

## “How to pursue opportunity”

*A study on the procedures of opportunity identification in a multinational company*





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## Management Summary

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## Preface

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## Acronyms and abbreviations

Heineken	-	Heineken International
Heineken AME	-	Heineken International Africa & Middle East
OPCO	-	Operating Company
Brasco	-	Brasseries du Congo
Bralima	-	Brasseries, Limonaderies et Malteries
Bralirwa	-	Brasseries et Limonaderies Du Rwanda
Brarudi	-	Brasseries et Limonaderies du Burundi
PELICAN	-	project PELICAN, project name Heineken International
HL	-	hectoliter
PET	-	Polyethylene terephthalate
ROI	-	Return on Investment
NPV	-	Net Present Value
IRR	-	Internal Rate of Return
ARR	-	Accounting Rate of Return
CSP	-	Commercial Strategic Plan
FMCG	-	Fast Moving Consumer Goods





## 1. Introduction

### 1.1 History Heineken International

The Heineken story began more than 140 years ago in 1864 when Geraard Adriaan Heineken acquired a small brewery in the heart of Amsterdam. Since 1886, the unique Heineken A-yeast has guaranteed the pure, premium taste of Heineken beer. After 13 years of prohibition, in 1933, Heineken set foot on American soil and in 1937 the first Heineken beer was brewed outside the Netherlands, in the Dutch East Indies.

Over the ensuing 60 years, growth and acquisitions substantially expanded the Company. The acquisition of Brau Union in Austria in 2003 significantly extended the pre-eminence of Heineken in Europe.

The acquisition of key Scottish & Newcastle businesses in 2008 represented the largest acquisition in the history of Heineken. It created a single, stronger, more competitive business focused on sustainable growth.

Four generations of the Heineken family have been passionately involved in the expansion of the Heineken brand and the Heineken Company throughout the world. By the 21<sup>st</sup> century, the small 19<sup>th</sup> century local Amsterdam brewer has grown into a worldwide business with a global brand, employing more than 50,000 people.<sup>1</sup>

### 1.2 Current position Heineken International

Heineken is one of the world's great brewers and is committed to growth and remaining independent. The brand – that bears the founders' family name – Heineken – is available in almost every country on the globe and is the world's most valuable international premium beer brand.

Their aim is to be a leading brewer in each of the markets in which we operate and to have the world's most prominent brand portfolio. The principal international brand is Heineken, but the Group brews and sells more than 200 international premium, regional, local and specialty beers and ciders including Amstel, Birra Moretti, Cruzcampo, Foster's, Maes, Murphy's, Newcastle Brown Ale, Ochota, Primus, Sagres, Star, Strongbow, Tiger and Zywiec.

Heineken has the widest presence of all international brewers, thanks to their global network of distributors and 125 breweries in more than 70 countries. In Europe they are the largest brewer and cider producer.

They achieve their global coverage through a combination of wholly-owned companies, license agreements, affiliates and strategic partnerships and alliances. Some of their wholesalers also distribute wine, spirits and soft drinks. Their brands are well established in profitable, mature markets, whilst the popularity of their beers is growing in emerging beer markets.

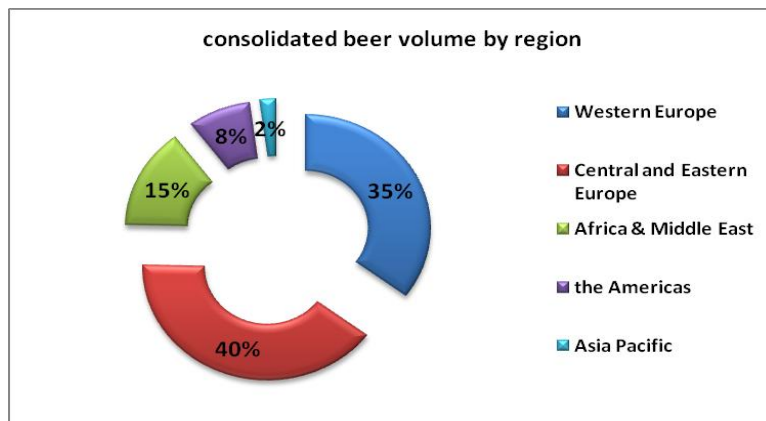
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<sup>1</sup> [www.heinekeninternational.com](http://www.heinekeninternational.com)



Marketing excellence and innovation are key components of their growth strategy. They state that: "In everything we do, it is the consumers and their changing needs that are at the heart of our efforts."<sup>2</sup>

Since five years Heineken International has been decentralized into five regions; Western Europe, Central and Eastern Europe, Africa & Middle East, the Americas and Asia Pacific. The current share of the regions is shown in the figure below. In 2008 Heineken International sold 125.8 million hectoliters. The growth of their consolidated beer volume was 19.4%. Although this growth is mainly a result of the acquisition of Scottish and Newcastle, the company still had an organic growth of 3.5%<sup>3</sup>. A more detailed overview of the key figures is added in appendix 1.



**Figure 1: Consolidated beer volume per region Heineken International**

During the last three years Africa & Middle East has been the most rapidly growing region of Heineken International. According to the president of the region it has been the "clear understanding of markets and consumers combined with strong brands and early investment in the business that have helped to deliver another year of outstanding growth"<sup>4</sup>. Besides these internal strengths also the political stability and economic growth in the region are mentioned<sup>1</sup>. Within this region Heineken has a strong footprint with (partially) owned operations in 18 countries, 40 breweries and export operations to the majority of the other countries in the region.

The project and its procedures of the case study in this thesis focus on the Central African region which consists of the following countries; Republic of the Congo, Democratic Republic of the Congo, Rwanda and Burundi. An overview of the footprint, breweries and brands in this region can be found in appendix 2. More detailed information about the countries and the key figures of Heineken International per country can be found in appendix 3, 4, 5 and 6.

<sup>2</sup> CEO, Heineken International, 2009

<sup>3</sup> Heineken International, annual report 2008

<sup>4</sup> Heineken International, Africa & Middle East, annual report 2008



### 1.3 Background research

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### 1.4 Problem formulation

My experiences during my role as a project team member have led to the following main research question:

*“What are the characteristics of opportunity identification within a multinational company?”*

In order to draw well structured conclusions I will first discuss the following sub questions

- Which existing models can we recognize to identify opportunity?
- Which procedures did Heineken International follow to further identify the opportunities for one way pack types?
- How do the procedures of Heineken International differ from existing models to identify opportunity?
- How can these differences affect the results of opportunity identification?

The first sub question is examined to draw a theoretical outline for the subject of this thesis, so what are the right procedures? The results will create the leading framework for opportunity identification. Secondly, I will review the procedures within a multinational company. This case study offers chance to draw a comparison between both and to discuss the presence and execution of the various stages within opportunity identification. Finally, I want to find out how the identified differences can affect the process of opportunity identification in order to give tangible recommendations.

### 1.5 Objectives

The main objective of this study is to assess whether a big multinational company like Heineken International uses proven methods to identify opportunity. Within the company of this research they have developed tailored methods which are based on their products and suit their industry. These methods might become common practice possibly without being critically reviewed. This might finally affect the outcomes of studies and influence decision making. Besides this, there might be a misfit between the renowned models of opportunity identification and application of these to the research area of the project of Heineken International. Therefore, another relevant issue is to find out whether the characteristics of this project give an explanation for the possible differences between the literature and the procedures applied by Heineken International.

### 1.6 Relevance

This study has a practical relevance as it wants to find out whether Heineken should monitor the evolution of their procedures more closely. If the procedures are confirmed by renowned literature in this field of study and whether possible differences increase the risk of inaccurate results. If so, it will be useful to raise the discussion within the company.



Besides the practical relevance, this study will assess whether acknowledged literature on the methodology of identifying opportunity can indeed be applied in this particular case. This scientific relevance will show whether the literature might have shortcomings concerning fast moving consumer goods, emerging markets or other details in this case.

