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THE STRUCTURE-CONDUCT-PERFORMANCE PARADIGM AND THE BEER INDUSTRY IN ZIMBABWE

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Abstract

The beer industry has the greater market share owned by the informal sector which holds a larger share of home brew market. To investigate the beer industry the study utilized the Structure-Conduct –Performance paradigm to link the structure of the market, the conduct of the firms in the market and their economic performance. The results show that Zimbabwe’s beer industry has a competitive market structure and high levels of industrial concentration in commercial produced beer. Low-end beer industry in Zimbabwe has low entry barriers resulting in plenty of low-end beer business and low quality of products, which determine the fierce competition of the market.

Key words: S-C-P paradigm, Beer industry, Concentration, Causal relationship, Market structure, Informal.

Contribution/Originality

This is one of few studies which have made an in-depth analysis of the beer industry using the structure-conduct-performance paradigm. The analysis has enabled the observation that low-end beer industry in Zimbabwe has low entry barriers resulting in plenty of low-end beer business and low quality of products, which determine the fierce competition of the market.

1. INTRODUCTION

The Zimbabwean beer industry is characterized by high levels of concentration with Delta Beverages dominating the market. The research tries to link the structure-conduct-performance (S-C-P) paradigm in the beer industry in Zimbabwe. The research shows how the structure of the beer industry determines the conduct of the firms in the industry which will also determine the performance of the firms in the industry. The paradigm stipulates causal relationships between the structure of the market, the conduct of the firms in the market and their economic performance.



2. OVERVIEW OF THE S-C-P PARADIGM

Structure-Conduct-Performance paradigm was first developed by Mason in the 1930 (Weiss J, 2001). It has now become the central study of industrial organization. It stipulates causal relationships between the structure of the market, the conduct of the firms in the market and their economic performance. The paradigm contends that the industry’s performance, that is, the success of an industry in producing benefits for consumers, depends on the conduct, that is, behavior of firms in the market, which in turn depends on the structure of the market.

2.1 Structure

It refers to how sellers and buyers interact with each other. It describes the market environment within which firms in a particular market operate. It also defines products in terms of the potential number of variations in which the product can be produced. The major elements of market structure describe ways in which markets depart from the conditions that describe perfect competition and these include the number of buyers and sellers, barriers to entry, product differentiation, vertical and horizontal integration, diversification among others.

2.2 Conduct

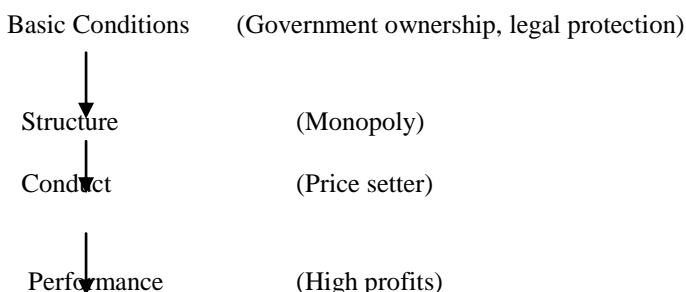
It refers to the behaviour of the firms in the market. It also refers to the decisions these firms make, and also the ways in which these decisions are taken. It is the behaviour of the firm in response to conditions imposed by the market structure. Market conduct refers to how firms determine their price policy, sales and promotion strategies. Significant aspects of firm conduct include pricing behaviour, advertising, research and development, plant investment, legal tactics, product choice, collusion, mergers and contracts, among others.

2.3 Performance

This refers to the welfare aspect of the market interaction. It relates to the record of the industry in terms of the benefits which it generates for its various stakeholders. Performance refers to the extent to which firms are able to satisfy consumer demands at current period. The question here is whether the firm’s performance enhances economic welfare. Important aspects of performance include productive efficiency, allocative efficiency, product quality, technical progress and profits.

An important addition to the Structure-Conduct-Performance paradigm is an industry’s basic conditions. The argument is that the basic conditions do shape the market structure. That is;

Basic conditions → Structure → Conduct → Performance e.g. National Railways of Zimbabwe.



