Cerveceria Cauhtemoc-Moctezuma: selecting countries for a global expansion effort

Dr. Richard B. Connell
University of New South Wales at the Australian Defense Force Academy

Abstract

The literature describes an extensive list of factors that companies take into account to target countries for international expansion (Grant, 2008; Johnson, Scholes & Whittington, 2008). However, there are no known studies of how companies actually determine country priorities for internationalizing *based on their own individual objectives and strategies*.

This case study, derived from a lengthily period on on-site action research, describes in detail how a country screening and ranking methodology was used to select country priorities for Cerveceria Cahutemoc-Moctezuma (CCM), a large Mexican-based brewer. The methodology was developed and applied by a joint team of CCM's managers and management consultants in a series of working sessions that took place over approximately one year and which culminated in an international expansion strategy in which country selection featured prominently.

The case also raises questions that top management (the owner-Chairman) asked itself (himself) about its future geographic portfolio once its short-term geographic priorities were set and exploited.

Some of the names and dates and data in the case have been changed to respect CCM's wish for confidentiality.

Key words: International Expansion Strategy, Country Selection, Decision Models, Action Research

Introduction

Cerveceria Cauhtemoc-Moctezuma, with a market share of nearly 50%, held a favorable to strong competitive position in Mexico relative to Modelo, a brewery of similar size. While CCM was historically highly profitable, its senior management felt that it had to internationalize its business far beyond its currently small level of export sales. Three factors underlied its desire for further international expansion:

- Modelo had twice the sales of CCM in the USA and almost 2 ½ times the export sales of CCM world wide (See Figure 1). And, CCM feared that Modelo would use part of its export earnings to launch an attack against it in its home market;
- CCM wanted to spread the risks of being almost totally dependent on a single market, Mexico, from which it derived 95% of its sales revenue.
- Globally, the brewing industry was rapidly internationalizing. The main exporting breweries already generated significantly larger percentages of their sales outside their home markets than CCM (See Figure 2). Moreover, many previously domestic brewers were licensing their brands abroad and making acquisitions outside of their domestic markets. CCM did not want to be left behind.

In light of the above, the Chairman of the CCM's board set as target, that CCM derive 25% of its sales from overseas activities within five years.

To-date, CCM had a relatively small export business which had grown opportunistically. Little thought had been given by the Export Department to which countries represented the best opportunities and which marketing strategies should be pursued within them. As a consequence, CCM faced two major problems: First, it had a highly fragmented country portfolio; with the exception of the USA, where it had devoted significant time and effort to building a position, most of its sales were to small and unattractive markets (See Figure 3); Second, it was following a 'me too' strategy with its Sol brand, essentially mimicking the strategy Modelo had used with its Corona brand (See Table 1).

Key Questions Facing CCM

CCM recognized that, in the medium-term, it had to adjust its brand portfolio and re-think its marketing strategy so that it could differentiate Sol from Corona. However, the main questions it faced in the short-term were:

- Which country markets represent the greatest opportunities?
- Which markets, if any, should it withdraw from now to gain more focus in its international expansion effort?

To help it address these questions, it retained a firm of management consultants to work with it which it thought could bring objective analyses to the issues instead of relying entirely on the Export Department managers who had selected countries somewhat arbitrarily relying largely on their intuition and opportunism.

THE APPROACH TO COUNTRY SELECTION

To more systematically address the country portfolio issues, the consultants, working closely with CCM's senior management, developed a list of recommendations using a two phase decision model (Zeleny, 1982; Bearden, Rappoport & Murph, 2006; Sherali & Smith, 2006). The first phase (Phase One) involved screening out countries that clearly did not represent likely opportunities in the short-term. In Phase Two, countries that survived the screening were subjected to detailed analyses that led to a ranking of their relative attractiveness and the development of final recommendations about which countries to withdraw from and in which it should seek to build a meaningful position. The steps in the process are briefly outlined below and elaborated in subsequent sections of the paper.

Phase One

The following steps were used in Phase One:

- Deriving screening criteria to eliminate unattractive countries;
- Developing a long-list of potential exports markets and securing sufficient data about them to apply the screening criteria;
- Applying the screening criteria to the long-list of potential markets to arrive at a preliminary short-list for subsequent investigation ;
- Undertaking a secondary analysis of data and applying its output in a second screening;
- Judgmentally adjusting the screening to add (or eliminate) potentially attractive (or unattractive) country opportunities that, had (had not) survived the screening but which senior management considered special cases and wanted a further Phase Two-type analysis.

Phase Two:

The following steps were used in Phase Two:

- Deriving a list of ranking criteria;
- Researching the countries that were short-listed in Phase One;
- Applying the ranking criteria to the countries on the short-list;
- Developing a final ranked list of recommended priorities and noting the rationale for their inclusion in the new recommended country portfolio.

