Big brewery

Basic information about the company

Legal form of business: joint-stock company (not traded)

Statutory body: board of directors -5 members

Supervisory body: supervisory board -3 members

Sector: brewing industry

Sales: approximately CZK 14.5 billion

Number of employees: approximately 2,000

Employee structure: 30% women, 70% men. Approximately 70 % of employees in manual positions, 20 % in technical, administrative and sales positions, 10 % managers. Production is carried out in a two-shift operation.

Export: 3.5 million hl (2014, including licensed production)

Product portfolio. 12 different brands of beer, including lagers, dark beers, flavoured beers, non-alcoholic beers, beer specials and ciders)

Industry trends

There are 6 large brewing companies on the market, our company together with the second largest group occupies approx. 60% of the domestic market. There are also 29 independent breweries (e.g. Svijany, Bernard, etc.). The trend is towards the growth of microbreweries and restaurant breweries, of which there are currently around 300 on the domestic market. Their total annual production is 250 000 hl.

As far as the domestic beer market is concerned, breweries have been struggling with stagnating consumption for a long time (see table). An unpleasant trend is the decline in the consumption of draught beer in restaurants (so-called on-trade) and the long-term decline in the ratio of on-trade to off-trade (sales of packaged beer in shops). In terms of the share of beer consumption by type, the share of draught beer consumption is falling on the domestic market, while the share of lagers is rising, and other types are growing slightly. Mixed beer-based beverages were very popular in 2012 (434 thousand hl), but already in 2013 they dropped to 260 thousand hl. They are still roughly at this level (281 thousand hl in 2015). Beer imports to the Czech market are among the lowest in Europe, with imports mainly from Poland. Total exports, including exports, amounted to 6 thousand hl in 2015.

Year	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Exports of beer incl. non-alcoholic beer (thousand hl)	16117	16084	16484	16313	16287	16249
Consumption (litres/capita)	143	143	146	144	144	143

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An interesting view is provided by the annual indices of domestic beer consumption by type of packaging.

Packaging type	Index 15/14	Percentage of total consumption
Bottled beer	99%	41%
PET bottle beer	96%	12%
Cans	125%	7%
Barrels	97%	37%
Tank beer	106%	3%

Company within the industry:

The company was founded in the mid-19th century in Bohemia and has been growing ever since. Shortly after its foundation, the company also began exporting its production to neighbouring countries. The rate of export has grown at a high rate and today the company's products can be found in more than 50 countries around the world.

Until recently, the company was part of a major multinational group. However, the merger in question forced the company to be split off from the group and sold to another brewing group. In addition to the original brewery, the company also includes three other breweries in the Czech Republic. Almost one quarter of the company's total production is produced in licences abroad by breweries belonging to the current multinational group. The share of exports is still growing and today amounts to about 3.5 million hectolitres per year. Thanks to the recent change of ownership, export opportunities are expected to be supported and increased, while maintaining the company's traditional production processes and know-how. However, the change of ownership several times has created a number of uncertainties, both for the top management, who were hired by the original owner, and for the rank and file. The value of the transaction raises fears of major pressure on efficiency and profitability, which may lead to job cuts. In addition, there are rumours that the new owner is considering a European shared services centre, particularly in the area of infrastructure processes (IT, central purchasing, logistics, HR). At the same time, digitisation and automation are increasingly penetrating the brewing industry, not only in production processes. There are also concerns among employees about a completely different culture of the parent company and a different management style.

The company is strongly managed according to annual targets, which are based on set strategic priorities for the next 3 years. Annual targets for the CEO are set in terms of profit and profit margin, sales and market share in the country. These targets are set aspirationally, particularly in the on-trade business. The main mission of the company is to bring joy and pleasure to beer lovers around the world through beverages. The company is committed to social responsibility and sustainability, which is implemented in the various regions of the country through various supported projects to improve the quality of life of their inhabitants. These include projects in the areas of social development and environmental protection. The company has defined its values, which employees are introduced to during onboarding training and then at various company events.

