

The industry in change: the case of the Polish brewing industry – privatisation and consolidation

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Abstract

The brewing industry in Poland is one of the fields of manufacturing which is in general adapting to the transforming economy surprisingly well. The reasons for that are strictly connected with a remarkable structural change of the ownership. That has been the source of an enormous success of some companies and the failure of the others. What is more the play for Polish beer market has resulted in the engagement of the world's and European biggest brewing companies. Consequently, most of the models of companies' behaviour characteristic for global market have been implemented, including change in such fields as marketing or supply chain for instance. However, the pattern that seems to emerge fits only to the 'giants' of the beer market. The significant number of the smaller ones has been able to find effective ways of functioning, too. All of these make the brewing industry in Poland a good example in the 'globalisation versus rationalization' dilemma.

Key words: brewing industry, consolidation, globalisation, ownership change, privatisation

Introduction

Functioning of manufacturing during transformation of socio-economical system brings for geographers a wide range of interesting topics. Brewing industry is a one which has been changing with an extraordinary dynamics, which has been clearly visible even for non-experts. However, the change seems to be multidimensional. In a macro scale it is easy to find examples of some megatrends of contemporary economy like globalisation for instance. That results in spectacular overtaking of some companies by foreign investors including Transnational Companies (TNCs), swelling some of them into brewing groups with a share in a Polish beer market as high as 30%, remarkable improvement of products and substantial change of distribution networks. When a social dimension is concerned the deep change of patterns of alcoholic beverages consumption can be seen. That results in a micro dimension in spreading 'pubs' which became an important element of Polish urban space during the 90's.

This paper aims to demonstrate the change of ownership of the Polish brewing industry, its turning points and results. Due to wide range of the subject concerned the paper has to concentrate on some examples chosen by the author.

Without any doubts the Polish brewing industry is one of the branches of manufacturing which has been adapting surprisingly well to changing socio-economical

condition. There are some reasons for that, amongst which the most important seems to be enormous technological improvement. That would not be possible without foreign direct investments which provided capital and, last but not least, 'know-how'. The main reasons responsible for attracting foreign capital to Polish brewing industry are following:

- low level of beer consumption in Poland which had been taking upward trend since mid 80's (Fig. 1),
- low quality of beer that had been produced in Poland which could have been potentially a factor of essential growth after improving it,
- changing structure of alcoholic beverage consumption in the developed countries alongside with stabilised domestic beer markets without prospects for substantial growth,
- high profitability of the food and drinks industry and the brewing industry particularly,
- quite stable principles of technology of beer production.

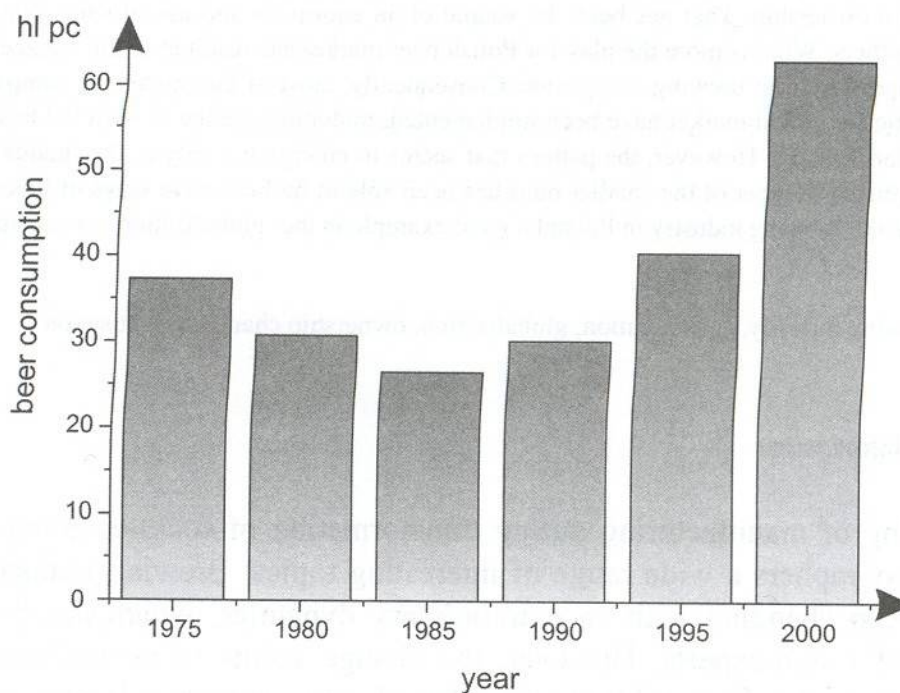


Fig. 1 Beer consumption in Poland 1975–2000

Source: Author's own compilation after *Piwowarstwo polskie... 2002* and others

Elbrewery company Ltd. – the story of rise and fall

A date which establishes the beginning of a play for the Polish beer market is May 1990, when Zakłady Piwowarskie w Elblagu¹ decided to create a joint-venture with a Brewpole Pty Ltd controlled by the group of Australian investors. That is how Elbrewery Company Ltd emerged on the Polish beer market. Just one year later

¹ Zakłady Piwowarskie w Elblagu included two breweries i.e. in Elblag and in Braniewo.

Brewpole bought a majority of shares in Gdanskie Zaklady Piwowarskie changing its name to Hevelius Brewing Company Ltd. Since 1993 up to 1999 Elbrewery kept a pole position in the Polish beer market. The reasons for such a spectacular success were:

- timing; Australian investors took control over the brewing company more than one year before the rest of foreign investors, which was of much importance due to a long lasting investment process in brewing industry²,
- introduction, for the first time in Polish brewing industry, of modern marketing systems, including branding³,
- quick modernisation of both breweries and creation of complex distribution network of products in 'pubs' and restaurants.

Consequently, Brewpole became attractive for other investors. On the May of 1995 25% of shares in Brewpole were sold to a Dutch world wide known brewing company – Grolsch. The licensed production of Grolsch spearhead product i.e. Grolsch Premium Lager was introduced soon after. On the beginning of 1998 the Dutch investor decided to sell out all the shares of Brewpole and established another important date in the Polish brewing industry transition – the first withdrawal of remarkable foreign investor from the Polish beer market. For Grolsch company Poland was the third unsuccessful attempt of expansion on foreign markets just after United Kingdom and Germany.