The analyses and recommendations were underpinned by two key assumptions: First, that higher volume in a few markets was better than low volume spread over many markets – CCM's efforts were currently too fragmented. Second, brand personality will be, in large part, Mexican. Existing products and brands will be used but marketing strategies may be fine tuned to avoid direct competition with Corona.

PHASE ONE: COUNTRY SCREENING

Overview of the Phase One Screening Process

The steps in the screening process are illustrated diagrammatically in Figure 4 and explained below.

Developing Screening Criteria

Screening criteria were used to rule out clearly unattractive countries from further consideration. To avoid being screened out, a country had to meet all of the criteria, i.e., failure to perform on any single criterion was grounds for eliminating the country from further analysis.

The criteria were developed in a working session with management to ensure that they reflected CCM's objectives and strategies and selected key assumptions on which they were based. Three simple to apply criteria were used. These appear in Table 2:

Developing a Long-List of Potential Export Markets and Securing Data

In this step, a list of potential export markets was developed. The countries to which CCM currently exported served as a starting point. Additional countries were added by the consultant-CCM management team during a working session. The goal was to ensure that any party who had a vested country interest or preference had his/her views taken into account. The "long-list" eventually consisted of 71 countries.

Data to undertake the screening was then collected from a variety of sources, most of which were publically available.*

Applying the Screening Criteria

Mini-profiles of each country's performance on the screening criteria were compiled into a data base (See Appendix 1 for UK profiles as an example). By applying the criteria to the 71 countries in a preliminary analysis over 50 countries were eliminated as potential export markets. Countries were screened out for the following reasons:

- Minimum market size: Luxembourg, Norway, Cyprus, Slovenia and Malta in Europe and others in Latin American and Asia were screened out because they were too small for CCM to seek to exploit;
- Minimum volume of imports: Poland, Chile, Cuba, Korea, and Bulgaria, among others, didn't have the minimum level of imports suggesting that for one reason or another, they were not "friendly" to imports;
- Minimum GDP: Six countries not previously screened out on the basis of market size or import volume had GDPs per capita <$1000 suggesting that much of their populations could not afford to consume significant quantities of super-premium prices brands. These included, among others, Indonesia and the Philippines.
- Mexican affinity: A substantial number of the countries did not appear to have an affinity for Mexico or Mexican food and beverage products (See Figure 5).

*See References for partial list of public sources

Judgmentally Adjusting the Preliminary Screening

While a large list of countries survived the mechanistic application of the screening criteria, the consultant-CCM management team recognized that ridged application of the screening model might have eliminated one or more opportunities that a more flexible approach might not have or, that it might not have eliminated some countries which, for reasons other than the criteria, were clearly unlikely to represent short-term opportunities.

Accordingly, the final Phase One short-list was judgmentally adjusted in a secondary analysis to account for other important factors might affect a country's attractiveness to CCM. These included the ease with which distribution channels could be penetrated, the costs of complexity of entering the market (e.g. whether it required special labeling and packaging); and, whether a country was small but growing at a rate higher than GDP and was likely to meet the size criterion in the medium term.

As a result of taking these factors into account, eight additional countries were eliminated and five were added into the short-list. For example, Argentina was initially screened out because of a lack of affinity with Mexico. However, it was added back onto the list because of its size (7.5m hls) and high growth (6.5% last five years).*

After adjustments, 10 countries were short-listed from the original group of 71 potential opportunities. These countries were subjected to a Phase Two analysis.

The results of Phase One were summarized in a simple table that contained the country names, the criteria and the reasons why various countries that did not survive the screening A portion of the summary appears in Table 3.

* In addition, Argentina was a relatively wealthy country (GDP of $8368 per capita.); per capita beer consumption was low: (22.6 litres) suggesting significant room for future growth and the market was friendly to imported beers which accounted for almost 1/2m hls. of consumption.

PHASE TWO: COUNTRY RANKING

Overview of the Phase Two Ranking Process

The purpose of the Phase Two analysis was to arrive at a list of priority markets in which CCM should develop its export business. The steps undertaken to develop the final recommendations were significantly different than those used in the screening process. Screening was used to eliminate countries; ranking was used to determine the attractiveness, in relation to one another, of those countries that survived the screening.

To rank countries, they were assessed in terms of *Business Characteristics* and *Market-Characteristics* thought to be favorable to CCM and consistent with its strategies. Each of these major assessment factors had two dimensions as shown on the axes of the matrices in Figure 6. Countries were plotted on the matrices based on a ranking of their

performance on each criterion that contributed to a dimension. For example, market size, growth and on-premise market size were aggregated to yield a composite score and position on the horizontal axis of the *Business Characteristics* matrix.