The company has a hierarchical management, a functional organizational structure, the company is managed by a 5-member board of directors and under the direct supervision of the CEO there is a sales director, a finance and IT director, a marketing director, a production director, a supply chain director, a human resources director, a sales director in Slovakia and

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Supply Chain Director, Human Resources Director, Sales Director in Slovakia and Corporate Relations and Communications Director. The company has up to 4 levels of management in some functions. A cascading goal breakdown is used to manage the company, with top down and bottom up goal planning. The company tries to break down objectives in the areas of financial, business, quality and human resources objectives. The company uses an integrated organizational and employee performance management system for setting goals and evaluating them; goals are evaluated twice a year and the results have a major impact on performance rewards, training and salary review. A sales network management tool is used to monitor the achievement of sales targets and manage the sales activities of individual sales representatives on a daily basis. Overall, this management by objectives seems to be effective, however, the objectives are increased every year and overall, after the change of ownership and due to some uncertainty caused by the still unclear future owner, this system of setting objectives is not very motivating. The middle management approach to work is more transactional in nature and is focused 'only' on meeting the targets set. However, especially in this period of transition, it would be advisable to strengthen their commitment more and thus encourage motivation across the company.

The organisational structure precisely defines the relationships of superiority and subordination, powers and responsibilities. Decision-making is top-down, managers delegate a lot and are responsible for the final results of their team's work. The organisation has a system of regular meetings, starting with the Monday executive management meeting, followed by meetings at other management levels. Problems escalate down the management lines.

Each job has a well-developed job description, which is also part of the employment contract and forms the basis of other HR processes. Given its 100+ year history, the organization has an extensive system of internal company standards, containing a large number of formalized policies, procedures and standards. With a slight exaggeration, it can be said that there is a form and a rule for everything. Project management only happens in the line of business, it is rare to have large projects across the company, and if it does, it tends to be in addition to the day-to-day work. Innovations or ideas for improvement are not explicitly expected from employees, they mainly come from within the development department, from the top management and possibly from external sources. If someone comes up with an idea, they must first convince their line manager, prepare a presentation and convince other decision-making levels. Getting resources to develop the idea is still very difficult.

The company's **product portfolio** can be divided into five product segments: premium beers (including speciality beers), mainstream, economy, new categories (e.g. ciders) and non-alcoholic beers. Regional beers are a specific product segment, but are not included in the company's portfolio. The company's flagship beer is its traditional lager, which has been produced since its inception, i.e. for about 160 years. The positioning of this product is based on its long tradition, premium quality, traditional beer taste and the fact that the brand of this beer is one of the most famous brands originating from the Czech Republic worldwide. However, in contrast to its strong position on the domestic market, this brand is only one of many on foreign markets. Marketers are trying to change this with the aim of becoming an international iconic brand. This goal will of course require a change in the way the brand is presented on foreign markets, abandoning traditional 'beer clichés'. The pricing strategy of the company corresponds to the brand positioning. Thus, it can be stated that the price of the product is relatively high compared to other beers on the market. The distribution network is very wide in the Czech market and beer from this brewery can be bought in practically every town and small village throughout the country, regardless of whether it is bottled beer sold in shops and supermarkets or draught beer sold in restaurants and pubs.

Other brands in the company's product portfolio are positioned differently. It depends on the type of product and the market. Thanks to the different brands in the portfolio, the company manages to cover almost all market segments from low-end to mid-range to premium segments. Some of the newer brands in the portfolio cover the emerging market segments of flavoured and non-alcoholic beers. The company relies on an individual brand strategy. For its marketing communication, the company uses almost all available communication channels, starting with TV advertising for its flagship premium lager and some other mainstream brands, POS materials in restaurants and competitions for its loyal customers on its website and Facebook pages, which are mainly used to target smaller customer groups.

The company's emphasis on **innovation** is planned to ensure that its existing competitive advantage in the bottom-fermented beer (lagers) segment is at least maintained, while in the segment of top-fermented beers (wheat beer and beer specialties) they ensure the expansion of market share in this rapidly expanding area. In particular, changing customer preferences and the growing popularity of specialty beers have driven the company to intensify its research and development. The company is not able to provide basic research on beer specialties on its own and has therefore formed a strategic alliance with the Research Institute of Brewing and Malting, a.s., based in Prague. This institution has many years of experience in the development of beer specialties, owns the necessary technological equipment and has a team of experienced staff, which creates the prerequisites for the successful completion of basic research. The company itself focuses on applied research through the development of technological equipment and innovations in the process and marketing areas.

The in-house and contract research is financed by a combination of own resources and credit, but the company is not averse to the involvement of venture capital funds to accelerate the company's research and innovation efforts. Advanced user trials have shown that the company's premium brands (particularly its ale beers), which are sold at higher prices, cannot be produced using standard and proven processes using hop concentrates and recycled yeast. These practices, however economically viable, are not able to ensure the superior quality of the products and thus potentially reduce the value of the brand. In addition to product innovation, the company is also committed to process and marketing innovation to an undiminished extent.Process innovation focuses on process redesign, which was implemented in connection with the adoption of the ISO series of standards. In line with the mandated principle of continuous improvement, the company is thus improving its financial and innovation performance.