Basic conditions can be divided into two categories, that is, the supply side and the demand side. The supply side include location, ownership of essential raw materials, nature of relevant technology, degree of labour unionism, product quality, legal framework among others. The demand side include price elasticity of demand at various prices, availability of



substitutes, the rate of growth and variability of substitutes and variability over time of demand, purchase method, market characteristics of the product among others.

3. PLAYERS AND PRODUCTS IN THE ZIMBABWEAN BEER INDUSTRY IN ZIMBABWE

Players	Products
<ul style="list-style-type: none"> • Ingwebu Breweries (Bulawayo) 	<ul style="list-style-type: none"> Indlovu Calabash and Shake-Shake, Utshwala tshwala
<ul style="list-style-type: none"> • Delta Beverages Breweries 	<ul style="list-style-type: none"> Lagers: Castle Lager, Eagle Lager, Zambezi Lager, Carling Black Label, Golden Pilsner Lager, Bohlingers Lager, Lion Lager
<ul style="list-style-type: none"> • Home Beer- Brewing 	<ul style="list-style-type: none"> Traditional Beers: Chibuku Seven days(traditional beer) and Amarula(mukumbi)
<ul style="list-style-type: none"> • Kwekwe Breweries (Kwekwe) 	<ul style="list-style-type: none"> Simba beer
<ul style="list-style-type: none"> • Go-Ber Breweries(Gweru) 	<ul style="list-style-type: none"> Opaque beer(Go-Ber)

4. RESEARCH OBJECTIVES

The objective of the study is to provide an overview to the Structure-Conduct-Performance (S-C-P) approach and how it applies to the beer industry analysis in Zimbabwe. While S-C-P was designed for more industrialized countries, a number of modifications have been suggested such that this paradigm can now be applied to market analysis in developing countries. This technical note provides an introduction to the S-C-P paradigm tailored to the beer industry in Zimbabwe.

5. ANALYSIS OF THE ZIMBABWEAN BEER INDUSTRY MARKET STRUCTURE

5.1 Basic Conditions

There are mainly three factors under the basic conditions which are; large plants (that have cost advantages), economies of scale in advertising and marketing and barriers to entry. These have been very significant in Zimbabwe and have shaped the entire industry.

5.2 Structure

The industry is comprised of both small and large firms which make up a competitive market structure. Despite heavy advertising acting as a barrier to entry, there are many players in the industry ranging from home beer makers through city council breweries to bigger companies such as Delta. All these provide different brands and create fierce competition in the industry.

6. ANALYSIS OF ZIMBABWEAN BEER INDUSTRY MARKET CONDUCT

6.1 Conduct

There is price discrimination, and vigorous competition in terms of development of raw products, brand promotion, entertainment, among the firms in the beer industry in Zimbabwe. Within the brewery industry, a practice of market



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behaviour is vertical coordination where firms decide to combine technologically different production processes, distribution processes, marketing processes or any other economic process. In fact, the extent of vertical coordination ranges along a continuum from a spot market, contracting, strategic alliance, formal cooperation to full vertical integration. A common strategy of breweries is to conclude so-called vertical agreements with bars or pubs. The tied pubs differ on several dimensions, including the ownership of the pub, the authority to set the retail price, and the existence of fixed-rental fees. On the Zimbabwean beer market, there exist two important forms of contractual forms: loan agreements and lease or sublease agreements. Both vertical agreements contain an exclusive-purchasing contract or a non-complete obligation, forcing the bars to serve exclusively the company's beer. Note that the contractual terms can differ, also depending on the total market share of the brewery.

In such a competitive environment firms adhere to aggressive means of survival in this fast growing industry. In order to gain cost advantages and boosting the level of operations for its Zimbabwean unit Delta Corporation, SABMiller invested sixteen million dollars in the operations. This effectively doubles its Chibuku product availability both in the local market and beyond. Due to increasing competition pressure in Zimbabwe, Delta Corporation under SABMillers now decided to flourish their business to other countries in Africa that include Ghana, Swaziland and Tanzania. Pilot schemes have been carried out and now Chibuku production in these countries is now in full swing (Newsday 2013). To remain competitive and to gain market share and higher profits, Delta Corporation a unit of SABMiller, the manufacturer of Chibuku opaque beer brand has decided to take its Chibuku brand into more African countries. On Newsday 10 October 2012, an analyst mentioned that the strategy will diversify SABMiller's product portfolio in the countries where it has expanded to. Quoted in a local newspaper one economist said that there was a gap in the beer market in Sub-Saharan Africa as most breweries are concentrating on the top end of the market leaving a sizeable gap, and due to pressure in the local industry players begin to put eyes in these gap markets in the region that's taking competition abroad.