Countries were plotted on matrices which captured their performance on each (See Figure 6).

Developing Ranking Criteria

Many of the criteria used in the ranking phase were variants of screening criteria. However, decisions to eliminate countries in the screening process were binary. A country either met a criterion or it didn't and, if the latter, it was eliminated. The ranking criteria, however, were used to distinguish the relative attractiveness of one country from another. To do so, a three point scale was used to characterize each market's performance on each criterion.

Quantitative as well as qualitative indicators were used to assess performance. Table 4 serves as an example of the scale used to assess *Demand Attractiveness;* Table 5 provides examples of evidence used to assess a country's *Industry Attractiveness* and *Mexican Affinity.* Demographic attractiveness was assessed quantitatively using three point scales for level of disposable income (e.g. $2.5k-$9k=Low, $9k-$15k=Medium, >$15k = High) and growth of disposable income.

Applying Ranking Criteria

Prior to applying the ranking criteria a substantial volume of data had to be collected. In addition to publically available sources (See above), over the years, CCM had amassed a data base on a number of markets although it was patchy. Thus, in applying the criteria, two approaches were used: first, when data were available they were applied to the countries off-line by the consultants; second, the consultants then summarized the results of their efforts which showed a preliminary ranking but with many gaps. These gaps were filled by drawing from the extensive experience and knowledge of CCM staff during another working session during which each data gap was debated by senior members of the management team and a consensus reached about how a country performed with respect to each criterion for which hard data/evidence were not available.

Table 6 provides an example of the rationale for ranking selected countries with respect to Ease of Channel Penetration:

Developing Recommendations

The results of the *Business Characteristics* and *Market Characteristics* analyses and the matrices derived from them were combined on a single matrix on which each country was plotted. The location of the plots provided the underpinning for the recommended country portfolio. The final ranking matrix (and the recommended country portfolio) appears in Figure 7.

Countries in the upper right hand cells of the matrix (High Attractiveness) represented the best opportunities in which it was recommended that CCM develop an

export business now. Countries in the lower right hand cells ("Low Attractiveness") represented the worst opportunities. This matrix provided the basis for CCM to decide to adopt three different investment thrusts for countries plotted in different matrix zones (See Table 7).

DISCUSSION

Prior to the development and first use of the country selection methodology, CCM had targeted countries in which to develop an export business on an ad hoc and opportunistic basis. For example, if there were sales inquiries from an importer/distributor in a market in which CCM did not have an existing sales base, arrangements would be made to ship CCM brands to it regardless of the market's potential to yield significant volumes or its inherent attractiveness to CCM. Moreover, CCM was also shipping beer to countries in which it was unlikely to be able to achieve competitive advantage, solely because Modelo, its major competitor, had a significant presence in them.

Following the introduction of the country selection methodology, CCM set its geographic priorities (and, indeed, priorities for maintaining a presence or withdrawing from markets) in a more systematic way such that its country portfolio reflected its objectives and strategies.

While this case illustrates how an analytical approach was used to set country priorities for a single brewer, the methodology can be used in other corporate contexts by adjusting the criteria used to screen and rank countries to reflect their own individual objectives, strategies, and strengths and weaknesses.

REFERENCES

Bearden, J.N., Rappoport, A., Murphy, R.O. (2006) Sequential Selection and Assignment, *Journal of Behavioral Decision Making* 19 229-250.

Euromonitor (n.d.) Europa World Plus, database of country statistics available at www.europaworld.com//comparativestatistics

Johnson, G., Scholes, K., Whittington, R., (2004) *Exploring Corporate Strategy* 8th ed., Pearson/Prentice Hall, Harlow, UK

IBISWorld, Global Beer Manufacturing Industry Market Research Report (n.d.) available at www.marketresearch.com

Finfacts, Global/World Income Per Capita (u.d.) available at www.finfacts.ie/bizio/globalworldincomepercapita.htm

Grant, R.M., (2008), *Contemporary Strategy Analysis*. 8th ed., Blackwell Publishing, Malden, UK

Plato Logic Limited, World Beer Report (u.d.) available at www.worldbeerreport.com.uk

Phatak, A. V., Bhagat, R. S., Kashlak, R., (2004) *International Management: Managing in a Diverse and Dynamic Global Environment*, McGraw Hill, New York, US

World Bank, World Development Indicators Online, (n.d.) database of country statistics available at ddp-ext.worldbank.org (other statistics available at web.worldbank.org/wbsite/external/datastatistics

Modern Brewery Age (`1996), World Beer Production available at www.breweryage.com