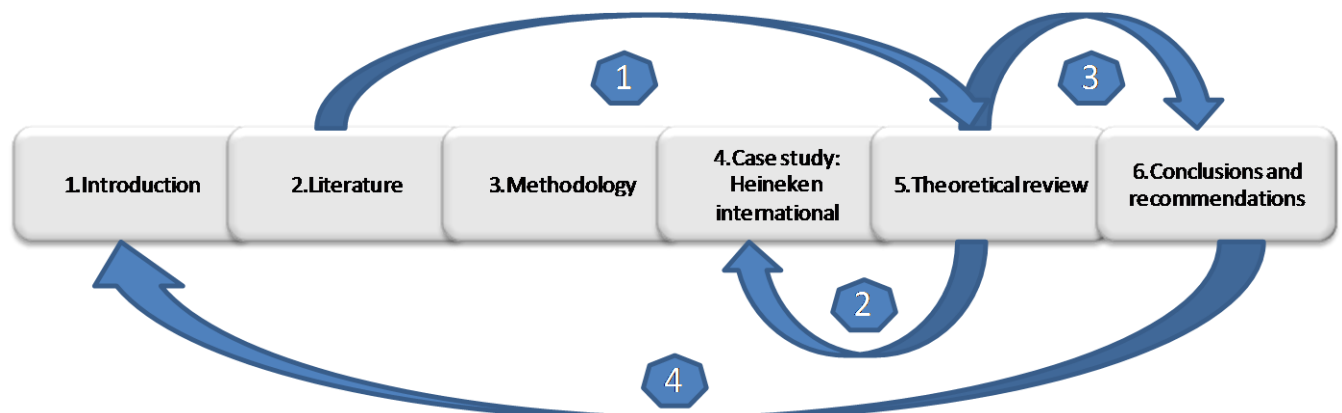
### 1.7 Report structure

This chapter provides background into the organization and the research problem. First, it discusses the organization Heineken International and the specific markets of this study. After this, the background of the problem is discussed. This includes the objectives Heineken has defined for project PELICAN and how the research problem originated from my participation in the organization.

In the second chapter I will explore relevant literature for the subject of this study. First, it will define the general methodology to identify and pursue opportunity, after this I will look closer at the individual components.

The third chapter gives insight in the methodology used in this study. It will discuss strategies to collect data for the different research questions and give details about the techniques through which these will be collected. Besides this, it discusses the threats of these methods and how the chances of these to occur will be minimized.

Chapter four will describe the procedures that Heineken applied during the project. It will provide details on the overall structure of the project, the tools used and characteristics of the different components. Subsequently, this chapter will define how the literature describes this process. This will lead to an overview of the similarities and differences in both methods. The impact of the outcomes of these differences will be discussed in the end of the chapter. This offers chance to prioritize the findings and recommend Heineken on its strategy of opportunity identification. The steps can be summarized below:



The numbers shown in the figure refer to the research questions in the context of this report. First a framework for opportunity identification will result from literature exploration. This will answer the first research question. Secondly, the procedures of Heineken International will be reviewed (research question two) and compared to the theoretical framework (research question three). Research question three will



support the prioritization of the findings and offers chance to determine the possible impact. These outcomes will lead to an answer to the main research problem.



## 2. Theoretical framework

This chapter describes the theoretical background to the subject of opportunity identification. “The competitive power of new product development is increasingly recognized by practitioners and academics alike” (Hayes et al, 2005). Studies to the effect of market orientation on business performance are widely available. Most of these studies have shown that market orientation has a positive effect on business performance (Sandvik & Sandvik, 2003). More specifically it has a positive influence on product innovativeness which can be measured along the dimensions of new-to-the-firm and new-to-the-market products. The findings in the article show positive influence on both dimensions. So, prior to the introduction of a product that is either new to firm or new to the market, it is worth to investigate the market extensively.

This study raises the question whether scientific literature confirms the procedures applied in a practical case. First, I will explore the literature to define a framework for the identification of opportunity.

### 2.1 Identifying the opportunity

Stevens and Sherwood (1987) state that:”Out of a large number of decisions made by an organization’s managers, there are a handful of crucial ones that have a significant impact on the future of that organization or individual. The same is true for products and services.” They state that strategic opportunities are influenced by factors of three types: external factors, financial considerations, and internal factors. These factors all have a different role within a market opportunity analysis; external factors define the nature of the opportunity, financial considerations tell us the financial impact of the opportunity and internal factors determine whether a firm should pursue an opportunity.

If a product idea has been generated a strategy can be selected, opportunities must be identified and defined. Since most companies consider growth as one of their basic objectives, one area of strategy development concerns the question of how to obtain growth. There are three possible alternative growth strategies:

1. Product/market expansion
2. Integrative strategies
3. Diversification strategies

These alternatives can be illustrated in a 2 x 2 matrix. This product product/market growth matrix, presented by Igor Ansoff (1957) shows two axes with the variables product and market ranging from existing to new. Concerning the project proposal it is clear that Heineken wants to expand on the product axis, which might result in an expansion on the market axis. They want to introduce new products in their existing markets to gain first mover advantage and to increase their market position by offering new consumer occasions.

This method presents an interesting classification of market strategies, but this research wants to reveal whether Heineken has followed the correct approach to identify the need for such a strategy. Following



the background of project PELICAN we can state that Heineken has used external indicators to identify the opportunity. According to the literature this, indeed, is the first step. “An understanding of the market and the factors that influence the growth and size are fundamental concepts for any opportunity”, as Stevens and Sherwood (1987) state. Sandvik and Sandvik (2003) confirm the positive relationship between market orientation and product innovation. So do Kim and Nelson (2000) who describe the importance of innovations in developing countries where many innovations occur from behind the technology frontiers. Tidd et al (1997) confirm this relation in their framework of managing the innovation process. According to them, a firm has to:

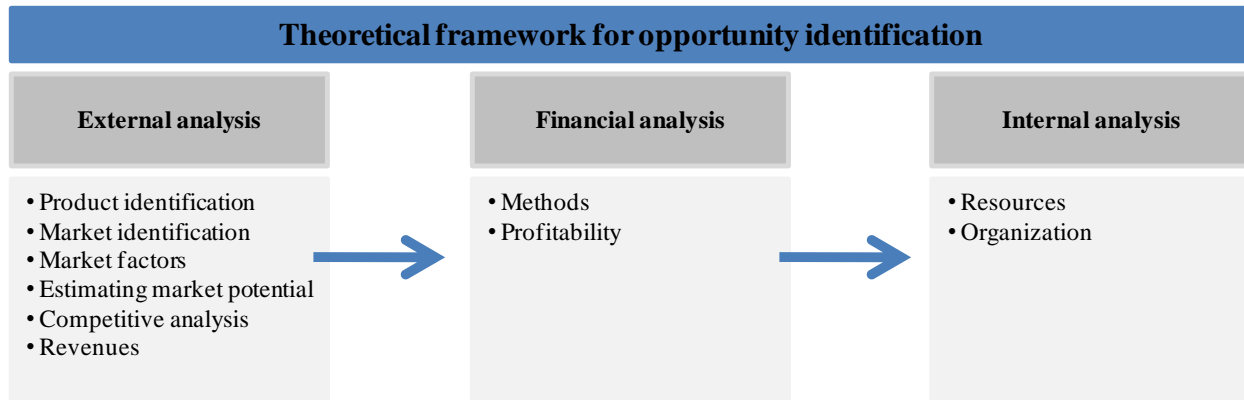
- Scan and search their environments (internal and external) to pick up and process signals about potential innovation. These could be needs of various kinds, or opportunities arising from research activities somewhere, or pressures to conform to legislation or the behavior of competitors – but they represent the bundle of stimuli to which the organization must respond.
- Strategically select from this set of potential triggers for innovation those things which the organization will commit resources to doing. Even the best resourced organization cannot do everything, so the challenge lies in selecting those things which offer the best chance of developing a competitive edge.
- Resource the option – providing (either by creating through R&D or acquiring through technology transfer) the knowledge resources to exploit it. This might be a simple matter of buying off the shelf, or exploiting the results of research carried out – or it might require extensive search to find the right resources. It is also not just about embodied knowledge, but the surrounding bundle of knowledge – often in tacit form – which is needed to make technology work.
- Implement the innovation, growing it from an idea through various stages of development to final launch – as a new product or service in the external marketplace or a new process or method within the organization.
- A fifth – optional – phase is to reflect upon the previous phases and review experience of success and failure – in order to learn about how to manage the process better, and to capture relevant knowledge from the experience.

This framework has a similar content as the steps described by Stevens and Sherwood (1987). The first step in both frameworks is an external analysis. Measuring these external factors, which Stevens and Sherwood (1987) call the “market demand analysis” and Tidd et al mention as “scanning the environment” involves five steps. The last five steps are mentioned in the market demand analysis of Stevens and Sherwood (1987), the first step evolves from the framework of Tidd et al (1997) because the project proposal shows that Heineken has already chosen the products and this choice has been based upon the external analysis.

The described frameworks for opportunity identification show a general approach that should ideally be followed in the pursuit of opportunity. The first two steps of Tidd (1997) are similar to the market



demand analysis of Stevens and Sherwood (1986) and both the financial and internal analysis of Stevens and Sherwood (1986) cover “resourcing the option in the framework of Tidd (1997). The last two steps by Tidd (1997) can be concerned less relevant as this study analyses the identification of the opportunity and does not cover the implementation. This framework represents the outline for further literature exploration in this research. The figure below shows the different components to be discussed:



**Figure 2: Theoretical framework for opportunity identification**





## 2.2 The external analysis

Following this, the steps of the external analysis are: (1) identifying a product (2) identifying a market, (3) identifying market factors, (4) estimating market potential, (5) the competitive analysis and (6) estimating anticipated revenues from a given venture. The following part will discuss these steps of the external analysis and discuss additional literature.

