relatively small breweries with a capacity of ½-1 million hl annually. As Jørgen Buhl Rasmussen, CEO of Carlsberg, has been quoted as saying, “The biggest challenge is in India, where every state has their own system in terms of taxation and labour requirement, which does make India not very efficient to operate.”

STRONG COMPETITION

The Top 4 brewers in the world are all active in India. However, the roles are switched around a bit, with the world-leading brewer AB Inbev being the smallest of the four in India with a market share of less than 5%. The largest of the four is Heineken via its stake in India’s largest brewery group, United Breweries, which produces the leading brand, Kingfisher. The Indian entry for Heineken began mainly with its involvement in the Heineken/Carlsberg purchase of Scottish Newcastle back in 2008. This included a share of United Breweries going to Heineken, which in December 2013 increased it so that the company now owns 38.7%, including the purchase of 1.3 percent from Citicorp Finance India. →

United Breweries are fighting hard these days to defend their market leader position; they have a total market share estimated to be approx. 55% vis-à-vis AB Inbev, SABMiller (approx. 25% market share) and Carlsberg (approx. 8% market share). They are struggling to win market shares from the competitors.

Due to the promising aspects of developing it, the market also attracts interest from wealthy local Indians who are currently operating in other markets and have a desire to develop their own breweries and perhaps sell them on to international players when in operation. One of the key challenges in opening up new breweries in India is getting the permits and licensing from the local governments, and here the locals have a huge advantage compared to the international companies as they can do business differently.



The authors at a beer bar to do sensory analysis

THE BEER AND THE BREWERIES

Even though modern beer drinking in India is relatively new, beer production is no new phenomenon. In some of the oldest sacred Indian texts (1500-1000 BC), beer – or something that could be compared to beer – is mentioned. It might not be a surprise that it was the British who introduced the European style of beer in India in the late 1700's, with actual Indian industrial production starting during the years before the Second World War.

The increased competition in the last decade has had a very positive influence on the quality of the beer. Back in the '90s, beer demand was bigger than the supply, which led to a poor quality of beer supplied to the market. The increased competition in the '00s has changed this so that the supply more or less now is matching the demand. This has led to an increase in beer quality with the consumers now being able to

choose among more brands and therefore get what they prefer instead of getting only what is available.

The beer types sold in India can roughly be divided into five groups: international brands in both normal pilsner strength of approx. 4-5% alc. and strong beer of approx. 8-9%, local brands with the same split and, finally, other imports/craft beer. The strong beer types are mainly sold during the summer period with a relatively high peak of approx. 15% during the summer months. The normal pilsner types have less fluctuation with maximum peaks of approx. 10%. Key brands are Kingfisher, Taj Mahal Indian Lager, Kalyani (United Breweries), Fosters, Haywards (both SABMiller), Carlsberg, Tuborg (both Carlsberg), and Budweiser (AB Inbev). The strong competition between the brands is exemplified by the switch from Tuborg to Heineken as the leading international brand. Carlsberg had the advantage of entering India a little before Heineken in 2007 and hence introduced the Tuborg brand first but have not been able to defend the leading position, with the result of Heineken taking over the lead.

Up until recently, the way of brewing in India was, of course, inspired by the early British brewers that set up small ale productions in India. However, the way brewing is done today at the larger breweries reflects how modern lager brewing is done elsewhere around the world with the historical/policy differences that can be seen among the top 5 global brewers.

The condition of the breweries we visited was good, and they are kept tidy and clean. The age of equipment varied but, in general, equipment was more than 10 years old. The focus in recent years on improvements and deals with Good Manufacturing



Danish brewmaster inspecting an Indian microbrewery



A brewhouse at a local brewery we visited

Practice (GMP) and specialized projects aimed at improving Key Performance Indicators (KPI) and thus lowering Operational Costs (OpEx) has not reached India yet. While visiting the breweries and during our on-site survey of the beers brewed, a number of products were sampled. In general, all samples were relatively fresh suggesting a fast turnover, which was also confirmed by the breweries visited. However, main off-flavours identified were in the “oxidation” category.

FUTURE PERSPECTIVES

There are several reasons to believe that the Indian beer industry will develop significantly in the coming period. Even though the economic growth in India has seen a small downturn in recent years, the recent election has sparked optimism due to a clear mandate for the government to increase spending on – among other things – infrastructure. This political focus and steadiness is predicted by firms such as Morgan Stanley to make India’s economy the fastest growing of the BRIC countries due to Brazil’s political unrest and upcoming election, Russia’s tensions with Ukraine and China’s slowing growth. If the political stability continues, if corruption is minimized and if the economic →

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5 FACTS ABOUT THE INDIAN BEER MARKET:

- 1) The average beer consumption in 2013 was 2 litres per capita.
- 2) The city of Mumbai is not only the biggest city in India (>20 mil), but it is also where the beer trends start in India – new products are always launched and tested there.
- 3) A 33 cl Kingfisher costs 1 USD in retail. That is 4-5 times more expensive than bottled water. In Denmark, bottled water is often 4-5 times more expensive than beer!
- 4) There are several brewery equipment manufacturers in India supplying not only complete turnkey brewery projects to the Indian market but also exports to the neighbouring countries and Africa.
- 5) At the present time, there seem to be fewer than 20 micro/pub breweries in India. However, there is a huge interest in opening up more of them, often in association with newly built shopping centres, malls and office complexes.

growth continues, there is no reason to think that Indian beer consumption cannot grow considerably in the coming years.

After discussing the Indian potential for Danish companies within the industry with the Danish embassy in New Delhi, we can conclude that one of the obvious possibilities for the Scandinavian brewing industry is Carlsberg's continuous expansion in India. However, we can also see the potential for consulting companies such as ALECTIA to enter the market and support both the design and the optimisation of the Indian breweries. The forthcoming maturation of the beer market combined with the growing middle class will certainly also open up for interesting export possibilities for craft breweries. After all, that was how the IPA was born. ☺

ABOUT THE AUTHORS

Both Michael Knoth and Jonas Bjørn Borrit are employed at ALECTIA (formerly Danbrew) and work with the business and technical aspects of designing and optimising breweries around the world. Read more about ALECTIA on www.alectia.com.



Jonas Bjørn Borrit has a masters degree in economics and supply chain management from Copenhagen Business School. He has been working for ALECTIA since 2007 mainly focusing on optimization projects in the beer

& beverage industry. Recent years have been concentrated on management as department manager for the beer & beverage department. Before ALECTIA Jonas worked as a project manager for IBM.



Michael Knoth is educated Chemical Engineer from the Technical University of Denmark (1997) and has a Master Brewer Diploma from the Scandinavian School of Brewing (2000) as well as 1 years study at

Weihenstephan, Germany. Michael was employed by Carlsberg in 1998, then operated his own microbrewery "GourmetBryggeriet A/S" from 2005 until it was sold in 2009. Michael has been a managing consultant at ALECTIA A/S since 2008.



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