ERC Statistics International, World Beer Report (u.d.) available at
www.encyclopedia.com/doc/54517522/ html

Sherali, H.D. and Smith, J.C. (2006) .Two-Stage Stochastic Risk Threshold and
Hierarchical Multiple Risk Problems: Models and Algorithms, submitted to
Mathematical Programming

World Economy (n.d.) available at www.theworldeconomy.org

The Volume of World Beer Consumption (u.d.) available at
hypertextbook.com.facts.html

Zeleny, M, (1982) *Multiple Criteria Decision Making*, McGraw Hill, NY, USA
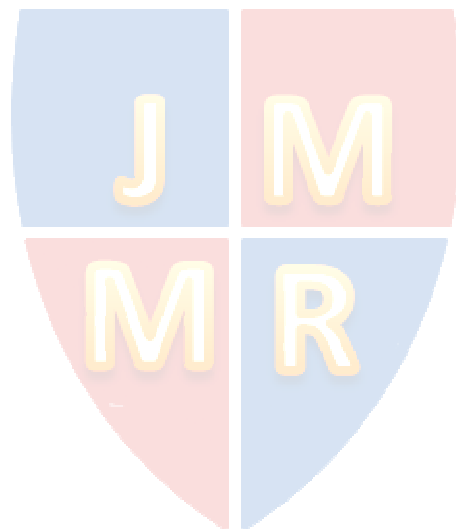
Figure 1: Modelo's versus 'CCM's Export Sales
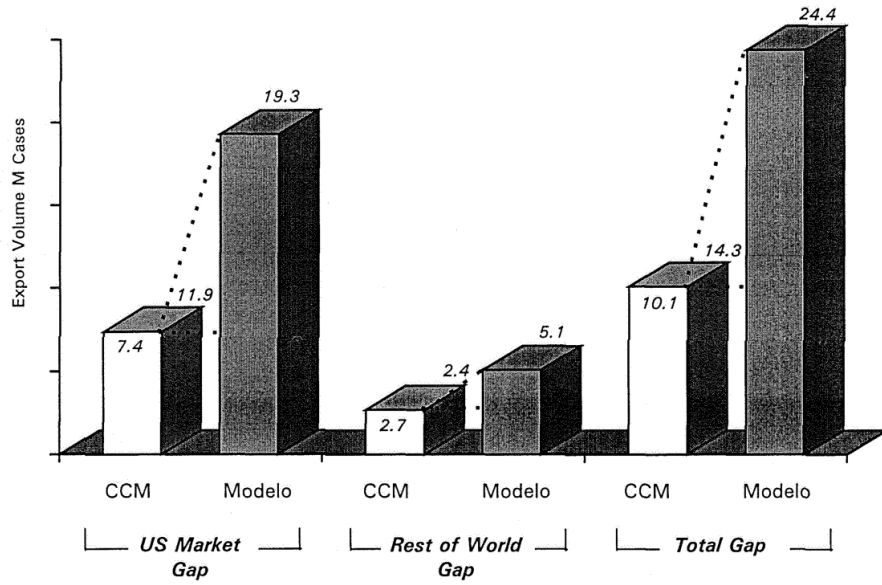
Source: CCM
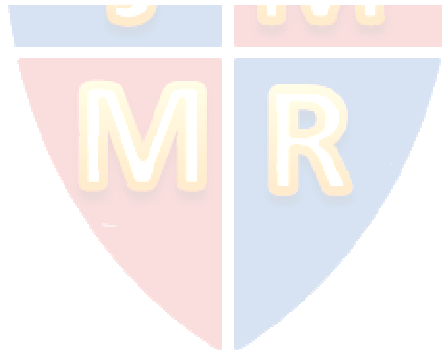
Figure 2: International Sales of Selected Breweries