### 2.2.1 The right product

Concerning the product identification, I want to discuss a relevant contribution to identification of opportunity comes from Wilson, Kennedy and Trammel (1996) in their book *Superior product development*. They mainly describe the creative process of developing a new product, which starts with a market review. Within their framework which consists of 9 steps the first two steps, product ideas and customer needs future projection, seem most relevant for this study. The next 7 steps; technology selection & development (product), technology selection & development (process), final product definition, product marketing & distribution preparation, product design & evaluation, manufacturing system design and product manufacture, delivery and use, mainly focus on the process of pursuing the identified opportunity which is not covered in this thesis.

The first step described by Wilson, Kennedy and Trammel (1996) focuses on the generation of product ideas. Although the project proposal shows<sup>5</sup> that Heineken already has chosen the products it will support me to review whether their choice is supported by this theory. This will determine whether the right opportunity has been identified from a product point of view. They describe three key elements in the generation of product ideas;

- The product has significant points of difference from competition;
- There is a focus on customer benefits of the product; and
- The concept is compatible with the organization

Once an interesting idea contains these elements, a product idea should be further developed so four basic questions can be answered about: the essential features and functions of the product, the customers and applications of the product, the product's essential benefits to the customers, the time when the product is needed. If these questions can be evaluated positively a product idea can proceed to the next level of the product development process, the customer needs future projection, which will be discussed during the identification of the external factors.

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<sup>5</sup> Heineken International, project proposal project PELICAN, 2008



### 2.2.2 Identifying a market

One fundamental concept underlying the type of analysis described by Stevens and Sherwood (1987) is that what is sometimes referred to as a market for a product or service is actually a composite of smaller markets, each with identifiable characteristics. This process of breaking up a market into its constituent parts is usually referred to as market segmentation. The premise is that the consumers on one market are different from the consumers in another market and therefore each represents a separate entity.

As where Stevens and Sherwood (1987) focus on different characteristics of consumers, Yankelovich (1964) states: "we are not dealing with different types of people but with differences in peoples' values." After reviewing ten different market segmentations and its results in different industries he concludes with three main points:

- We should discard the old, unquestioned assumption that demography is always the best way of looking at markets.
- The strategic-choice concept of segmentation broadens the scope of marketing planning to include the positioning of new products as well as of established products.
- Marketing must develop its own interpretive theory, and not borrow a ready-made one from the social sciences.

The consumer approach and the more specific approach of Yankelovich overlap each other in the article of Johnson (1971). He says that: "market segmentation analysis refers to examination of the structure of a market as perceived by consumers, preferably using a geometric spatial model, and to forecasting the intensity of the demand for a potential product positioned anywhere in the space". This definition implies that segmentation is unique and dependent of the consumers, but cannot be completely based upon the characteristics of the customers. Johnson says the purpose of market segmentation can be:

- To learn how brands or products in a class are perceived with respect to strengths, weaknesses, similarities, etc.
- To learn about consumers' desires, and how these are satisfied or unsatisfied by the current market
- To integrate these findings strategically, determining the greatest opportunities for new brands or products and how a product or its image should be modified to produce the greatest sales gain.

Wilson, Kennedy and Trammel (1996) also discuss market identification from as customer point of view in the second step of their framework for superior product development. They distinguish the following essential elements in their customer future needs projection; a study of product use in the customer environment, the identification of new needs for the product, a customer definition of quality, competitive analysis, the participation of experienced and creative design engineers in the product benchmarking and customer needs investigations. The first step is customer identification which concerns the question; which customers do we expect to buy this product? Secondly, a profile is created to identify various customers in a market and develop a better understanding of these by assessing characteristics. Once this



is clear the customer needs can be identified; what are the important factors driving sales? Does the need exist now and how long will it last? After this the competition can be assessed to find out the alternatives the customer has. Finally and dependant on the market other issues like e.g. consumer acceptance and prioritization of customer needs can be analyzed. Porter (1980) shaped a framework for understanding the five fundamental forces of competition in an industry. Porter has created a framework of different forces that shape the competitive environment. He clearly explains his model by stating that:” The intensity of competition in an industry is neither a matter of coincidence nor bad luck. Rather, competition in an industry is rooted in underlying economic structure and goes well beyond the behavior of current competitors.” His approach situates the firm’s technological activities in a wider context of industry competition, and it develops a systematic SWOT analysis, based on competitive forces and firms’ internal choices. According to Porter there are five forces driving industry competition, each of which generates opportunities and threats. A visual overview of the forces can be found in appendix 7. The five forces are:

1. Relations with suppliers – relationships with those that are responsible for the delivery of primary goods in a competitive environment.
2. Relations with buyers – relationships to the customers of the products in a competitive environment.
3. New entrants – the threat of companies who want to enter a competitive environment.
4. Substitute products – products that can be concerned as replacements for the products in a competitive environment.
5. Rivalry amongst established firms – the power balance among different players in a competitive environment.

Concerning the different theories reviewed above, we can say that market segmentation is not only about review of external macroeconomic characteristics of customers but also requires a comprehensive review of the people’s values and desires and the fulfillment of these in the current market situation. Besides this, the competitive environment can favor markets based on macroeconomic details.



### 2.2.3 Identifying market factors

The next step in the external analysis as defined in the beginning of this chapter is the identification of the market factors. This subject has similarities with the previous sub chapter, because market segmentation is partially based on these most important factors causing product demand. Therefore, this step is mainly focusing on the impact and direction of the identified market factors. Market factors are described as ‘those realities in the market that cause the demand for the product’ (Stevens and Sherwood, 1987). The interest in market factors is threefold: (1) to identify the factors that influence demand for a product or service, (2) to determine the relationship between the factor and the product or service, and (3) to forecast that market factor for future years. In their book they describe two common techniques that are available for selecting and determining the impact of market factors on a given product or service, these are arbitrary judgment and correlation analysis. Arbitrary judgment, a common technique to new products, uses the decision maker’s own experience and judgment. Correlation uses quantitative data to identify the direction and strength of a certain relation.

Although he has not described a model, Nijssen (1999) has conducted a, for this subject, relevant study to the key success factors of line extensions in fast moving consumer goods. Line extensions can be defined as: “the introduction of a new product that is a variation of a firms’ existing product”.<sup>6</sup> He collected data among 49 marketing and product managers and found out that line extensions have very little added value over existing products. Of all line extensions, those involving new flavors and new packaging/sizes were most successful (Nijssen, 1999). On the other hand, the market variables: level of competition; retailer power; and variety seeking behavior all had a negative influence on line extension success. Those three were the main variables in his research. His key findings can be summarized as:

- Higher retailer power dampens a line extension’s success
- Line extensions of companies in markets that are characterized by variety-seeking consumer behavior only manage to attract a limited number of consumers, or many consumers but only a limited number of loyal ones.
- Variety seeking behavior’s negative effect (compare fragmentation) hurts dominant brands more than less dominant brands.
- The “level of competition” had a negative significant influence on line extension success also.

Although the article of Nijssen does not reveal a certain technique for identifying market factors, it gives some interesting insights which are relevant to the subject of this study.

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<sup>6</sup> Kadiyali, V, Vilcassim, N, Chintagunta, P, Product line extensions and competitive market interactions, an empirical analysis, Elsevier Science, 1999



### 2.2.4 Estimating market potential

Once the market has been divided into segments and market factors have been identified, Stevens and Sherwood say the size of the market can be estimated. They describe the estimation of the potential for new products or services using four techniques:

1. Judgmental estimates – Using the expert opinions of those who are knowledgeable about the markets and products.
2. Consumer surveys – Surveys of consumers can be used to estimate the market for potential new products.
3. Substitute methods – Most new products are substitutes for products already on the market. If the size of the existing products can be estimated, the potential of a new product can be estimated on the basis of its replacement potential.
4. Combination – this technique combines methods of the three previous techniques.

These techniques do not describe a particular quantitative method to measure the potential. Following their previous steps, this is dependent of the market segmentation and impact and direction of the market factors.

A model that offers chance to directly quantify the opportunity is the model of growth of new consumer durables by Golder and Tellis (Golder & Tellis, 1998). This model can be used to estimate the sales in a company's new product markets. The standard model in these studies is the diffusion model by Bass (Bass, 1969). But this model suffers three limitations which are key in this research; (1) it does not include marketing variables, (2) the model's parameters are unstable and (3) the model's forecasts are inaccurate before the peak. Especially the first and third limitations are important as Heineken is well-known for its marketing mechanisms<sup>7</sup> and, monthly sales show that, seasonality is high in fast moving consumer goods. The model by Golder and Tellis proposes to focus more on affordability than diffusion. The model is developed for consumer durables as these are highly related to affordability. In Sub Saharan markets, Heineken International faces the same strong relationship between sales and income/affordability.