Following the closure of ZIMBOTTLE in 2008 the country is experiencing some shortages in the packaging containers, and to this effect a lot of speculative behaviour has hit those on beer industry to the extent that there was competition on plant size and technological improvements. Delta, the brewer of Castle, Black Lable and Lion Lagers, has indicated it would bring forward the commissioning of a new beer packaging line for Southerton brewery to July / August 2012, and this has already been accomplished. This value engineering strategy cushioned the impact of price adjustment of approximately 20% which was effected in June 2011, after the increases in tariffs on all alcohols by the Ministry of Finance (Kwayedza 23 May 2013). The plant has been designed in such a way that it is a multi-purpose technology designed to handle the whole process from unpacking of bottles and washing them right through to labeling and including date coding. (Age (African growing Enterprises) Files, 2013).

In 2009, the government of Zimbabwe approved the acquisition of Schweppes Zimbabwe Ltd and Schweppes Exports (Pvt) Ltd by Delta Corporation limited. This increased operating income for Delta beverages, thus it gained competition age against its rival firms. Due to stiff competition, Delta Corporation introduced predatory pricing strategy so as to drive out its new rival Nesbitt Breweries in Chiredzi in 2002. This was later recognized by the Competition Commission of Zimbabwe and was forced to quit such pricing strategy.

Disaster loomed Ingwebu breweries as it has been forced out of the market by other competing giants mainly Delta corporation. Currently the Bulawayo brewery has reduced capacity to 20 percent as it has run out of packaging containers for its product Shake Shake. Ingwebu breweries ran short of packaging materials, as it failed to secure a reliable supplier of TetraPak. It has since relied on importing these packs from Conipak in Zambia and Malawi. This has resulted in a cut in supply of the highly demanded Shake Shake, and Delta noted this gap and took advantage to introduce its PET bottled beer in Bulawayo. (Thursday 23 May 2013 Chronicle).

A new Chibuku franchise has been unveiled and is set to add momentum to the traditional beer segment which already contributes close to 60 percent of the brewer's annual volumes in Zimbabwe. Delta incorporated a new opaque beer,



Chibuku Super. This Chibuku Super is shelf stable, constant alcohol by volume product and is set to be introduced to the market, featuring bold and innovative new packaging in an embossed PET bottle. The product offers an extended shelf life exceeding 21 days, with a unique and carbonated taste profile. These characteristics enhance the ability of retailers to stock the product with confidence. (NewsDzeimbabwe April 2013).

Due to stiff competition on products, firms in the beer industry spend much on product innovations. For instance, during the past year Delta launched the 660 milliliters “Magnum”. This beer received consumer acceptance exceeding the company’s forecast of about 1, 2 percent market share. Shortages of pints during the holidays could have also driven demand for the “Magnum”. Following these aggressive moves by Delta corporation most of its peripheral competitors, such as Rufaro Marketing¹, once a dominant liquor trading arm of the Harare City Council, have collapsed, creating a further supply gap that has been taken over by Delta’s brands.

In order to fight competition Pungwe Breweries and Marketing², a private liquor and brewery concern wholly-owned by the City of Mutare, was on the market in 2010 scouting for a partner to help it maximize capacity utilization from about 20 percent to 100 percent. Other local authorities-run beer business has faced similar problems too. These include the Kadoma Liquor Marketing, Kwekwe Breweries, Go-Beer Breweries, Ingwebu Breweries and Dandaro Marketing. (Financial Gazette, 6 January 2012).