% of Foreign Sales *
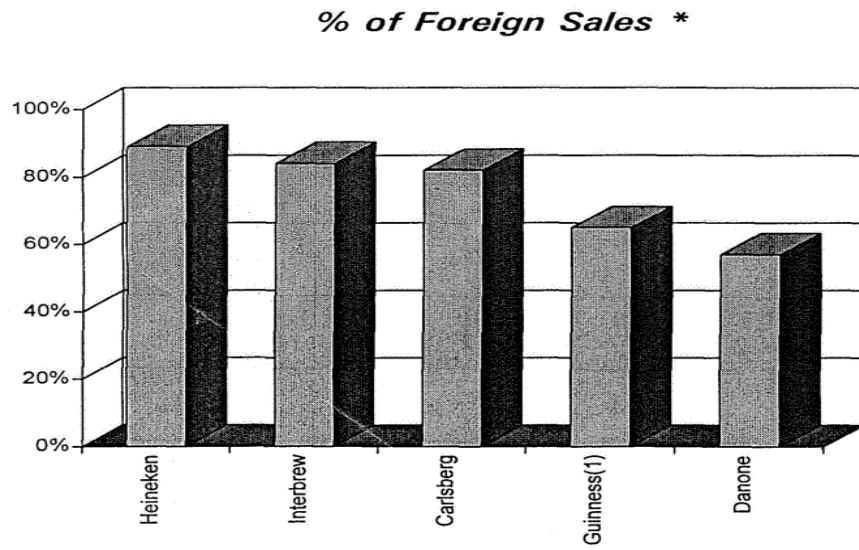
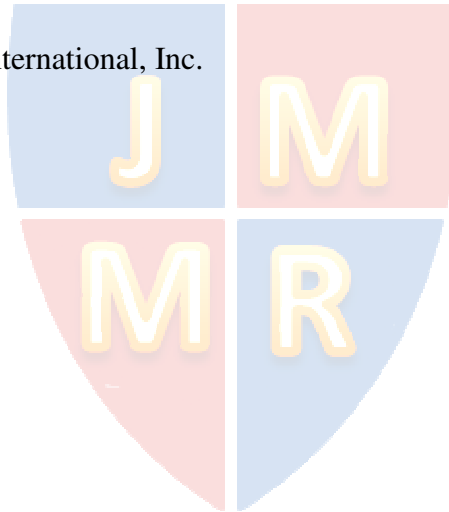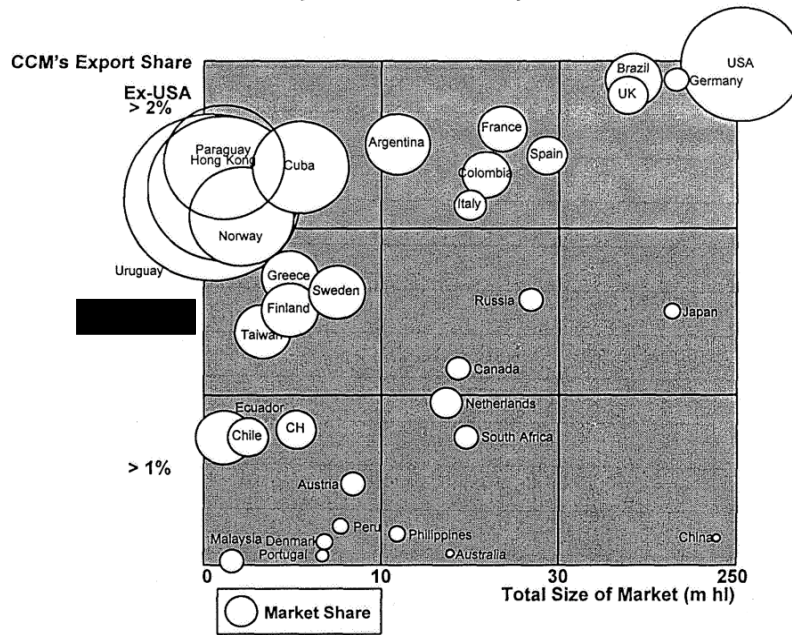

Source: Arthur D. Little International, Inc.
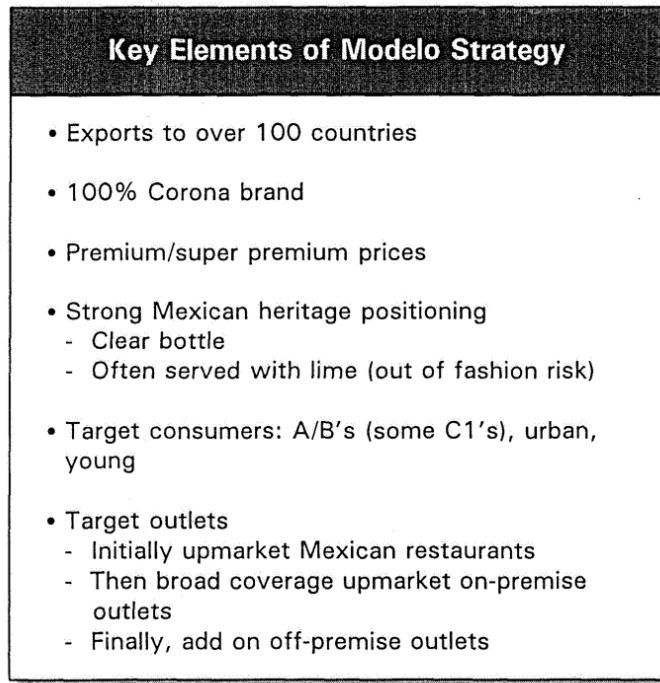
Figure 3: CCM Country Portfolio