The model expresses sales mathematically as:  $S_t = f(P_t; I_t; CS_t; MP_t)$

The model contains the following variables to calculate the expected sales:

$P$  = price

Of all marketing variables, price has repeatedly been shown to have the strongest effect on sales. A causal relationship between price and purchase is central to economic theory. As the prices of products decline, sales increase (Golder & Tellis, 1998).

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<sup>7</sup> Heineken International, annual report 2008



*I* = income

Higher income raises the budget constraint of consumers, just as lower prices bring products within consumers' reach (Golder & Tellis, 1998).

*CS* = consumer sentiment

The sales of durable goods consistently show dramatic increases and decreases over short periods. As the aggregate economy changes, so do consumers' confidence in their current or future economic security. This confidence affects consumers' tendency to spend.

This variable brings in a problem as McCarthy and Attafuah (2002) show when they applied the main methods currently used like Katona (1975) or the Michigan index (1978) to measure consumer confidence in Ghana. This research shows that the methods are less applicable because:

- Consumer expenditure, one of the main factors, is not a significant proportion of economic activity. For example, virtually all cars in Ghana are from Europe, Asia or the United States.
- Many respondents are reluctant to answer the questions
- Most Ghanaians were concerned about basic necessities like food and shelter, rather than building a financial portfolio
- Many questions are not well understood
- Ghanaians tempt to have a confident in the future

The differences showed above reveal that the common approach to measure consumer sentiment cannot be applied in studies for Sub Saharan (McCarthy & Attafuah, 2002).

*MP* = market presence

While the other three variables capture the main economic factors, one factor is important to include. No matter how expensive the product is, or how high consumers' income are or how strong the consumer sentiment is, the likelihood of purchase still increases as products become more visible and available to consumers (Golder & Tellis, 1998).

*T* = subscript for time

The current framework offers guidelines to identify a market and divide this into components, identify the most important market factors and determine their direction and impact and estimate and quantify the market potential given a certain opportunity. Most markets with a profitable consumer demand have more than one company that is operating in the area. Therefore, I will discuss the impact of competition on opportunity more closely.



### 2.2.5 Competitive analysis

After analyzing environmental factors, market segmentation, market factors and methods to measure potential, the next step in market opportunity analysis is to analyze competition for each identified segment (Stevens and Sherwood, 1987). Competition in this context can be defined as: "Competition is a process of rivalry between firms which takes the form of contests within existing markets (intra-industry competition), and the form of potential entry into new areas (inter-industry competition)." (Krafft, 2000). Stevens and Sherwood (1987) ask one fundamental question: "Which competitors are going after which segments with what marketing strategies?" Porter has developed a model to answer this question, which resulted from his five forces framework (Porter, 1980). He focuses on predicting the competitor's response profile as "most companies develop at least an intuitive sense for their competitors' current strategies and their strengths and weaknesses". The model is attached in appendix 8.

This analysis can also be used for self-analysis. The same concepts provide a company with a framework for probing its own position in its environment. Porter states it is also important to define which competitors should be examined. Although it is difficult, they can often be identified from the following groups:

- Firms not in the industry but who should overcome entry barriers particularly cheaply;
- Firms for whom there is no obvious synergy from being in the industry;
- Firms for whom competing in the industry is an obvious extension of the corporate strategy;
- Customers or suppliers who may integrate backward or forward.

Porter mentions these competitive data are often difficult to obtain, therefore he describes methods that use data that is more tangible to support predicting competitors' behavior. These will be discussed extensively in chapter 3. Porter's five forces framework can also support competitive analysis. This model is discussed in the market identification. Once a good understanding of how the industry functions is established, a specific competitor analysis comes next. I have already discussed the model of Porter that discusses the strategy and capabilities of competition. Still, this does not measure the current situation in the market. Markets can be compared on e.g. pricing, marketing, product quality. A useful tool for such comparisons is the competitive market mix audit of Irwin (1991). The competitive market mix audit is an analysis of competitors' activities by market segment. As this model originates from an analysis of retailers it can be well applied for fast-moving consumer goods. To successfully apply the model there should be a clear overview of the marketing mix activities for the firms being analyzed. An example for another fast-moving consumer good is shown in appendix 8. Although this example does not show a clear grading, it is helpful to invent a system that grades the performance of the company and its competitors. A similar model can be developed to compare other characteristics of company's products like pricing and quality.



### 2.2.6 Estimating anticipated revenues from a given venture

Now I have discussed theories to select a market, measure the potential and identify competition, I will discuss methods to estimate the revenues from an identified opportunity. Revenue can be defined as: "The amount of money that a company actually receives during a specific period, including discounts and deductions for returned merchandise. It is the "top line" or "gross income" figure from which costs are subtracted to determine net income. Revenue is calculated by multiplying the price at which goods or services are sold by the number of units or amount sold."<sup>8</sup> One of the inputs for estimating revenues is the market potential which has been discussed in the previous sub chapter. The other variable, price, has not been discussed yet.

Stevens and Sherwood (1987) state that: "A project cannot be judged as feasible or profitable without dependable cost estimates". They divide the costs of a product into four categories:

- Period costs – fixed costs over a fixed period of time
- Product costs – costs related to be offset against the activity, good or service that produced the revenue
- Fixed costs – costs that are expected to remain constant over a period of time
- Variable costs – costs that depend on the level of activity

Next they state that cost estimations must be provided for the following categories;

- Fixed investments such as land, buildings, fixtures and other equipment
- Manufacturing costs such as direct material cost, direct labor cost, and manufacturing overhead
- Start-up expense such as training costs, increased overtime, scrap expense, consulting fees, and legal fees.
- Other related expenses.

Prior to moving to the actual development of detailed costs analysis, a sensitivity analysis should be conducted. Although the exact methodology is too detailed to describe in this part of the study, Stevens and Sherwood (1987) mainly want to state that companies should be aware of the impact of different costs. A base case can be selected as a starting point to determine the impact of different costs and offers chance to create different scenarios.

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<sup>8</sup> <http://www.businessdictionary.com/definition/revenue.html>





### 2.3 The financial analysis

The previous chapter has described the external analysis and methods to confirm whether an opportunity can be identified. Although I have already discussed how to estimate the potential revenues of an opportunity; “the overriding consideration in defining the exact nature of an opportunity is the potential profitability it represents” (Stevens and Sherwood, 1987). This chapter will discuss the advantages and disadvantages of financial analyses, more than techniques, to reveal their impact on decision making. Stevens and Sherwood confirm that the major issue in capital budgeting is a review of the different techniques to find out which one is most suitable for the investment.

Budgeting offers many techniques of which the most popular measure of economic success is return on investment (ROI). ROI can be calculated by dividing net profit by the total investment required to generate profit.

Another straightforward method to determine whether a project yields a return in excess of the alternative equal risk investment is to calculate the net present value (NPV). This is the present value of the net cash inflows less the project initial investment outlay (Drury, 2000). The formula to calculate the NPV can be described as:

$$NPV = \sum_{t=0}^n \frac{(\text{Benefits} - \text{Costs})_t}{(1 + r)^t}$$

where:

**r = discount rate**

**t = year**

**n = analytic horizon (in years)**

**Figure 3: Formula Net Present Value**

Although this technique is mainly used to compare different investment opportunity with equal or different discount rates, this model can also be used to measure a single opportunity and find out whether the NPV will be positive. Drury (2000) generally states that if an NPV is positive, a company should pursue the investment. A weakness of this model can be found in the variables. These can be influence especially on the identified costs and the choice of the discount rate. Costs can be identified quite well, but the discount rate is a more difficult to identify.

An alternative to the NPV that also takes into account the time value of money is the internal rate of return (IRR). This technique represents the true interest rate earned on an investment earned over the course of its economic life. Although this method uses the same variables as the NPV, it measures the maximum investment that can be applied without being negative. The same formula shown above can be used to determine the discount factor, which is also used in the NPV calculation, to be zero. So, the calculations are equal, only the approach is different as where the NPV focuses on the expected profit, the IRR focuses on the maximum discount factor and investment can have. Besides this, the IRR is measured



in percentages which can be misleading rather than in monetary terms. Another advantage of the NPV above the IRR is that the NPV method a project can have different costs over the projected time frame. So, if a project is expected to have unexpected cash flows, the IRR has a shortcoming.

Two other methods that are frequently used are the payback method and the accounting rate of return. These differ from the previous as they do not take into account the time value of money. The payback method simply adds the earnings of the investment and identifies the breakeven point. Besides ignorance of the time value of money, it also lacks the possibility of taking into account investments after the initial investment.

The last method is the accounting rate of return (ARR) which is also known as the return on investment (Drury, 2000). This method calculates the average annual profits and divides these into the average investment costs. Compared to the payback period this method offers chance to implement investments over time, and take into account different depreciation periods, but it also lacks the time value of money. Besides these, the methods share the ignorance of risk as being done in the NPV and IRR.