Moreover, Elbrewery was the company which started the process of consolidation in the Polish brewing industry. In 1997 three companies controlled by Brewpole: Elbrewery Co. Ltd, J.J. Marketing and Hevelius brewing Company Ltd merged into one Elbrewery Co. Ltd. However, the most important for consolidation of the Polish brewing industry was a fusion of Brewpole and Zywiec companies which resulted in establishing the largest brewing group in Poland. Merging of those companies was inevitable for one side i.e. Brewpole. Notwithstanding, being still the largest brewing company it showed first symptoms of health deterioration. High costs of functioning were strictly connected with the very reason of success of the company i.e. marketing. The marketing campaigns of EB in the late 90's were becoming more and more expensive, while the company was trying to get a European flair by using such icons of mass culture as Jean Reno and Tom Jones. The outcome of the campaigns was visible in short time, however, turned out to be ineffective in longer terms, which resulted in closing some of the company facilities after 2000. That includes suspending of production in the Braniewo brewery with brewing capacities over 1 million hl of beer. The reasons of the fall of EB were:

- high costs of production,
- marketing policy which established EB beers as a 'top shelf product',
- rising competition on Polish beer market combined with a state policy of constant increase of a tax put on beer,
- high costs of transport, which reduced the opportunities of expansion on beer markets of the southern Poland,
- levelling of quality of beer produced by the major players,
- a strong position of local and regional companies in the biggest agglomerations.

² Modernisation of brewery in Braniewo which was concerned as fast, lasted 8 months.

³ The first beer campaign in Poland was made for Elbrewery by Leo Burnett known for instance for the image of Marlboro Man.

Privatisation Paths

One of the forms of gaining capital necessary for the modernisation process, chosen by some companies, was entering the Warsaw Stock Exchange⁴. That way was used only by six companies (Fig. 2) and can be divided into two sub paths:

- breweries which entered the Stock Exchange, when they already had been privatised – Lech BW, Browar Malopolski Strzelec,
- companies which were originally privatised in that way like the most known and the biggest in the beginning of 90's i.e. Okocim and Zywiec.

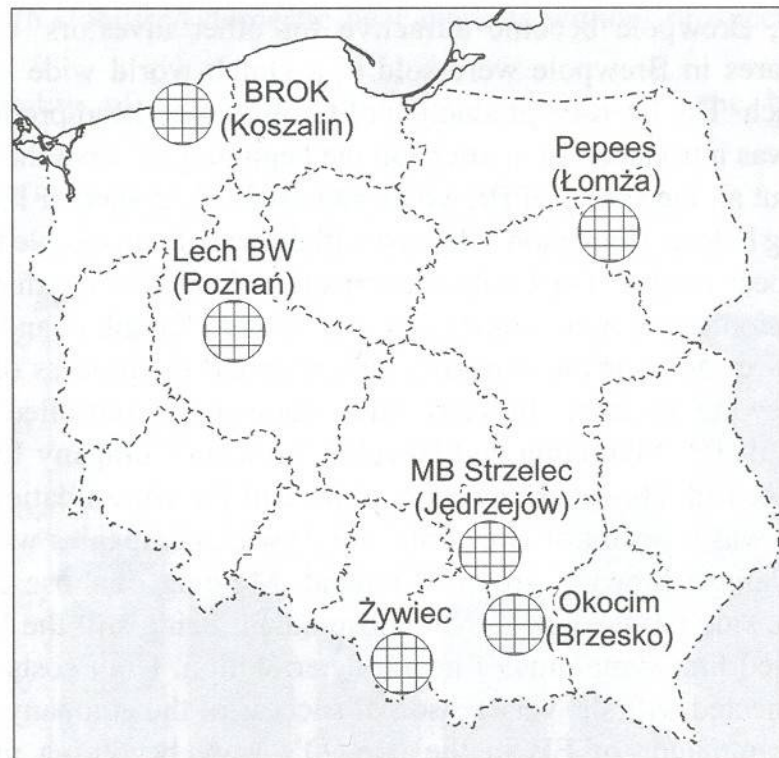


Fig. 2 Main manufacturing facilities of companies which entered Warsaw Stock Exchange 1991–2002
Source: Author's own compilation after press

Numerous companies changed its ownership from state-owned into private by being overtaken by foreign investors. In the beginning of the transition Polish Ministry of Transformation of Ownership⁵ was the one to decide which way a brewery should be privatised. Intense and dynamic consolidation of the market combined with quite visible financial inefficiency of Polish investors, in comparison to real needs of modernisation, resulted in the second half of 90's in taking over of by foreign investors of quite remarkable number of already privatised companies. Moreover, even in cases of companies which privatisation was established as incorrect by the Supreme Court of Control, the economical situation of such breweries was concerned as being improving.

⁴ Warszawska Gielda Papierow Wartosciowych = WGPW (the Warsaw Stock Exchange).

⁵ Ministerstwo Przekształcen Własnościowych = MPW (Ministry of Transformation of Ownership).

Just a few companies changed their ownership structure by taking part in the Common Privatisation Program⁶. Eventually, only Brewery Zachodnie 'Lubusz' (NFI⁷ Hetman and NFI Octava) and Brewery Karkonoskie (VIIth NFI) found itself amongst the companies belonging to National Investment Funds.

The last way of privatisation, which had been chosen by quite large number of breweries, was transformation into a specific type of share holding company which was so called 'employees company'. In general, that way of privatisation concerned taking a company in leasing by the employees with minor shares of private investor. One of the major disadvantages of this type became the lack of taxes cancellations, which were quite common for the foreign investors. This way was taken by a few brewing companies with strong position on regional markets located in major Polish cities i.e. Brewery Lubelskie (Lublin), Brewery Warszawskie (Warszawa), Brewery Lodzkie (Lodz), Zaklady Piwowarskie w Bialymstoku (Bialystok). Nevertheless, the largest ones had suffered some losses in the market in the beginning of the 90's, were able to survive and even regain some parts of the market due to concentration of sales on regional market and surprisingly strong regionalist attitude of consumers. However, most of them were able to survive, the opportunities of further development became quite an illusory in the late 90's as a result of high credit price and ongoing process of increasing competitiveness on the Polish beer market. What is interesting, some of the foreign investors like Brau Union/BBAG⁸ for instance, based their strategy of the expansion on the market by overtaking 'employees companies'.

