

A REFINED TASTE

Since 1993, China Resources Beer has been a leading player in the Chinese beer market. During this time, a rise in beer consumption has elevated China to the biggest beer market in the world. But times are changing and, as consumers are refining their tastes, CRB is having to refine their business strategy, in order to stay at the head of the market.

MR. HOU XIAOHAI
CEO, EXECUTIVE DIRECTOR,
China Resources Beer Holdings Co. Ltd





In 2003, China became the largest beer market in the world and has remained in that position ever since, with an annual consumption today of over 45 billion litres. This is twice as much as the US and more than five times that of Germany, currently the largest beer market in the EU.

Today, beer in China represents 75% of the total amount of alcohol consumed, in terms of volume, so the figures speak for themselves – China is the beer capital of the world.

When China Resources Enterprise (CRE) first ventured into the beer market, after joining forces with the Snowflake Brewery in 1993, the Chinese beer market was a very different business. By 2002, when current CEO Hou Xiaohai (Jason) joined the company, things had again changed rapidly, and Jason witnessed this transformation taking place, as he explained.

“When I assumed the role of CEO, I saw that, in China, there continued to be a trend of the consumer trading up. Basically, our custom-

ers were demanding a higher quality of both product and service and were willing to pay for that privilege. This also led to the proliferation of beer consumption in the region, and there was a good reason to be very enthusiastic about where the market was heading.”

Jason and CRE managed to capitalise on this growth and within three years, the market capitalisation of CRE grew to HKD 100 billion (2007) led by the continuous growth of the

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company’s premium sales volume.

One of the deciding factors in this success was Jason’s decision to implement some major changes within his first three years of taking up his role.

Premium products

“I developed and launched three national premium products - SuperX, Marris Green and Craftsmanship, and the sales of these three products were far beyond our expectations. Their success led to the solid foundations being laid for the path to our premiumisation strategy. I also optimised our capacity and took the decision to close some of our breweries in order to enhance our efficiency of production.”

It seems that taking the decision to concentrate on quality and efficiency were precisely the right moves as, over the last few years, the volume of the total beer market in China has been falling, mainly due to a decrease in production and consumption of the Chinese, →



Shandong Luzhong Beer Raw Material Co. Ltd. first built a malting plant in 1985. In 1994, it imported a cap production line and entered the glass bottle industry in 2006. After more than 30 years of continuous development, it has steadily grown into a comprehensive enterprise that produces and sells three major categories of products - malt, glass bottles and bottle caps. Today, it has an annual output of 180,000

tons of malt, 900 million glass bottles and 6 billion crown caps. The company is located in the Laiwu District, Jinan City, Shandong Province, the PRC. The site covers an area of circa 500 acres and employs more than 1,000 people. The products are sold to large beer enterprises including China Resources Snow, Tsingtao Brewery, Yanjing Beer and Budweiser Beer, and exported to Southeast Asia, Africa and many other countries.



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COFCO

Malt Business



COFCO Malt is China's leading brewing material supplier. We select premium malting barley from the world's major growing regions and use advanced tower malting equipment to produce tailored, malt raw material solutions for customers in the beer, food and beverage industry. At present, we operate two plants with a combined annual malt processing capacity of 660,000 tons.

COFCO Malt (Dalian) Co., Ltd. was established in December 1995 and today has an annual malt processing capacity of 360,000 tons.

COFCO Malt (Jiangyin) Co., Ltd. was established in October 2003. It is located along the Yangzi River, operating its own berth. It has an annual malt processing capacity of 300,000 tons.

COFCO Malt occupies over 20% of the domestic market share, serving all the well-known brewing giants across the country. Meanwhile, COFCO Malt's products are also exported to Mongolia and other countries in Southeast Asia and Africa.



If you are interested in our products and require any further information, please contact us at malt@cofco.com or Tel +86-10-85005079.



mass-consumer, beer sector. However, the value of the total beer market has continued to show year-on-year growth during this same period, driven by the premiumisation of the market.

Today, the Chinese consumer has a more selective view of brands. In previous years, a foreign name would have immediately been perceived to be of high quality. Today this has changed, as the Chinese consumer has developed a sharp-eye for brands and expects more from products. Quality, value and service have become important factors in purchasing decisions, both in local and foreign brands and, as Jason explained, this has seen a rise in craft beer in China.

“Craft beer in China is growing rapidly in three areas. Firstly, the demand for this type of product is on the increase, secondly, due to this, there is a rise in the number of brewers in the region starting-up, and thirdly we have the foreign brands who are desperately trying to break into our market.”

Partnerships

The big European brewers have, understandably, always strived to get ahead in China and it is no surprise to learn that beer imports have been growing by double digits over the last five years. China’s beer imports, which were valued at USD 750 million in 2017, are dominated by EU producers, with around 75% of imports having an EU origin.

The reason for this rise in imports may also be down to the lack of regulation in China for local breweries, which Jason believes needs to be addressed swiftly.

“We see quite a few problems in the craft

“ One of the biggest challenges ahead is the growth and sales of our premium products ”

beer market in China. Firstly, the overall scale is quite small. In fact, we believe it may account for less than one per cent of the total overall industry volume in China. Also, the management of each individual craft brewer has few unified standards to follow, there is no unified category for craft brewers, and hence their management can be rather chaotic in some cases.”