The above shows that the NPV and IRR are superior to the payback period and ARR because they take into account the time value of money, a variable to express uncertainty and offer chance to implement additional investments to the initial investment. Still these methods have disadvantages (Stevens and Sherwood):

- It assumes benefits and costs can be estimated for the lifetime of the project
- It requires equal time periods for comparison of several investment alternatives
- It is sensitive to changes in the interest rate used to discount the values.

As the markets involved in project PELICAN are among the countries with high risks for investments<sup>9</sup>, the variable risk should be implemented in the financial calculations. The methods available mainly have in common that they project multiple scenarios. Using different probabilities offers chance to sketch a e.g. pessimistic, most likely and optimistic scenario.

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<sup>9</sup> <http://www.doingbusiness.org/EconomyRankings/>



## **2.4 The internal analysis**

This chapter will discuss the internal organization of opportunity identification. Once an opportunity has been identified and the key element of profitability has been determined, a company should analyze its resources to find out whether can respond to an opportunity. Besides this, there should be a solid organization of the opportunity identification. Finally, this chapter will discuss internal threats to the opportunity organization.

### **2.4.1 Resources**

Stevens and Sherwood (1987) identify four kinds of resources which have to be analyzed. The first of these are the marketing resources, does the company possess the required marketing skills to support the introduction of a new product? If a company does not have enough resources in this field, there have to be financial possibilities to acquire skilled personnel and knowledge. Secondly, a firm has to analyze its physical resources. These can be divided into productive capability and the required technical agility. Physical resources should be planned over time as an increase in demand might develop over the years and therefore requires different resources over different times. In addition to the previous chapter, financial resources are required. Besides the costs of investment, there should also be funds available for marketing or other resources like hiring skilled employees. Finally, the managerial resources have to be reviewed. Although skills depend on the opportunity, Verhaar (2001) already mentions in his book project management that project management requires different skills than regular management. The main capabilities he mentions are; result driven, team building, persistent, independent and out of the box thinking. As these are soft indicators are difficult to identify, Batley (1989) has developed a tool to assess the current skills. I will emphasize on this method in the next chapter.

In order to measure these resources Rewoldt, Scott and Warshaw (1969) developed a format to evaluate each of the resources in relation to the opportunity. The format shows the detailed resources for each of the categories described above on the vertical axis and shows an ordinal rating at the horizontal axis. This method offers chance to label each of the resources as very poor, poor, fair, good or very good in relation to the opportunity. Afterwards these strengths and weaknesses can be evaluated on their impact on the opportunity.



### **2.4.2 Organizing opportunity identification**

In addition to the resources theory of Stevens and Sherwood which mainly focuses on the final part of opportunity identification, Wilson, Kennedy and Trammel (1996) describe some internal guidelines which are essential during all steps of analyzing opportunity. These are:

- Control by a single team
- A vision of the future product
- A convergence of information from marketing, engineering, and manufacturing; and
- A continuity in the information collected about critical product characteristics

First among these elements a project team should be selected that possesses the proper mix of knowledge required for the introduction of the product. Ideally, this team has one leader that is familiar with all elements of the project. Besides the importance of project team composition, previous studies about the characteristics of effective project teams have shown the following important factors to success (Wilson, Kennedy and Trammel, 1996):

- Co-location of the team members
- Mechanisms for informal communication
- Training for team building
- Leadership based on team facilitation
- Delegation of decision authority to the lowest possible level
- Performance measurement based on team measures

This project team should have a vision of the product. Through this, the members can always relate their findings and discussions to the product and find out whether there is opportunity to improve or whether something has been overlooked. This vision has to be supported by continuous interaction with the customers. They have delivered the main input for the product development and need to be monitored through the complete project. Besides this vision, there has to be a convergence between manufacturing, engineering and marketing. Engineering needs to deliver the product as specified, manufacturing needs to confirm that all issues concerning production are ready for the launch. If these issues are not controlled, marketing cannot achieve their projections. Finally, there should be continuous information about critical product characteristics. The focus of these measurements is on quantification of the key elements of a product from a consumer perspective. This information can be concerned an evaluation of the product key elements and will mainly take place after the introduction. Therefore, this guideline is less relevant to this for study.



### 2.4.3 Threats

The previous theories have described the components a process for opportunity identification should contain. Since this is clear it would be interesting to get insight into the possible impact of failure within these steps and what can make the difference between success and failure. Sandvik and Sandvik (2003) have discussed the impact of poor market orientation on innovation in their paper. Cooper (1999) has also studied the reasons for failure in product innovation. He has examined the common reasons for poor results and translated these into critical success factors for product innovation (Cooper, 1999). First, he makes a distinction between “doing the rights projects” and “doing projects right”. The first one describes the external factors over which the project team has little control and the second one about actions that are controllable. After studying hundreds of cases Cooper identifies 8 factors that make the difference between winners and losers. These success factors are controllable;

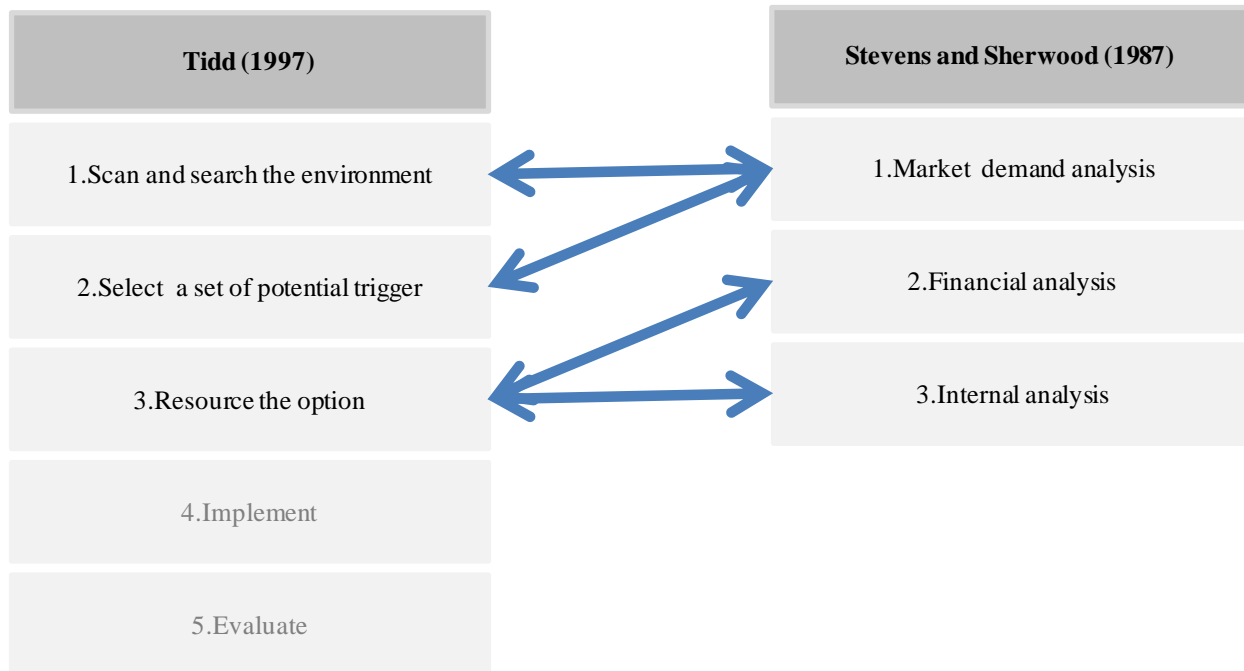
1. Solid up-front homework – to define the product and justify the project.
2. Voice of the customer – a slave-like dedication to the market and customer inputs throughout the project.
3. Product advantage – differentiated, unique benefits, superior value for the customer.
4. Sharp, stable and early product definition – before development begins.
5. A well-planned, adequately-resourced and proficiently-executed launch.
6. Tough go/kill decision points or gates – Funnels not tunnels.
7. Accountable, dedicated, supported cross-functional teams with strong leaders.
8. An international orientation – international teams, multi-country market research and global or “glocal” products.

The first theories discuss what is necessary for an internal review and how things should be organized. Cooper supports these steps with general factors which are controllable and can make difference between success and failure.



## 2.4 Conclusion

This chapter has explored relevant literature concerning the identification of opportunities in the market. The first issue made clear is that innovation through the pursuit of opportunities is vital for a company's survival in a competitive environment. After this, I have discussed two general methods for the process of opportunity identification. Although these models use different definition, they generally follow the similar path.