Consolidation

However, as the beginning point of consolidation of Polish brewing industry can be set, as already was mentioned above, the fusion of companies controlled by Brewpole, the turning point occurred almost a year later on October of 1998 when Brewpole and Zywiec companies merged into Zywiec Group (Fig. 3)⁹. That is how were emerged both the largest brewing company in Poland, with a share in the domestic market as high as 40%, and the largest fusion of private manufacturing enterprises in Poland (Domanski 2001). New brewing group became at once the biggest abroad investment of Heineken (Bogacz 1997)¹⁰. Consequently, the major rival of Heineken on the Polish market i.e. South African Breweries (SAB) and Euro Agro Centrum¹¹ merged two companies of its own – Lech Brewery Wielkopolski and Brewery Tyskie into Kompania Piwowarska controlling c.a. 20% of the market. In 1999 a new player – Brau Union¹² entered Polish beer market. The entrance on the Polish market was carried out in a model way of behaviour of foreign companies, based on license agreement with Van Pur brewery on manufacturing well known Kaiser beer. Approximately

⁶ Powszechny Program Prywatyzacji = PPP (the Common Privatisation Program).

⁷ Narodowe Fundusze Inwestycyjne = NFI (National Investments Funds).

⁸ Osterreichische Brau Beteiligungs Aktiengesellschaft with a headquarter in Linz.

⁹ Grupa Zywiec – controlled by Heineken.

¹⁰ At a present moment it comes on the third place just after belonging to Heineken French and Spanish brewing groups.

¹¹ Controlled by Jan Kulczyk – one of two richest people in Poland with a fortune estimated in 2003 c.a. 1 billion \$.

¹² Brau Union AG is a part of BBAG concern (*Piwowarstwo europejskie i swiatowe* 2002).

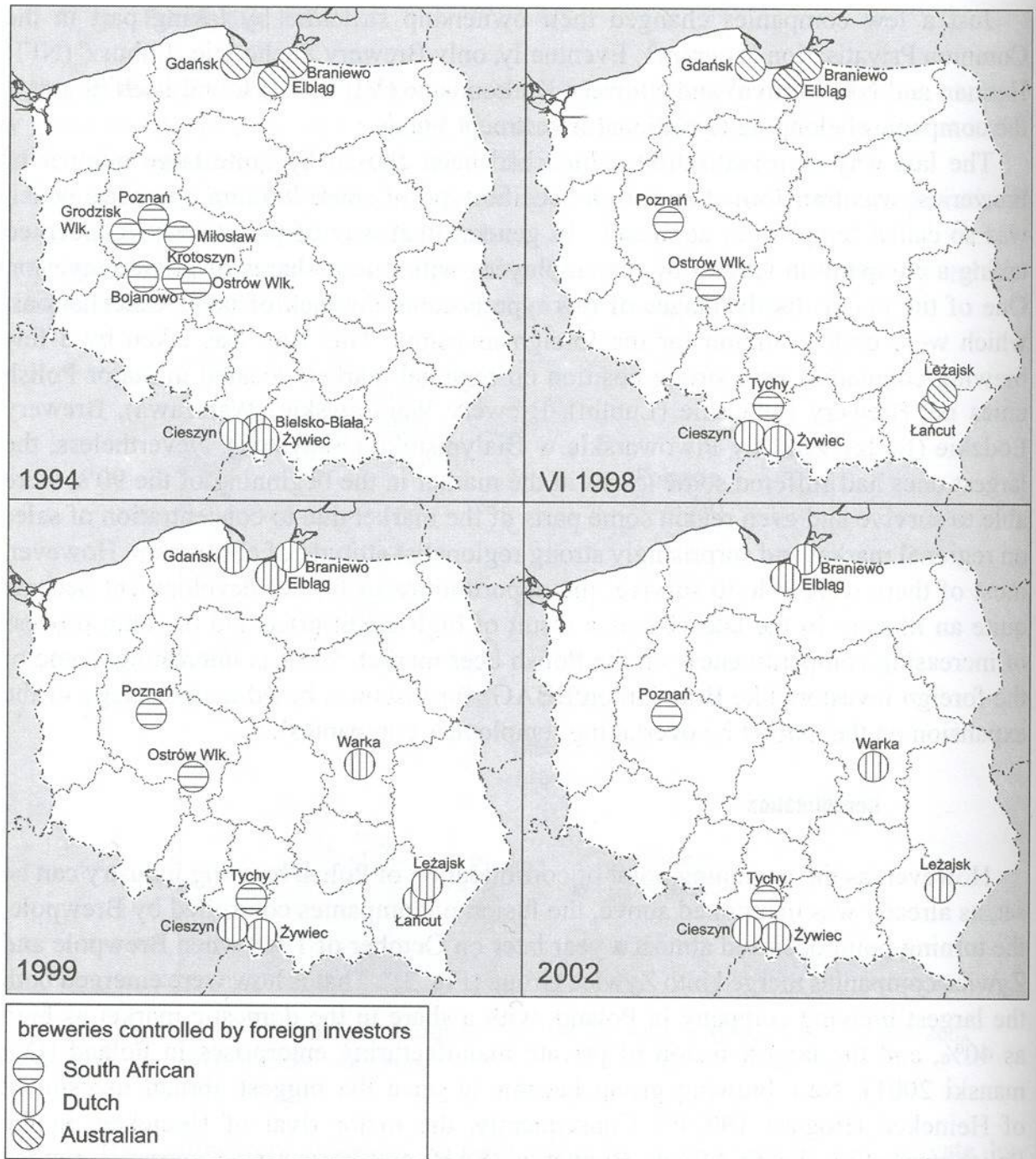


Fig. 3 Consolidation of the brewing industry in Poland 1994–2002 (situation in the end of a year/month)
Source: Author's own compilation

a half year later, on January 2000, Austrian concern bought 100% shares of Van Pur. In coming years it managed to over take two middle size 'employees companies', that is Browary Warszawskie and Browary Bydgoskie „Kujawiak” (Fig. 4). Consolidation of the Austrian brewing group began in April 2001 with merging Van Pur company into the structure of the concern and establishing a headquarter for Poland in Warsaw (Lakomy 2002)¹³.