In the area of marketing innovation, the company has launched popular beer specialty kits offered to customers through distributors in a cardboard octahedron, or "tasting kits" distributed in 1 dcl glasses set in a wooden base in selected hospitality.

The company is aware of the danger of 'dilution and devaluation of the brand' if it unthinkingly follows the fashionable wave of ciders and similar products that are only distantly related to beer. In this context, the company has clearly stated its innovation strategy, which avoids such experiments.

The aim is to maintain its corporate identity as an innovative, yet respected brewery with a clearly defined portfolio of bottom – and top-fermented beers. To maintain and strengthen its position in the growing specialty beer market in the Czech Republic, the company plans to introduce at least two specialty beers each year over the next five years. Due to the situation on the domestic market (a continuing decline over the last 10 years), the company intends to further develop its foreign activities. Particularly interesting are the emerging "beer markets" in Asia (such as China), the post-Soviet countries (Russia and Ukraine), but also some growing European markets such as Poland and Bulgaria.

Distribution and its optimisation is the main focus of the supply chain department and is carried out following the instructions of the sales department. It is handled by its own means of transport (trucks) through a network of its own warehouses, which is two-tiered. In addition to the central distribution warehouse, the Czech Republic has a network of 7 regional warehouses evenly spread across the country, the location of which is based on long-term monitored consumption volumes in each region. Deliveries to the regional warehouses are made regularly according to predetermined schedules in quantities forecast by the sales department. These are updated quarterly and annually. In the event of seasonal increases in sales, contracts are concluded with external carriers on an operational basis. Currently, the main objective of the supply chain department is to prepare transport options to emerging markets in order to make them as cheap and fast as possible. In addition to distribution, the logistics department also deals with reverse flows, i.e. mainly the take-back of packaging and transport means (bottles, crates and pallets), for which long-term plans are drawn up using Milkrun route planning.

In order to improve distribution, the company has introduced uniform labelling of individual elements using barcodes, but these are relatively often damaged during handling.The supply chain department is not involved in optimising production itself; if production increases, its task is to absorb the increase in production into the warehouses; in the event of a lack of space in the central warehouse, operational transfers to regional warehouses take place, regardless of their actual need and set schedules.

The company has established a **human resource management strategy** based on the Dave Ulrich model. The unit is headed by a Human Resources Director who reports directly to a member of the Board of Directors. The HR strategy is determined as part of the company's strategic plan and is regularly updated. HR business partners provide support to the individual department directors.

The company places great emphasis on motivation, particularly through remuneration. The HR department, in cooperation with the department directors and in accordance with statutory regulations, proposes pay regulations and changes to them to the management for approval (usually annually). According to the approved regulations, the individual wage components for the different categories of employees are determined. The HR department also designs incentive programmes and conducts satisfaction surveys. Based on their evaluation, it proposes adjustments to the benefits portfolio.

The company's payroll system consists of a tariff system and incentive pay components. Work activities are grouped using a job evaluation scoring method. Basic pay is awarded to employees according to the complexity, difficulty and responsibility of the work performed. The undertaking carries out staff appraisals twice a year. On the basis of the evaluation, a personal assessment is awarded. In addition, bonuses are an incentive component of pay and are applied differently to different categories of employees. They are paid on the basis of the fulfilment of indicators on a monthly, quarterly or annual basis, depending on the employee's classification. In case of exceptional economic performance of the company, an extraordinary bonus is granted.

The company has a talent programme in place. Nomination to the talent programme is part of the employee's annual appraisal. The nomination is subject to the approval of the talent committee.

Employees included in the talent programme undergo development programmes according to their expected future role in the company. The career planning system supports succession planning within the company.

Thanks to the talent programme, the company has no problem filling senior positions, but it has great difficulty in recruiting employees for production. It therefore devotes considerable effort to personnel marketing and employer branding. It turns out that in the locations where the enterprise has its production plants, other employers attract manual workers by promising benefits and higher wages than the enterprise is willing to offer. It still faces a shortage of production staff and therefore employs agency workers or hires temporary workers. The organisation places great emphasis on the selection of managers, using an extensive methodology for this purpose, including an assessment centre, and the final say is with the supervisor and the HR department. The team is not involved in the selection of their manager and usually not even team members. Within the framework of personnel controlling, the enterprise has established basic indicators. According to comparative studies, manual positions have below-average results for the criteria of *time to hire, sickness and turnover*. On the other hand, it is an example of good practice in the area of accidents at work. The company is also continuously concerned with the **development of leaders**, who are subject to increasingly demanding requirements. Not all existing leaders are able to meet these demands.