**Figure 4: Similarities Tidd et al (1997) and Stevens and Sherwood (1987)**

The comparison above defines a shared structure for the identification of opportunity; (1) the external environment should first be analyzed, (2) the resources required for the opportunity have to be identified and finally (3) the pursuit of the opportunity should be organized internally. The two phases, implementation and evaluation, of Tidd (1997) are not relevant in the context of this research. The choice for a right product as described by Wilson, Kennedy and Trammel (1996) in the first chapter of the theoretical framework will be discussed as part of the external analysis. Tidd et al after all suggest that this includes scanning and searching the environment for potential opportunities.

The external analysis consists of six analyses; identifying the right product, the identification of a market, the impact and direction of market factors, estimating the potential of the market, the competitive analysis and estimating the revenues. The second step is the financial analysis which mainly concerns measuring the financial viability of the opportunity and the most appropriate model to calculate this. Finally, an internal analysis should discuss the resources that are required to pursue the opportunity and the internal organization of the opportunity identification. According to the literature, the model for opportunity identification can be visualized as follows:



<b>Theoretical framework for opportunity identification</b>		
<i>step</i>	<i>focus</i>	<i>Main questions</i>
<b>1</b>	<i>External analysis</i>	What is the right product? How do we select a market? Which factors determine the demand? What is the expected demand? What does the competition look like? What are the expected revenues?
<b>2</b>	<i>Financial analysis</i>	How do we map the relevant costs? What is the preferred method to calculate profitability? What is the estimated profitability
<b>3</b>	<i>Internal analysis</i>	Which resources have to be estimated? How do we estimate these resources? How should the opportunity identification be organized internally?

**Figure 5: Detailed theoretical framework opportunity identification**



### 3. Methodology

As this thesis reviews a case study on opportunity identification, this chapter will describe how to measure the details of the models described in the theoretical framework and which tools will be used to collect the data. First, I will justify my choice for the research design and the methods to collect the data. Subsequently the various techniques of data collection will be previewed. This offers chance to give an overview of the data that has to be collected. In practice this means that I will describe how to measure whether the components from the models have been applied in the case study. Besides this, this chapter will discuss in which way the quality of data is optimized.

#### 3.1 Research design

This study can be concerned a descriptive research. The main objective of this study is to describe the procedures that have been followed throughout the process of opportunity identification. During this process I have participated and observed this process. This thesis will describe my observations and review these in a theoretical context.

It aims for comparison of the procedures applied within a multinational company to renowned literature in the field of opportunity identification. After the literature has been explored it will describe a business case on how a multinational company has identified the opportunity. These procedures will be compared with the theoretical approach from the literature. The final part will elaborate on the impact the possible differences may have.

As my focus is on one instance that will be further explored, this can be concerned a case study. A case study can be exactly defined as: “The in-depth examination of a single instance of some social phenomenon, such as village, a family, or a juvenile gang.” (Babbie, 2001).

The subjects of observation in this case study are the procedures of opportunity identification within Heineken International. Through earlier experiences within this company in Nigeria, I already knew they use highly sophisticated models to identify market opportunity. Although uncertainty is high in both the previous study and the current study, Heineken has developed tailored made procedures to identify markets. Considering their market growth in the region Africa & Middle East during the last five years, these procedures appear to be working. This issue has increased my interest in this subject and company. Besides these, it is highly interesting to review procedures in one of Holland’s most famous companies.

The major mode of observation in this study is qualitative field research. In field research, the data is most often collected by participation of the researcher at the scene. Field research fits this case study as observation, data processing and analysis can be interwoven. Regarding the different steps in this study, this increases flexibility of the research. Field research especially suits topics that are difficult to quantify. This study reviews different procedures that are difficult to quantify as well as they have different variables. Field research also offers the advantages of the depth of understanding that it can provide.

On the other hand, this mode of observation can encounter several problems concerning the quality of data (Saunders, 2004). Saunders mentions three possible threats:

- Reliability





- Bias
- Validity and generalizability

Babbie (2004) confirms stating that one of the major disadvantages of qualitative research is that “although you obtain high validity, quality often is not optimal.”

To overcome these threats I will preview the methods I will use to optimize validity and in which way I will guarantee the quality of data for the questions in this research.

### 3.2 Data collection

The previous sub chapter has described the methodology that will be used to answer the research questions. This part describes the techniques that will be used to collect the data and how bias can be minimized. The majority of the data in this study has been collected through qualitative field research. Below it is shown which techniques and sources have been used for the different topics in this research. After this I will elaborate on the different techniques and sources that are used.

Research topic	Literature	Data collection	Sources
Identifying opportunity	Wilson, Kennedy and Trammel (1996)	Field research	Interviews
	Stevens and Sherwood (1987)	Field research	Market visits
Market identification	Stevens and Sherwood (1987)	Field research	Interviews
	Yankelovich (1964)		
	Porter (1980)		
Market factors	Stevens and Sherwood (1987)	Field research	Participation
	Nijssen (1999)	Field research	Market visits
		Field research	Interviews
Measuring potential	Stevens and Sherwood (1987)		
	Golder and Tellis (1998)		
Competition	Porter (1980)	Field research	Interviews
	Irwin (1970)	Field research	Company documentation
		Field research	Market visits



Financial analysis	Stevens and Sherwood (1980) Drury (2000)	Field research	Participation
Internal analysis	Stevens and Sherwood (1980) Rewoldt et al (1969) Wilson, Kennedy and Trammel (1996)	Field research	Participation
Impact of differences	all	Literature comparison	

### *Interviews*

Many of the data from this project are collected through interviews. Within qualitative field research participation offers chance to closely monitor the research subject. Interviews are a common method to learn more about the subject if observations leave questions (Babbie, 2001). The interviews conducted during this study are both quantitative and qualitative. Qualitative interviews have mainly been held with internal stakeholders to learn more about the decisions concerning the procedures made within the project. Because this included different topics, there were general objectives for the interview but no fixed protocol. Qualitative interviews are based on a set of topics to be discussed in depth rather than based on the use of standardized questions (Babbie, 2001). Still, the interviewer has to be fully aware of the topics and aims to steer the interview in a certain direction. An overview of the interviewees can be found in appendix 9. Fixed protocols were used to interview local stakeholders within the markets. The main objective of these interviews was to verify findings during the project.

Babbie (2004) states that: “Social research is often conducted in situations that do not permit the kinds of probability samples used in large-scale social surveys”. This ‘nonprobability sampling’ has been applied in the qualitative interviews. It is very difficult to identify the relevant population for a specific topic. Through judgmental sampling I have selected the most relevant people within a field of study. “Relevance” in this case has been based upon project involvement and hierarchical position. Appendix 9 shows that in all relevant regions, two or more members of the management team (which normally consists of five members) have been interviewed. Besides these all relevant second level managers have been interviewed. Although the relevant population is difficult to identify, all involved management team members and second level managers have been interviewed.

As I participated in the organization I have developed a relationship with many of the respondents, which increases the chance of bias. Allen (1969) identifies several sources for interview bias. “Because the interview is a social relationship it is possible for interview norms to come into conflict with other norms pertaining to social relationships.” He mainly tests hypotheses based on social characteristics like race, gender, education and age. Although most hypotheses are not confirmed, Allen proves that personal opinion of the interviewer might cause bias in the interview. Although I was aware of this, it is interesting



to see that especially age and social status do not affect the results of the interview. Many of the interviews have been conducted with members of the management team which causes a high difference in age and social status between the interviewer and respondent.

The interview also offers many advantages in data collection (Babbie, 2004):

- Response rates are higher
- Decreases the amount of “no answers”
- Guard against confusion
- Opportunity to observe

These advantages are mentioned by Babbie in the context of a survey and compared to a written questionnaire. Still, these are relevant as many data in the markets will be collected following a quantitative approach and asking the same questions in multiple interviews. Concerning this research I have decreased interview bias by interviewing multiple people involved at different time frames. The validity of the answers will be cross-checked through market research. Direct observation and interviews with external stakeholders have been used to confirm the collected data.

### ***Market visits***

The data for the confirmation of findings has mainly been obtained through visiting the markets. After interviews within the OPCO, an extensive market visit in both urban and rural areas and within all segments has provided me a clear overview of the products that are currently available. These observations have been photographed and stored in order to reproduce these unbiased. During these market visits I have interviewed stakeholders like customers, retail owners and distributors. These interviews have been supported by visual examples. In order to get a complete overview both urban and rural areas were visited. The rural areas have been visited while travelling between the major urban areas. The exact places of visit are:

- Republic of the Congo - Pointe Noire, Brazzaville, Brazzaville province
- Democratic Republic of the Congo - Kinshasa, Kimpese, Goma
- Rwanda - Kigali, Ruhengeri, Gisenyi
- Burundi - Bujumbura, Ngozi

The data collected in this study has been supported by company documentation. This includes annual reports, internal reports and company tools that have been used. The reports have mainly been used to support general information like the background of the project and company details. Important tools like those to calculate profitability and market have been provided from inside the company.