¹³ With cancellation of Van Pur non-production part of company in Rzeszow.

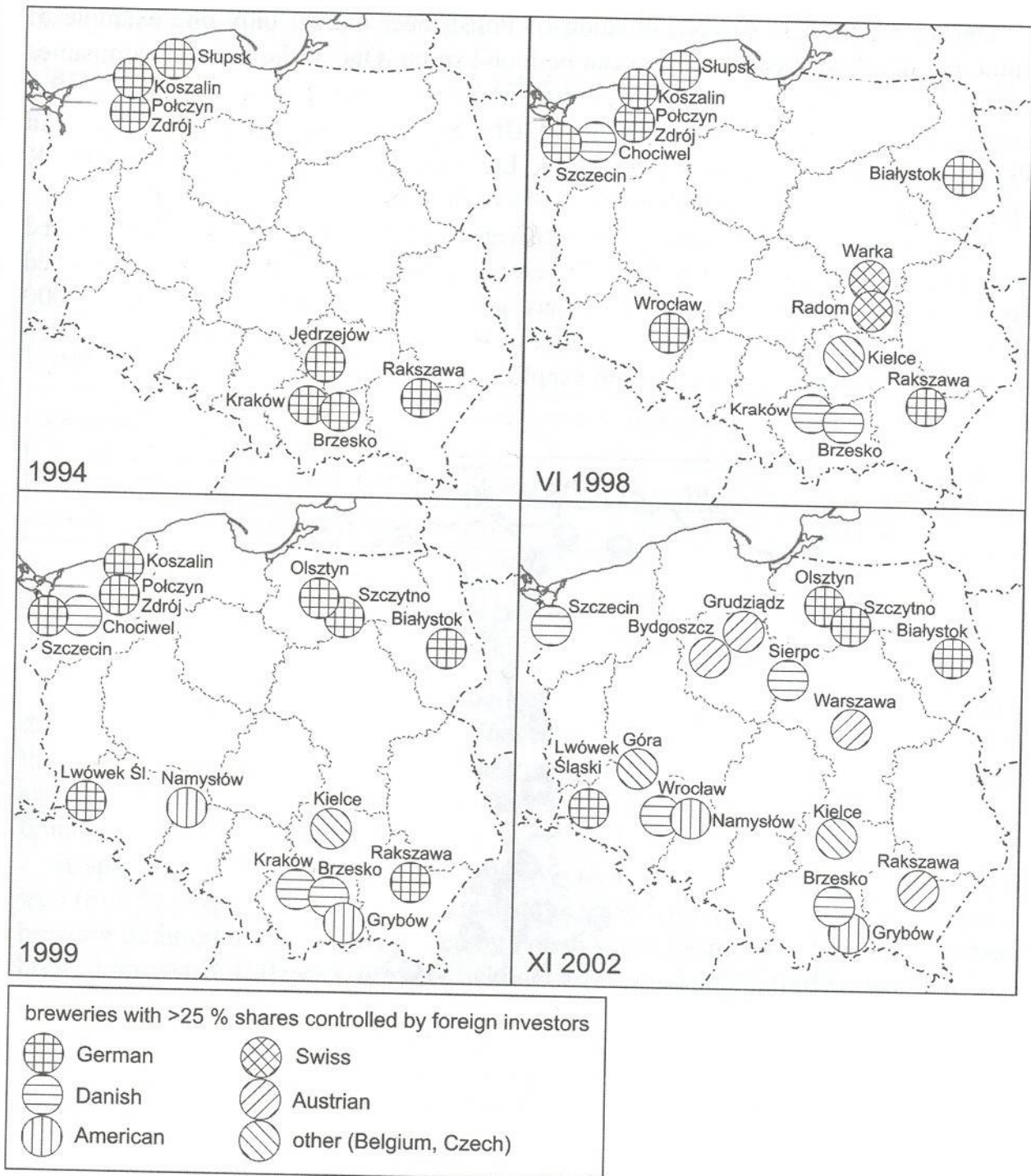


Fig. 4. Foreign investments in the brewing industry in Poland 1994–2002 (situation for the end of a year/month)
 Source: Author's own compilation

Another example of ongoing consolidation can be easily given with, as surprising as in Brau Union cases, over takings of Brewery 'Bosman' in Szczecin and Brewery 'Kasztelan' in Sierpc¹⁴ by Carlsberg in 2001 and earlier purchase of brewing company Brewery Dolnoslaskie PIAST in Wrocław from private investor Ryszard Varisella. Altogether with Brewery Okocim, belonging to Carlsberg since April 1996, they became the third biggest brewing group in Poland with 16% of the market share.

¹⁴ Both belonging to German Bittburger group.

During the process of consolidation of Polish beer market only one example of emerging of a Polish capital group can be found so far. One of the brewing companies capitalized by Warsaw Stock Exchange i.e. Malopolski Brewery Strzelec, after unsuccessful attempts of over takings of Brewery Lubelskie 'Perla' in Lublin and Pepees¹⁵ bought brewing facility in Rybnik. Later, on November 2002 overtook BROK company, and so gained control over c.a. 9% of the market in the end of 2002.

It is interesting that increasing competitiveness on the Polish beer market enforced smaller players to self-organisation. Therefore the Society of Small & Medium Sized Breweries¹⁶ was established. The Society gathered 43 members in the year 2000 (Fig. 5.) and was able to improve chances of its members mainly by gaining much stronger position in negotiations with suppliers than a single brewery alone.