Rather than shun their foreign competitors, CRB (The company became China Resources Beer in 2015) has joined forces with Heineken, the largest brewer in Europe, which is a win-win situation as far as Jason is concerned.

“Last year and, indeed, this year we have continued to establish a strategic partnership with Heineken, which gives us the rights to sell their products in mainland China, Hong Kong and Macau. This portfolio of both domestic and international brands has strengthened CRB and greatly enhanced our competitiveness in the Chinese beer marketplace.”

With such vast growth taking place over the past few years, Jason puts much of CRB’s success down to their suppliers, with these relationships playing a significant role since Jason arrived at the company.

“As long as a decade ago, we completed a nationwide procurement mechanism. For all kinds of suppliers, we have a catalogue which

has been carefully selected and approved over this period. For our, circa, 50 key suppliers, including moulds, cartons, bottles and cans, we have formed close strategic partnerships. This guarantees that, if there is a supply shortage of any of these essential items, which often happens due to the raw materials being in short supply, we are guaranteed delivery first, and above that of our competitors. Over the past couple of years, the shortage of packaging materials has proved a real problem in the industry. However, because of these strong ties, we have managed to stay relatively unaffected by this. Of course, we have also maintained very high-cost efficiency because of these long-term associations.”

Although his business has continued to blossom, Jason is wary of certain issues that have arisen in his local market, especially with regards CRB’s premium range and, as with his suppliers, he is keen to make the most of CRB’s strong relationship with Heineken, in order to try and counter these concerns.

“One of the biggest challenges ahead is the growth and sales of our premium products which have not continued to grow as we expected. We need to improve the capabilities of our sales and distribution teams in this area and I recently launched a plan to train a team, using our relationship with Heineken to guide us, in an improved approach to selling our premium products. Combining our local premium products with such a leading brand as Heineken will, essentially, help us to progress and expand in both the domestic and international markets.”

Going forward, Jason also expects he will need to make additional tough decisions with regards some of CRB’s smaller, less efficient,



breweries and further closures will be necessary (CRB currently have 78 breweries in operation). It seems that even the big players cannot afford to support these businesses in, what remains, a challenging climate.

Aiming high

However, he is keen to point out that many of the key staff at these facilities will be re-positioned into other vacancies in companies under the CRB umbrella. As Jason makes clear; “Improving our efficiency per capita is vitally important and building a strong team to help further our integration with Heineken China means our workforce remains integral to our success.”

Jason is relying on the growth of CRB’s premium products and expects profitability to at least double in the next few years. Having spent so long in the industry, and witnessed first-hand so many ups and downs, he believes that the key to CRB’s continued success, is being able to quickly recognise and adapt to changes in the industry. “I like to think we have the edge over our competitors because of this,” says Jason. “When we need to make tough decisions

to ensure our place at the head of the market, we do so immediately and without hesitation. Heineken see us as a strong and dependable partner and we will continue to build our relationship with them in the next few years, and I’m sure we will help make Heineken the number one premium beer brand in the Chinese beer industry.”

During his tenure at CRB, Jason has both rapidly expand and elevated the company to become one of the world’s top three beer producers, surpassing the likes of Tsingtao, one of China’s oldest and most recognised companies.

With only AB InBev (Anheuser-Busch), and CRB’s partner Heineken currently above them in the rankings, one imagines it won’t be long before CRB are vying for the top spot.

It’s little wonder that Jason is confident in the future. His track record speaks for itself and, having made so many right moves, the continued rise of CRB seems inevitable.

Jason comments: “There is no doubt that, soon, whoever leads in China, will lead the world beer industry.”

If that turns out to be true, it looks as though the drinks are on Jason.

“ Dalian Xingze Malt Processing Co. Ltd. and CRB have enjoyed a long and friendly partnership in malt supply.

Cooperation between our two firms has been continuously developed and strengthened over the years.

In the course of this partnership, both parties have always fulfilled their respective responsibilities and obligations, in accordance with the provisions of their contract.

We look forward to continuing this well-established and trusted partnership, for many years to come. ”

Wang Zuo Jun, Vice General Manager of Dalian Xingze Malt Processing Co. Ltd.



Dalian Xingze Malt Processing Co. Ltd

Dalian Xingze Malt Processing Co. Ltd was founded in China, in 2000.

We are a production enterprise that specialises in malt processing.

At present, our annual production capacity of malt is 420,000 tonnes and, by 2020, this will have increased to 600,000 tonnes.

We are the largest single malt production plant in the world.

Our products are sold throughout China and Southeast Asia.

Our annual malt sales exceed 380,000 tonnes.

As one of the leading malt producers in China, Dalian Xingze Malt Processing Co. Ltd. provides high-quality products and first-class service for a number of major breweries in both China and abroad.



Chairman Liu Feng Hui has over 40 years of experience in malt production, and marketing, in the national malt industry.

Under his leadership, the company continues to develop pioneering processes and is expanding to become one of the most important malt manufacturers in China.

Dalian Xingze Malt Processing Co. Ltd.

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