## 4. Results

**Due to confidentiality, this part cannot be exposed. If you have special interest, please contact me via BOZ.**



## 5. Conclusions and Recommendations

The conclusions in this final chapter will summarize the key findings and answer the sub questions and main research problem raised in this thesis. After this, I will draw recommendations on how to improve the opportunity identification and finally review the literature that has been used.

### 5.1 Conclusions

First, this thesis has explored literature within the field of opportunity identification, product innovation and more detailed on market segmentation, market factors, measuring potential, competitive analyses, financial analyses and project organization. The general frameworks on opportunity identification have a similar content including the three major steps external analysis, resources identification and internal analysis. This is the general theoretical outline for opportunity identification confirmed by multiple authors like Stevens and Sherwood (1987) and Tidd (1996).

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This thesis shows that, within this case study, the characteristics of opportunity identification in practice differ from the models presented in renowned literature. Compared to the literature I can state that within the case study; (a) not all steps as presented in the theoretical framework of opportunity identification are present, (b) the execution of steps is insufficient in more than half of the identified steps and (c) the differences in both presence and execution offer room for improvement and sometimes even jeopardize the results. If the procedures of opportunity identification within Heineken should be modified according to the literature, they can increase efficiency and minimize the threat of pursuing false opportunities.



## **5.2 Recommendations**

This chapter will first discuss how Heineken can minimize the threat of pursuing false opportunity and how to organize the procedures more efficiently. Subsequently it will review how the literature fits and contributes to this particular case. Finally, I will raise some points of discussion.

### **5.2.1 Recommendations Heineken International**

**Due to confidentiality, this part cannot be exposed. If you have special interest, please contact me via BOZ.**



### 5.2.2 Recommendations literature

After these practical recommendations I will review whether the literature can be modified to better suit these cases of opportunity identification. This part reviews the contributions of the different authors to this study and discusses possible additions, modifications and follow-up studies.

The product identification in the case study does not raise the need to review the content of the model of Wilson, Kennedy and Trammel (1996). But concerning the timing issue in the procedures of Heineken, we can discuss whether this model does contribute to an efficient pursuit of opportunity. Heineken wants to obtain first mover advantage<sup>10</sup>. The first step in the model of Wilson states that prior to identification of the customer needs, a company should be able to justify three key issues. Especially the second and third issue, customers benefits and compatibility with the organization, have proven to be time consuming analyses. If even, compatibility with an organization can be fully proven prior to introduction. Wilson, Kennedy and Trammel (1996) mention there should be continuous interaction with customer, which implies the product idea might change over time. So, if there is need for a rapid respond to a market opportunity, further research could be done to find out whether the first two steps can run in parallel with the other steps to increase efficiency.

My main concern in the framework of Stevens and Sherwood (1987) is the identification of market factors. The market factors can possibly be incorporated in the market segmentation as customer identification already discusses the main drivers for demand. Ideally, the market segmentation identifies a target group because they have characteristics that are expected to cause the highest demand. Further research should be conducted to confirm the similarities between the drivers for market segmentation and the market factors.

In order to estimate the potential revenues in an emerging economy the model of Golder and Tellis (1998) is very appropriate. Price level and income are very powerful in this model, and Heineken confirms these are key drivers. Concerning this issue, and the relevance of price for these markets, it might be interesting to discuss the estimated consumer price point as a single step within the methodological framework. It could be integrated into the market factors as it appears to be a key driver for product demand. This would also support the model of Golder and Tellis (1998), because the pricing range would then be determined prior to the volume estimation. On the other hand the importance of the contribution of McCarthy and Attafuah (2002) is confirmed in this study. Consumer sentiment is too sophisticated to calculate in the emerging Sub Saharan markets and therefore another fixed indicator has to be used.

The competitive analysis in the framework following Stevens and Sherwood (1987) and the operationalization through the model of Porter (1980) can be concerned less relevant in monopolistic markets. The model of Irwin (1970) on the other hand is a useful tool to compare the characteristics of competitive products.

The case study has shown the important role of the IRR in this context, it might be a contribution to the financial analysis of Stevens and Sherwood (1987) to discuss this variable in relation to the risk of

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<sup>10</sup> Heineken International, project proposal project PELICAN, 2008



emerging economies. A model that calculates the IRR based on the macroeconomic risks in developing countries will be an interesting follow up study for companies that plan to invest in these markets.

Concerning the organization of opportunity identification Wilson, Kennedy and Trammel (1996) make a relevant contribution to this case. Only the co-location of team members does not fit. During the project it has been a benefit that people of the project team were located in the markets. This offered chance to use their experience and increased the speed of information sharing. I think Wilson, Kennedy and Trammel (1996) confirm this in their second guideline that discusses informal communication. Communication prevails over co-location in this case. Even, the different locations have been a major advantage for a project that covers multiple regions. Heineken differs from the theory in a way that better suits the project. A follow up study could be executed which discusses several projects to identify a general approach to the co-location of team members.





## 5.3 Discussion

### Experience or Science?

The main question that derives from this case study is whether a company should rely on its own experience or modify its procedures following renowned literature? Of course, theoretical frameworks are probably often modified to fit an organization. Heineken has a proven record of successful investments and market introductions. Throughout the last years they have never had to close down a brewery in the region Africa & Middle East. So, is there a reason to change procedures?

**Due to confidentiality, this part cannot be exposed. If you have special interest, please contact me via BOZ.**

My opinion is that Heineken is doing a great job in making the right decision, but should not fully rely on their successes from the past. This research shows that within their methodology they can add or improve procedures. This will decrease the chance of poor investments and increases their knowledge prior to any investment. So, despite their proven record of investments, Heineken should have a closer look on the literature of opportunity identification.

### Identifying the potential for a new product

An important question within the project of Heineken has been the estimation of the market potential for the proposed products. It has been a challenge for both them and me to define a model of measurement of potential sales.

What is the best way to identify market drivers if a product is completely new to a market? Heineken has tried to focus on consumer preferences. The literature focuses on a structured approach to identify the future needs of a customer. You can identify the current presence of products in a particular product group but does this result in the future need of a customer? In the end, there can be many reasons it is not available. And what is the value of consumer preferences? Does preference guarantee sales? I am not so sure. You can prefer to drink a draft beer, but still you buy bottles because they are cheaper.

Estimating market potential is a very intangible and complex process. To my opinion, it is almost impossible to create a model that can be applied to different product groups or different regions. Therefore, market estimation ideally is a mix of theoretical models and drivers which result from experience in both the product group and the geographical area. It should be directly related to the indicators determining market segmentation and the identified market factors.



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## APPENDICES

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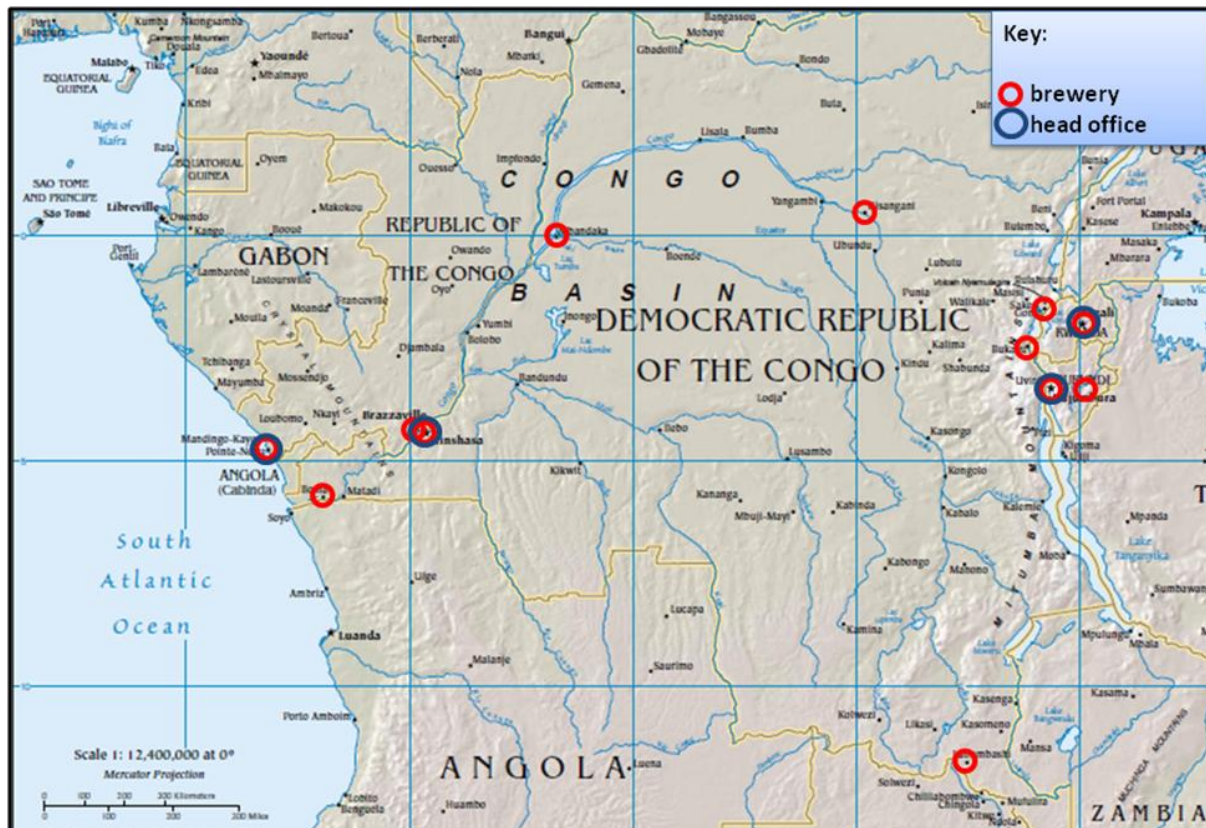
APPENDIX 1: Key figures Heineken International 2008