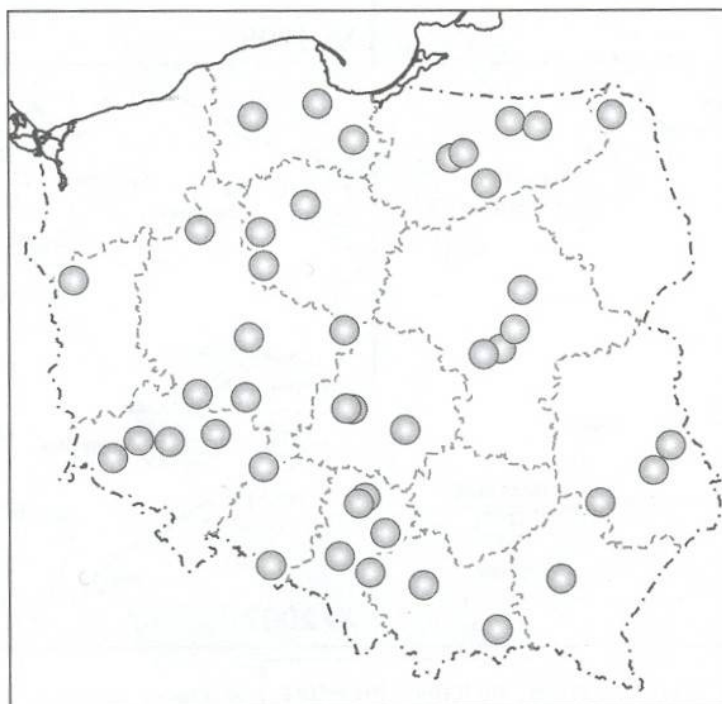


Fig. 5 Breweries – members of 'Small and Middle-Sized Breweries Society' in 2000
Source: Author's own compilation after *Browary w Polsce... 2001*

Re-privatisation

Re-privatisation is an interesting part of change in ownership structure of Polish brewing industry. What is important, demands of successors are concerning the biggest breweries like Zywiec or Okocim (Tab. 1). Up to now there are only few examples of successfully undertaken re-privatisation and actually none of them is applying to a brewery with production capacities over 100 000 hl.

¹⁵ Part of which is Browar Lomza.

¹⁶ Stowarzyszenie Malych i Srednich Browarow.

Table 1 Potential re-privatisation demands in the brewing industry in Poland

Brewery location	Name of brewing facility before 1939 r.*	Successors of
Bialystok	Browar Parowy 'Dojlidy', Sp. z o. o. Jerzego ksiecia Lubomirskiego	Lubomirski family
Lublin	Browar Parowy i Fabryka Slodu K. R. Vetter wlasc. Tadeusz Karszo-Siedlewski	T. Karszo-Siedlewski
Lancut	Browar Parowy Alfreda Hr. Potockiego w Lancucie	Potocki family
Okocim (Brzesko)	Browar Jana Götza w Okocimiu	Götz
Tychy	Browar Ksiazecy Tychy Browar Obywatelski Tychy S. A.	Hohberg
Warszawa	Zjednoczone Browary Warszawskie p. f. 'Haberbusch i Schiele' S. A.	Schiele
Zwierzyniec	Browar Parowy Ordynacji Zamojskiej w Zwierzyncu n/W	Zamoyski family
Zywiec	Arcyksiazecy Browar w Zywcu	Habsburg

* In year 1930 (*Przemysl Piwowarski 1931*) no. 38–41

Source: Author's own compilation after *Przemysl Piwowarski 1931* and others

Much of importance seems to be connected with mentioned above re-privatisation demands towards Zywiec nad Okocim breweries. Both companies were nationalised by the PKWN decree on agricultural reform from 1944. That fact gives to the successor's stronger position comparing to those, whose facilities were nationalised by the Nationalization of Industry Act¹⁷ from 1946.

A spatial pattern in the location of the re-privatisation demands can be found as well (Fig. 5). The author's hypothesis is that the pattern can be treated as a reflection of brewing tradition in Poland as showed by Polish space locations, where beer has been brewed for nearly 100 years, or more, without any remarkable interruptions.

Effects of the ownership change

All of brewing companies operating more than one manufacturing facility changed their inner structure which was hardly adapted to rules of a free market, after a long period of functioning in socialistic economy. Most of the breweries outsourced functions of low integration level and high simplicity (Fig. 6) leaving themselves control over the functions and services important for competitive advantages (Pawlak 2001). Quite fast outsourcing of transport services by nearly all of breweries is a good example for the above. In some companies transport services were conducted by firms which shares were controlled by breweries like Zywiec Trade for example. A substantial number of companies decided however to use services of specialist firms without any significant financial connection with themselves i.e. Drinks Service (for Elbrewery Ltd) or Zasada Trans Spedition (for Okocim). The case of Elbrewery is interesting even

¹⁷ Ustawa o nacjonalizacji przemyslu = Nationalization of Industry Act.