Too many countries - many small markets

Scale deleted to maintain CCM confidentiality

Source: CCM and Arthur D. Little, Inc
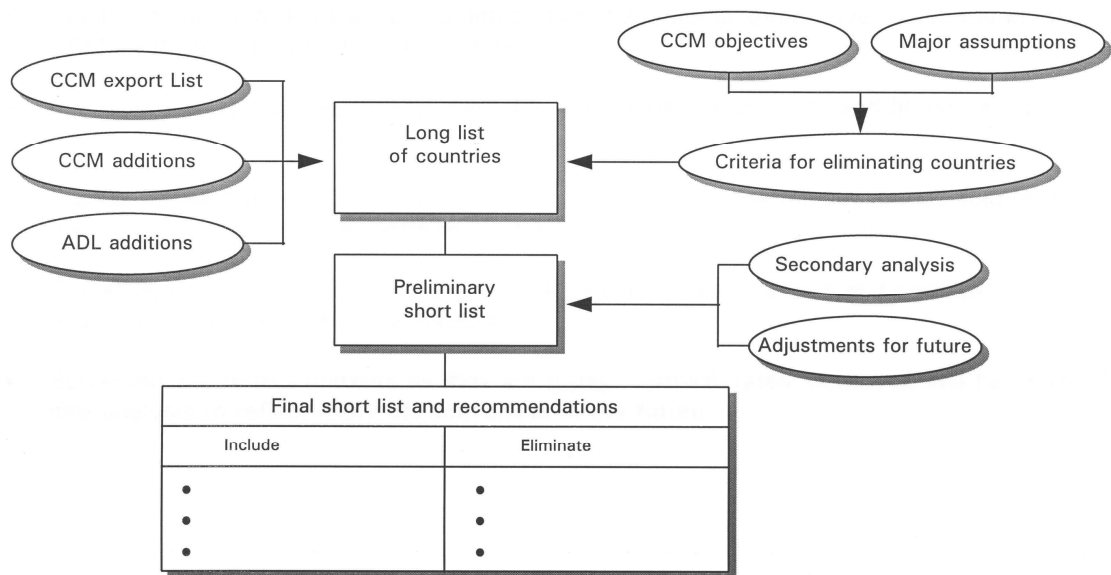
Table 1: Modelo Strategy

Key Elements of Modelo Strategy

- Exports to over 100 countries

- 100% Corona brand

- Premium/super premium prices

- Strong Mexican heritage positioning
  - Clear bottle
  - Often served with lime (out of fashion risk)

- Target consumers: A/B's (some C1's), urban, young

- Target outlets
  - Initially upmarket Mexican restaurants
  - Then broad coverage upmarket on-premise outlets
  - Finally, add on off-premise outlets

Source: CCM and Arthur D. Little, Inc.

Figure 4: Overview of the Screening Process

Source: Arthur D. Little, Inc.

Table 2: Criteria for Screening Countries

Area	Criterion	Definition	Rationale
Volume-related	• Minimum market size • Minimum import level	• Beer consumption must exceed 2m hls. • Import volume must exceed 100k hls.	• CCM did not want to participate in relatively small markets (until it had successfully entered larger ones) • CCM wanted markets that appeared "friendly" to imports
Demographics/ culturally-related	• Minimum GDP • Mexican affinity	• GDP per capita > $1k • Mexican food/beverages must have neutral or positive image	CCM's Sol brand was to be targeted at upper end of market and positioned using Mexican heritage
Risk-related	• Trade risk must be low	• Risk indicators included potential problems repatriating funds and/or unstable currency exchange rates	CCM had previously incurred high trade risks with associated negative financial consequences

Source: CCM and Arthur D. Little, Inc.