One of them was Miroslav, who was a production manager on one of the lines for several years. He was a conscientious worker who always tried to keep things under his control. These were the characteristics that brought him success in his career so far. In his new position, however, they began to appear as weaknesses.

He relied too much on himself, his knowledge and skills, and did not make sufficient use of the skills and capabilities of his people. He was unable to detach himself from the detailed problems of day-to-day work and leave them to his people to solve. Even the experienced production foremen had to consult him for all their actions. If they gave him their suggestions for improving and streamlining production, Miroslav usually tried to "improve" and perfect them, which greatly slowed down their implementation. His people gradually lost their sense of personal responsibility for their work. Miroslav gave them strict orders, answered their questions in an irritable and impatient manner, saying that in the end he had to solve everything himself; he threatened them with sanctions if there were problems.

Over time, Miroslav became so tired and overwhelmed with solving everyday problems that he stopped noticing the changes and developments that had recently begun to occur in "his" industry and was unable to think and plan for the future. Every change, he felt, was a threat to the continuity of production. In the eyes of his superiors, he had become an obstacle to the further development of the company. His subordinates and colleagues perceived him in a similar way, which was reflected in the results of the 360° feedback the company implemented with the managers.

Financial data

in millions of CZK		**31. 3. 2016**	**31. 3. 2015**	**31. 3. 2014**
TOTAL ASSETS		14850	15312	14938
Long-term assets	B.	11297	11590	11940
Long-term intangible assets	B.I.	1227	1168	920
Long-term tangible assets	B.II.	10059	10411	11009
Long-term financial assets	B.III.	11	11	11

Current assets	C.	2572	2740	2043
Inventories	C.I.	1115	1047	1164
Long-term receivables	C.II.			
Short-term receivables	C.III.	1408	1634	847
Current financial assets	C.IV.	49	59	32
Accruals	D.	981	982	955
TOTAL LIABILITIES		14850	15312	14938
Equity	A.	4958	5503	5515
Basic capital	A.I.	2000	2000	2000
Capital funds	A.II.	(8)	402	308
Profit funds	A.III.	-	-	411
Undistributed profit of previous years	A.IV.	10	237	(110)
Economic result for the current financial year	A.V.	2957	2864	2906
Foreign resources	B.	9889	9808	9422
Reserves	B.I.	256	301	402
Non-current liabilities	B.II.	4866	4939	5005
Current liabilities	B.III.	4764	4533	4015
Bank loans and advances	B.IV.	3	35	-
Accruals	C.	2	1	1

(v mil. CZK)		**31. 3. 2016**	**31. 3. 2015**	**31. 3. 2014**
Revenue from sales of goods	I.	105	69	325
Expenses incurred on goods sold	A.	50	49	177
Sales margin	+	55	20	148
ExpensesII	II.	14481	14031	13252
Power consumption	B.	7892	7604	6952
Value added	+	6644	6447	6449
Personnel costs	C.	1592	1487	1317
Taxes and charges	D.	46	34	31
Depreciation of intangible and tangible fixed assets	E.	1502	1495	1475
Revenue from sale of fixed assets and materials	III.	96	115	64
Residual value of fixed assets and materials sold	F.	72	107	71
Change in provisions and valuation allowances in operating activities	G.	(39)	36	(45)
Other operating income	IV.	287	262	187
Other operating expenses	H.	160	123	166
Operating profit	*	3694	3542	3685
Derivative revaluation income	IX.	91	119	11
Derivative revaluation expense	L.	7	27	9
Increase in valuation allowances on financial assets	M.	-1	-	-
Income interest	X.	2	-	-
Interest expense	N.	113	113	121
Other finacial incomes	XI.	22	-	65
Other financial expenses	O	1	4	43
Finacial result	*	(5)	(25)	(97)
Taxation on ordinary activities	Q	732	653	682
EAT (Earnings after taxes)	***	2957	2864	2906

Example of one of the possible combinations of questions

1. Pricing in the consumer market, factors influencing consumer perception of prices, price setting procedure. Specify the procedure for the firm described in the case study.
2. Identify the main internal and external barriers to innovation and suggest possible ways of overcoming them for the organisation described.
3. What planning system can the organisation use? What are the benefits, conditions and limitations of the system used by the case study organisation? What measures can be recommended to improve the organisation's performance in this area?