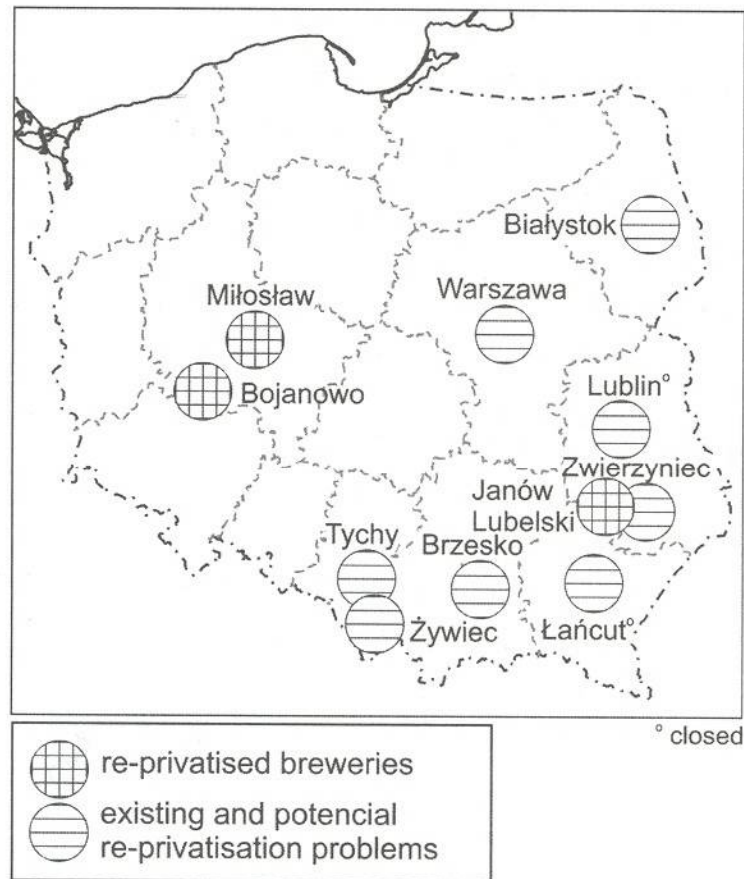


Fig. 6 Selected problems of re-privatisation of the brewing industry in Poland
 Source: Author's own compilation after press

more due to the fact that marketing, which can be undoubtedly called a function of high level of integrity and complexity as well, an outer¹⁸ firm was responsible for i.e. J. J. Marketing¹⁹ (Lakomy 1998 b).

It is worth to be mentioned that in one case, known to the author, Polish state activity had a good influence on a privatised brewing company. During the privatisation process of Lech Browary Wielkopolski due to the statement of Polish Antimonopoly Office²⁰, which considered Lech BW as a regional monopolist, outsourcing of some manufacturing facilities became inevitable for commercialisation²¹ (Fig. 7). Sale or liquidation of low efficient small facilities seems to be one of the key factors for Lech success even before establishing Kompania Piwowarska. Moreover, an interesting spatial patterns emerges. The company got rid of the facilities in proximity of Poznan core area, however, still controlled peripheral facilities, what brings to assumption that Lech was preparing itself to quick expansion on neighbouring regional markets. The hypothesis finds support in the spatial pattern of company distribution network (Fig. 8).

¹⁸ However, controlled by Brewpole – the owner of Elbrewery.

¹⁹ The consolidation ended officially on 1st of July 1997.

²⁰ Urząd Antymonopolowy = Antimonopoly Office.

²¹ I.e. the first stage of changing ownership of companies, which basically concerned creating a share holding company with 100% of shares in state hands.