Key: hls. – hectoliters
M-million
K-thousand

Figure 5: Countries without Affinity for Mexico (or for Mexican Food and Beverages)
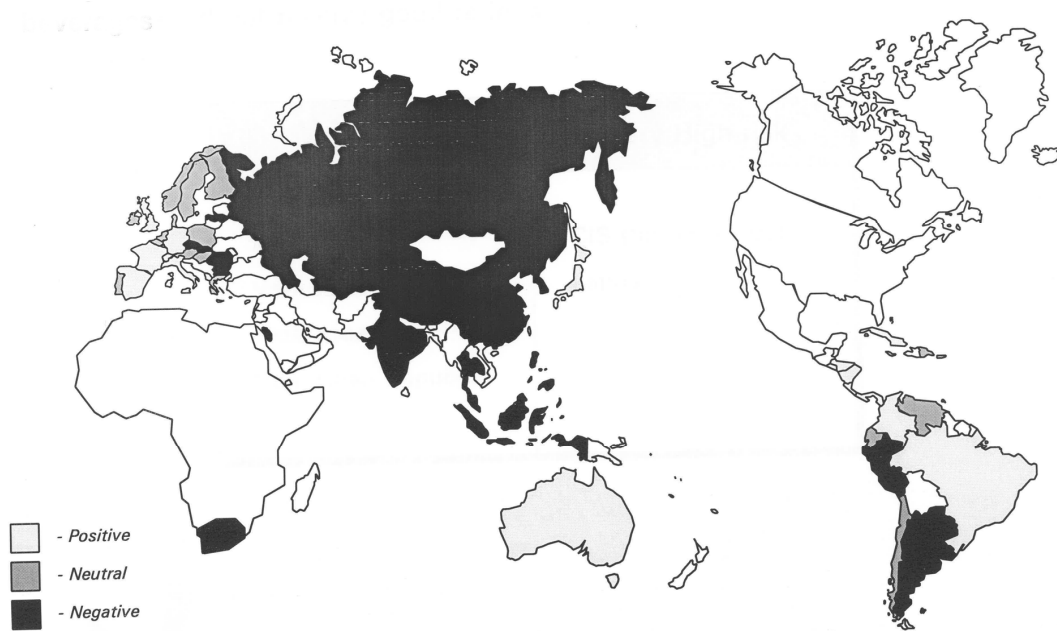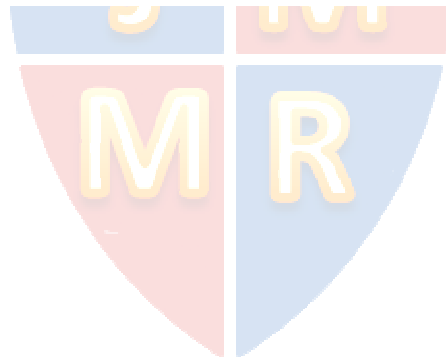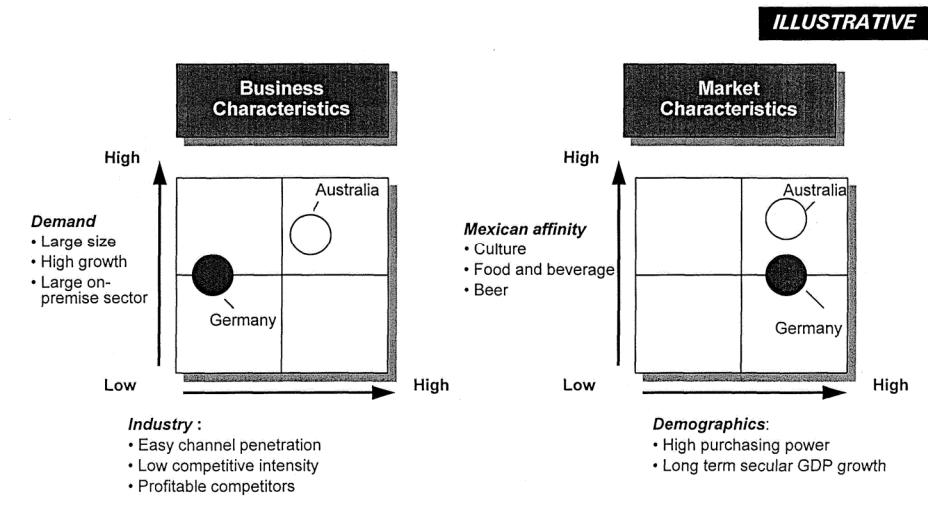

Source: CCM

Table 3: Portion of Country Screening Summary

Country	Market Size	Imports	GDP	Image	Trade Risk
Argentina				X**	
Brazil					
Colombia		X			
Chile		X			
Ecuador	X				

**added back onto final short-list after judgmental adjustments of the preliminary short-list

Source: Arthur D. Little, Inc

Figure 6: Business and Market Characteristics Matrices

Source: Arthur D. Little, Inc

Table 4: Definitions and Quantitative Scaling of Demand Attractiveness Ranking Criteria

Criterion	Scale for Ranking		
	Low	Medium	High
Market Size	0-4% of short-listed country total	5-10 % of short listed country total	>10% of short-listed country total
Market Growth	Declining	0-5% growth	> 5% growth
On-Premise Consumption	<1/3 of total	1/3-2/3 of total	>2/3 of total

Source: Arthur D. Little, Inc

Table 5: Examples of Evidence Used to Assess a Country's Industry Attractiveness and Mexican Affinity

| Dimension	Criterion	Evidence/Examples
Industry Attractiveness	Ease of channel penetration	• Retail channels not controlled by brewers • Imported beer distribution possible through distributors of non-competing beverages
	Competitive intensity	• Substitute products do not compete heavily with beer • Trade could exerts heavy influence on prices • Indust6ry participants engaged in fierce price competition
	Profitability	• Historical profitability of industry participants (measured, for example, by return on capital employed)
Mexican Affinity	General affinity with Mexico	• Mexico used as a holiday destination • Presence of Mexican TV/radio
	Affinity with Mexican food and beverages	• Presence of Mexican restaurants • Presence of Mexican food in off-premise outlets • Tequila consumption
	Affinity for Mexican beer	• Shelf presence • Known Modelo exports • Inputs from market research (where available)

Source: CCM and Arthur D. Little, Inc.