Following such marketing strategies, product promotions Delta Corporation has seen its market capitalization soar above \$1 billion on the Zimbabwe Stock Exchange (ZSE). The performance of Chibuku in Zimbabwe is characterized by high trending graphs. Chibuku beer has been successful mainly in Zimbabwe and Zambia. (Business News 2013).

7. ANALYSIS OF ZIMBABWEAN BEER INDUSTRY MARKET PERFORMANCE

7.1 Performance

The industry shows good profits, as can be shown by how the firms participate in social responsibilities activities like sponsoring students at universities, sponsoring football ventures among other activities. In 2011, following massive capital investments in capacity upgrades to fight competition in the beer industry, Delta beer sales volumes grew by 30 percent (Kwayedza, 23 October 2011). Brand promotion also enable delta corporation remain a giant in the beer industry of Zimbabwe. The Chibuku Neshamwari Traditional Dance Festival, Jikinya Dance Festival and Chibuku Road to Fame competitions are some examples of cultural activities that are undertaken by firms in the beer industry to boost brand loyalty.

For the year ending 31 May 2013, Delta Corporation recorded a 38 percent jump in after-tax profit to \$104 million as investments and innovation by the company bear fruits. From the statements by its chief executive officer, Delta injected \$83 million towards key projects aimed at reducing operating costs and improving efficiencies. Delta’s sparkling beverages full year volume performance grew by 9 percent driven by improved product availability following the commissioning of a new plastic packaging line in November 2012. (Young Zimbabwe Promotions May 17 2013).

8. S-C-P PARADIGM AND THE BEER INDUSTRY IN OTHER COUNTRIES

Africa may be the world’s poorest and most underdeveloped continent; however its abundance of natural resources and surging population makes it an attractive prospect for investors especially to the global brewers currently occupied by SABMillers, Castel, Heineken and Diageo. South Africa is the largest economy in southern Africa. It dominates in all markets, including the beer industry in the region.

¹ Rufaro Marketing is no longer on the market

² Pungwe Breweries and Marketing collapsed



8.1 Main Players

The main players include Anheuser Busch, Miller, Heineken, Kirin, SAB, Fosters, Carlsberg, Interbrew, Ambey/Brahma and S and N. The industry is mainly characterized by Mainstream beer, Premium beer and Flavoured Alcoholic drink.

8.2 Micro Players

Despite the above mentioned main players, there are also micro players who contribute meaningfully to the beer market in South Africa. The industry has begun to appreciate a change with the emergence of these micro-brewery firms. They have provided the market with a different version of beer through product development. They are also further expanding the flavours and textures of beer. Mitchell's, Darlington, Jack Black and Boston are the four largest micro-breweries in South Africa.

8.3 Performance

Beer volume growth has registered higher performance and the market share has increased and continues to surge with the passage of time. This shows that the firms are performing well in the market.

9. CONCLUSIONS AND RECOMMENDATIONS

9.1 Conclusions

From the whole industry's performance it has been seen that beer industry of Zimbabwe is good, and organized competitive power is higher to the national average standard. This is related to the industry's market structure and conduct. Zimbabwe's beer industry has competitive market structure. Low-end beer industry in Zimbabwe has low entry barriers resulting in plenty of low-end beer business and low quality of products, which determine the fierce competition of the market. Market conduct between well-known, small and medium beer enterprises in Zimbabwe is significantly different. The beer market conduct is highly competitive. The enterprise takes various price and non-price competition according to their own situation to attract consumers, and expand market share.

9.2 Recommendations

Further improve the beer industry market concentration The government should adhere to the policy which support the superior and limit poor industrial activity in the beer industry. The policy should encourage the production of high-grade beer products and limit small-scale and low level beer production in order to make market share gradually concentrate to larger scale, excellent brand enterprises, thereby improving beer industry market concentration.

Regulate beer market conduct Through the confinement of industry associations, the government should curb Zimbabwe beer industry's competition behaviour, and increase efforts to crack down on counterfeiting, and safeguard the legitimate production and operation environment in development of beer industry.

Promote and enhance industrial market performance Promoting Zimbabwe's known beer companies reorganize themselves and the optimal allocation of production factors, to make the existing beer making resources concentrated on large enterprises to play a leading role in the production system.

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