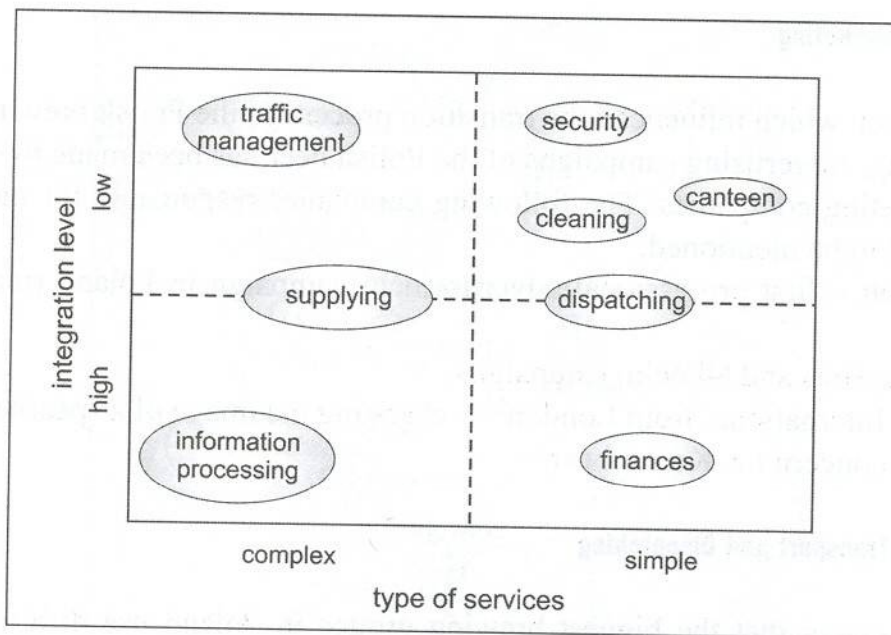


Fig. 7 The matrix of outsourcing
 Source: Pawlak 2001

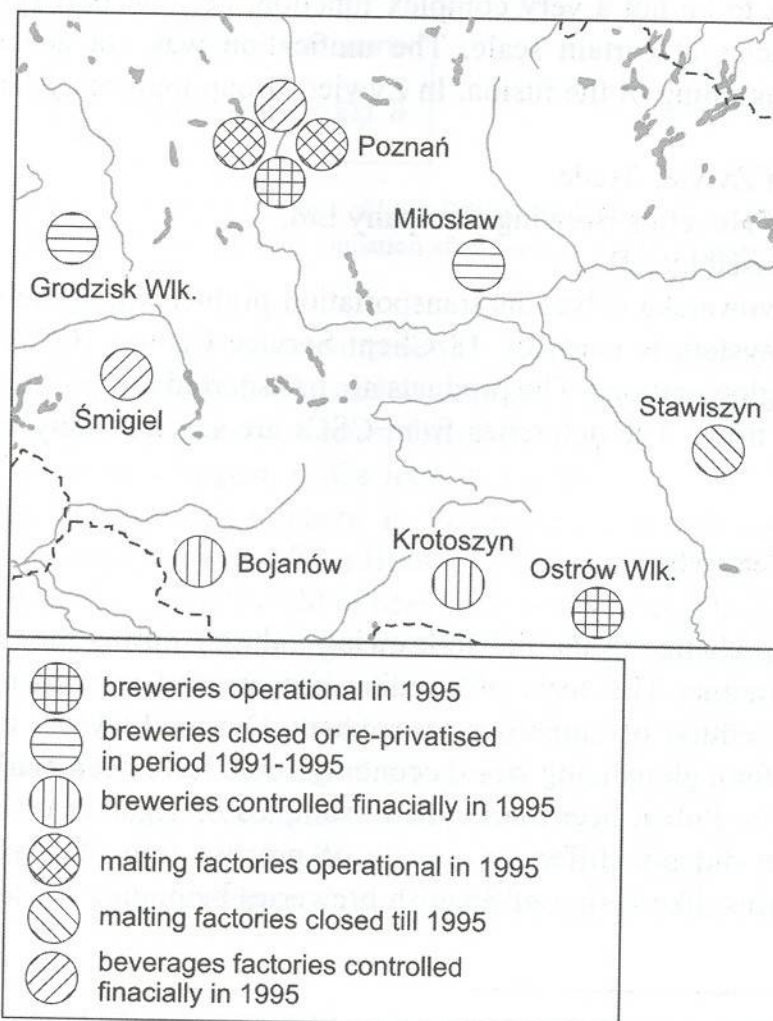


Fig. 8 Ownership change of manufacturing facilities of Lech Browary Wielkopolski 1992–1995
 Source: Author's own compilation after Niemira 1995 and others

Marketing

The function which influenced the transition process of the Polish brewing industry was marketing. Advertising campaigns of the Polish beer has been made by worldwide known marketing companies. The following companies responsible for the image of the beer need to be mentioned:

- Leo Burnett – first professional advertisement campaign in Poland (made for El-brewery),
- Grey – Hevelius and Okocim campaigns,
- Claessens International from London²² – changing the image of a spearhead product of BBAG concern i.e. Kaiser beer.

Transport and Dispatching

It is interesting that the biggest brewing groups in Poland use different systems of logistics and dispatching. Moreover, those functions required a new quality with an intensification of consolidation process. Unification of the transport system of entire Zywiec Group is the example for the fact that changing somewhat, what at the first glance seems to be not a very complex function, i.e. transport system, can meet remarkable obstacles at certain scale. The unification was not accomplished even a year after the beginning of the fusion. In Zywiec Group logistic system in year 2000 contained:

- 8 companies of Zywiec Trade,
- 2 companies of Hevelius Brewing Company Ltd,
- Drink Service used by EB.

Kompania Piwowarska solves its transportation problems in quite different ways. The base of the system is made by 18 Client Service Centres (CSC) located in the biggest Polish agglomerations. The products are transported to CSCs by small vehicles of transportation firms. The deliveries from CSCs are serviced only by the company own trucks.

The Perspectives

The ownership change in the Polish brewing industry during the transition period has a unique dynamic. The scale of ongoing processes is as well remarkable, and both focus the attention of numerous researchers. During 13 years of the transition patterns specific for a globalizing world economy could have been marked out without any hesitation. The Polish beer market had examples of gigantic fusions of brewing companies which did not differ by a scale of process from its equivalents in the developed countries, like fusion of Spanish breweries belonging to Heineken²³. What

²² Claessens International created the image of the Johnny Walker.

²³ As a result of merging Cruzcampo and El Aguila companies in 2000 Heineken Espana emerged which became the largest Heineken's abroad investment before France and Poland with a total production c.a. 10 millions hl per year.

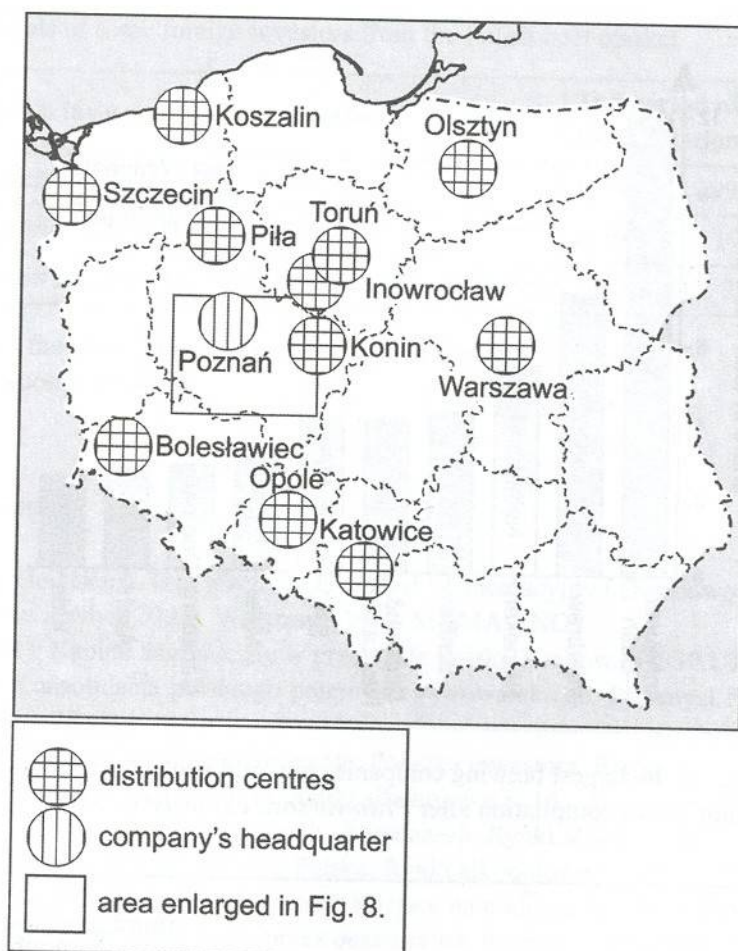


Fig. 9 Distribution centres of Lech BW in late X 1995
 Source: Author's own compilation after Niemira 1995 and others

is more, some of the investors were surprisingly passive while some of them, even more surprisingly, expanded on the Polish beer market. Process of privatisation of some breweries is still a mystery even for a journalists²⁴.

After 1990 the world's largest TNCs like Heineken or South African Breweries (SAB) penetrated the brewing industry in Poland on a significant scale (Fig. 9). Moreover SAB joint together with Miller Brewing Company Inc. on May 2002 with the production p.a. of nearly 120 million hl of beer became the second largest beer producer in the world. Not only took the giants part in the play for the Polish beer market but also remarkable on European scale companies like BBAG or Carlsberg which merged quite recently together with Norwegian industrial conglomerate – Orkla²⁵.