Table 6: Ranking of Selected Markets with Regard to Ease of Channel Penetration

Country	Rating	Rationale
UK	Medium	• Tied-house system breaking down in on-premise sector • Numerous brands stocked in off-remise outlets even though some owned by breweries
France	High	• Well developed network of independent import distributors and wholesalers serving on and off-premise outlets
Italy	Low	• Exceptionally fragmented distribution system
Hong Kong	High	• Very well developed importer/distributor network • Numerous independents • Informal ties with brewers in on-premise trade but based primarily on price

Source: Arthur D. Little, Inc.

Figure 7: Recommended Country Portfolio
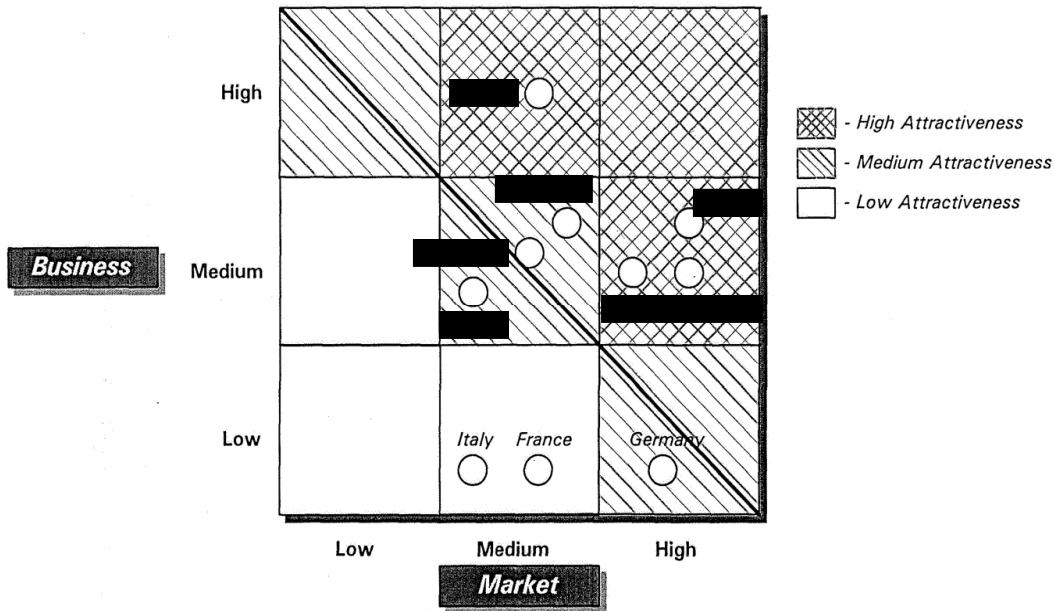
████ Names deleted to maintain CCM confidentiality
Source: Arthur D. Little, Inc.

Table 7: Investment/Strategic Thrusts by Matrix Zone:

Zone	Thrust	Rationale
High Attractiveness	Invest to grow	• Countries were ranked highest now
Medium Attractiveness	Maintain or establish presence	• Countries were plotted in the lower left hand cells and/or they were easy add-ons to or strategically important for the highly attractive markets
Low Attractiveness	Harvest/Withdraw	• These markets are unattractive now*

*This conclusion was used in another screening

Source: Arthur D. Little, Inc

Appendix One: **Example of Company Profiles Used in Screening**

U.K.			
1993	**Consumption (M hls)**	**Consumption per Capita (lts)**	**Consu. CAGR ('90-'93)**
Market Data	60.2	103.9	(2.2%)
	Beer Imports (M hls)		**Beer Imports (as % of total Consumption.)**
	4.58		7.6%

	GDP (USD billions)	**GDP per Capita (US Dollars)**	**GDP CAGR* ('90-'94)**
1994			
Economic Data	$1024.3	$17,540	1.51%

1994	**RISK**	**RESTRICTIONS**		**AFFINITY**
		Exchange	**N.T. Barriers**	
Feasibility	Low	NO	NO	Neutral