The scale of consolidation does not differ greatly from those examples which can be found in most of the European countries and some from other continents including USA (Fig. 10). Consolidation process became visible even in Germany which was until now an exception for wide spreading of the process over the world (Lakomy 2002 b).

²⁴ A report made by Supreme Court of Control (NIK) concerning the privatisation of one of the biggest Polish brewing companies i.e. Lech Browary Wielkopolski is still classified.

²⁵ The estimated value of the fusion is c.a. 1.25 mld \$.

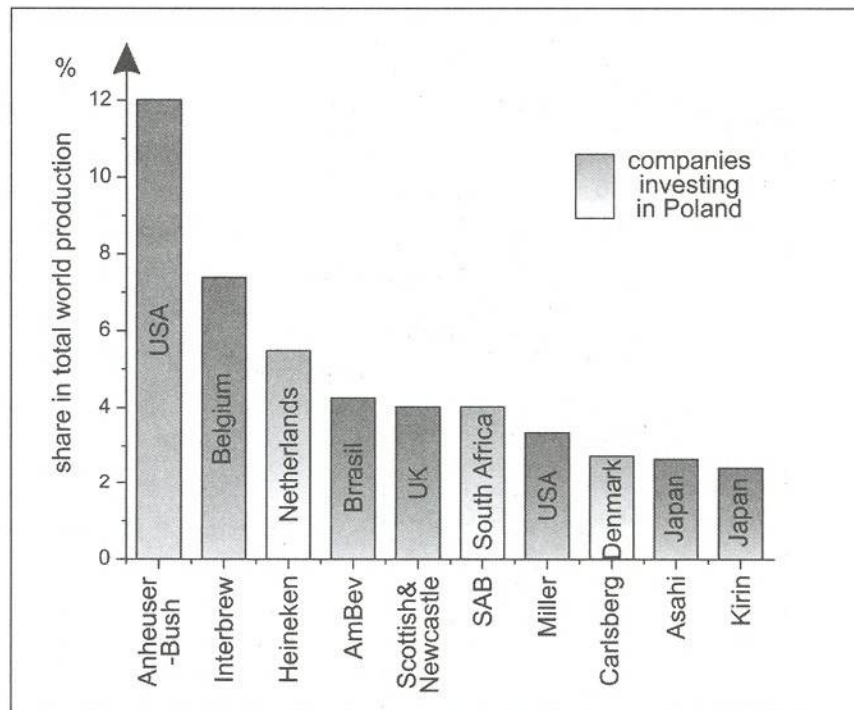


Fig. 10 Share of the largest brewing companies in world's total beer production in 2000
 Source: Author's own compilation after *Piwowarstwo europejskie... 2002*

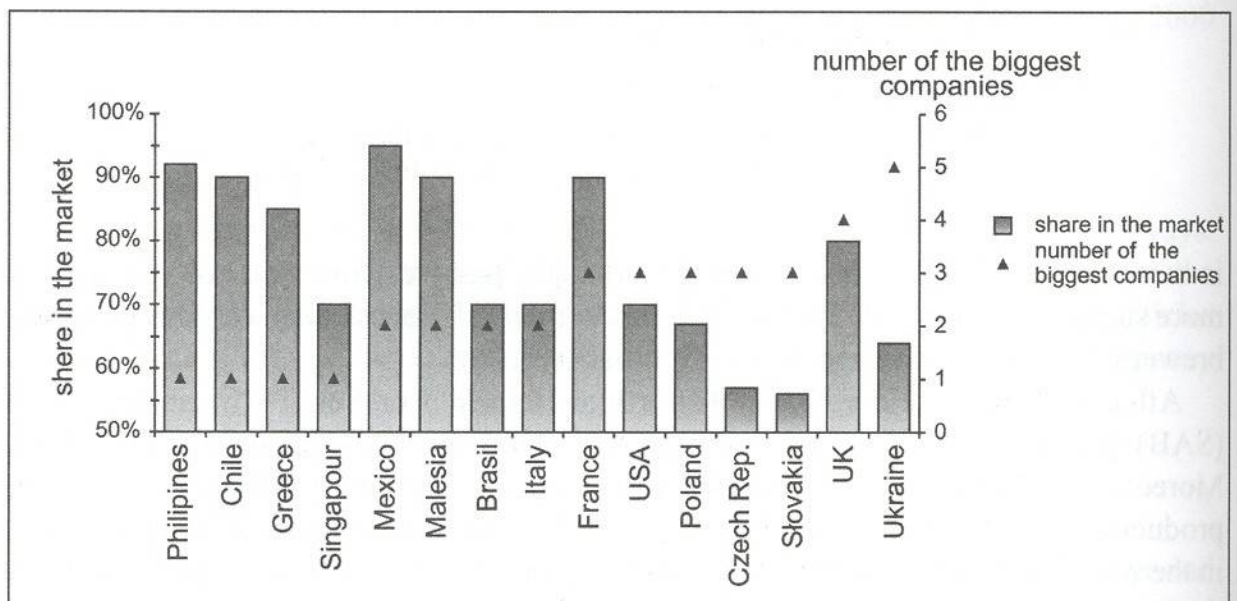


Fig. 11 Consolidation of brewing industry in selected countries in 1998
 Source: Author's own compilation after Hopper 1999

The amount of the capital invested and intensively rising dynamics of beer consumption in Poland were major reasons for rising competitiveness on the market. The outcome is surprising because amongst the companies which withdrew from Poland can be found quite well known European companies (Tab. 2). The concentration of 9% of the market shares by originally Polish brewing group, seeming extraordinary, can be found, however, in other post-socialist countries as well.

Table 2 The withdrawals of some foreign investors from the Polish beer market

Company	Foreign investorr	New investor	The period of control by the first from mentioned foreign investors
Brewpole BV	Grolsch	–	V 1995–I 1998
Okocim S. A.	Brau und Brunnen*	Carlsberg	II 1994–III 1996
BROK S. A.	Holsten Brauerei AG	group of American investors	1991–1. 12. 2001

* Brau und Brunnen is the owner of Schultheis brewery in Berlin

Source: Author's own compilation

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