APPENDIX 2: Country details Heineken International Central African operations

country	company	brewery location	brands
<b>Congo</b>	Brasseries du Congo	Brazzaville, Pointe Noire	Amstel, Guinness, Maltina, Mutzig, Ngok, Primus, Turbo King
<b>Democratic republic of Congo</b>	Bralima	Boma, Bukavu, Kinshasa, Kisangani, Mbandaka, Lubumbashi	Amstel, Guinness, Maltina, Mutzig, Primus, Turbo King
<b>Rwanda</b>	Bralirwa	Gisenyi, Kigali	Amstel, Guinness, Mutzig, Primus
<b>Burundi</b>	Brarudi	Bujumbura, Gitega	Amstel, Primus





APPENDIX 3: Country and operations profile Republic of the Congo

The Republic of Congo is the wealthiest economy of the countries in this study. This is mainly caused by their strategic position as well as their oil reserves. Although the Republic of Congo is one of Sub-Saharan Africa’s main oil producers, still 70% of the population lives in poverty. The country has known peace for the last ten years after the last civil that started in 1997 (BBC, 2008).

Brasseries du Congo has a monopolistic position in both beers and soft drinks. Although they maintain their strong position, the absolute amount of beverages sold by competition keeps growing. These products are mainly imported premium drinks. Congo has one of the highest per capita beer consumptions of sub-Sahara Africa (Brasco, 2008).

The details of the country and company are mentioned below

- **Full name:** Republic of the Congo
- **Population:** 3.8 million (UN, 2008)
- **Capital:** Brazzaville
- **Area:** 342,000 sq km (132,047 sq miles)
- **Major languages:** French, indigenous African languages
- **Major religions:** Christianity, indigenous African beliefs
- **Life expectancy:** 54 years (men), 57 years (women) (UN)
- **Monetary unit:** 1 CFA (Communaute Financiere Africaine) franc = 100 centimes
- **Main exports:** Oil, timber, plywood, sugar, cocoa, coffee, diamonds
- **GNI per capita:** US \$1,540 (World Bank, 2007)

key data Brasseries du Congo						
	2005	2006	2007	2008	2009	2010
domestic beer market sales volume (HL x 1000)	757	955	1131	1205	1302	1363
domestic beer market sales volume OPCO (HL x 1000)	742	936	1108	1181	1276	1336
<b>market share beer OPCO</b>	<b>98,0%</b>	<b>98,0%</b>	<b>98,0%</b>	<b>98,0%</b>	<b>98,0%</b>	<b>98,0%</b>
domestic soft drink market sales volume (HL x 1000)	388	466	533	583	641	682
domestic soft drink market sales volume OPCO (HL x 1000)	360	442	512	560	615	655
<b>market share soft drink OPCO</b>	<b>93%</b>	<b>95%</b>	<b>96%</b>	<b>96%</b>	<b>96%</b>	<b>96%</b>
per capita beer consumption (l/year)	19	23	26	27	29	30
per capita soft drink consumption (l/year)	9	11	12	13	14	15





APPENDIX 4: Country and operations profile Democratic Republic of the Congo

Although the Democratic Republic of Congo is a vast country with immense natural resources it can be mentioned as the centre of war during many periods (BBC, 2008). Most recent are their involvement in the genocide, the African War in 1997 and the latest civil war in 2008. Currently the situation is more peaceful but still the Northern and Eastern part of the country are concerned to be lawless.

After Nigeria, Bralima has the highest turnover in the region. During the last five years Bralima has gained more than 20% market share from their main competitor Bracongo. Although poverty is much higher and consumption per capita significantly lower than neighboring Republic the high population makes DRC a very attractive market. The majority of the products are being sold in the area surrounding the capital Kinshasa. The absence of infrastructure and the size of the country have forced Bralima to decentralize their operations per region (Bralima, 2008).

- **Full name:** Democratic Republic of the Congo
- **Population:** 64.7 million (UN, 2008)
- **Capital:** Kinshasa
- **Area:** 2.34 million sq km (905,354 sq miles)
- **Major languages:** French, Lingala, Kiswahili, Kikongo, Tshiluba
- **Major religions:** Christianity, Islam
- **Life expectancy:** 45 years (men), 48 years (women) (UN)
- **Monetary unit:** 1 Congolese franc = 100 centimes
- **Main exports:** Diamonds, copper, coffee, cobalt, crude oil
- **GNI per capita:** US \$140 (World Bank, 2007)

	key data Bralima					
	2005	2006	2007	2008	2009	2010
domestic beer market sales volume (HL x 1000)	2272	2780	3002	3243	3502	3782
domestic beer market sales volume OPCO (HL x 1000)	1086	1417	1583	1875	2186	2364
<b>market share beer OPCO</b>	<b>48%</b>	<b>51%</b>	<b>53%</b>	<b>58%</b>	<b>62%</b>	<b>63%</b>
domestic soft drink market sales volume (HL x 1000)	1022	1253	1353	1461	1578	1705
domestic soft drink market sales volume OPCO (HL x 1000)	772	853	918	991	1070	1156
<b>market share soft drink OPCO</b>	<b>76%</b>	<b>68%</b>	<b>68%</b>	<b>68%</b>	<b>68%</b>	<b>68%</b>
per capita beer consumption (l/year)	4	5	5	6	6	6
per capita soft drink consumption (l/year)	2	2	2	2	2	2



APPENDIX 5: Country and operations profile Rwanda

Rwanda experienced Africa’s worst genocide in modern times. After the shooting down of the plane carrying president Juvenal Habyarimana, and his Burundian counterpart, near Kigali triggered what appeared to be a coordinated attempt by Hutus to eliminate the Tutsi population (BBC, 2007). They nearly succeeded, leaving at least 800.000 Tutsi’s and moderate Hutu’s killed. By this time this was almost 10% of the total population. The country is striving to rebuild its economy, with coffee and tea production being among its main sources of foreign exchange. Still, nearly two thirds of the population lives below the poverty line.

Bralima is the main player in the Rwandan beverage market in both beers and soft drinks (Bralirwa, 2008). It is expected that competition will become more intense as subsidiaries of SABMiller are entering the country via Uganda.

- **Full name:** Republic of Rwanda
- **Population:** 10 million (UN, 2008)
- **Capital:** Kigali
- **Area:** 26,338 sq km (10,169 sq miles)
- **Major languages:** Kinyarwanda (official), French (official), English (official), Swahili
- **Major religions:** Christianity, indigenous beliefs
- **Life expectancy:** 45 years (men), 48 years (women) (UN)
- **Monetary unit:** 1 Rwandan franc = 100 centimes
- **Main exports:** Coffee, tea, hides, tin ore
- **GNI per capita:** US \$320 (World Bank, 2007)

	key data Bralirwa					
	2005	2006	2007	2008	2009	2010
domestic beer market sales volume (HL x 1000)	583	697	772	900	983	1108
domestic beer market sales volume OPCO (HL x 1000)	561	665	720	806	871	975
<b>market share beer OPCO</b>	<b>96%</b>	<b>95%</b>	<b>93%</b>	<b>90%</b>	<b>89%</b>	<b>88%</b>
domestic soft drink market sales volume (HL x 1000)	285	350	370	426	460	528
domestic soft drink market sales volume OPCO (HL x 1000)	285	350	370	426	460	528
<b>market share soft drink OPCO</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
per capita beer consumption (l/year)	7	8	8	9	10	11
per capita soft drink consumption (l/year)	3	4	4	4	5	5



APPENDIX 6: Country and operations profile Burundi

Stability in Burundi appears to be within reach after years of bloody conflict. The government and the last active rebel group signed a ceasefire in May 2008. The relative peace after 12-year ethnic-based civil war has been attributed partly to international mediation and support (BBC, 2008). Half the population lives below the poverty line. Coffee and tea account for most of the foreign currency earnings.

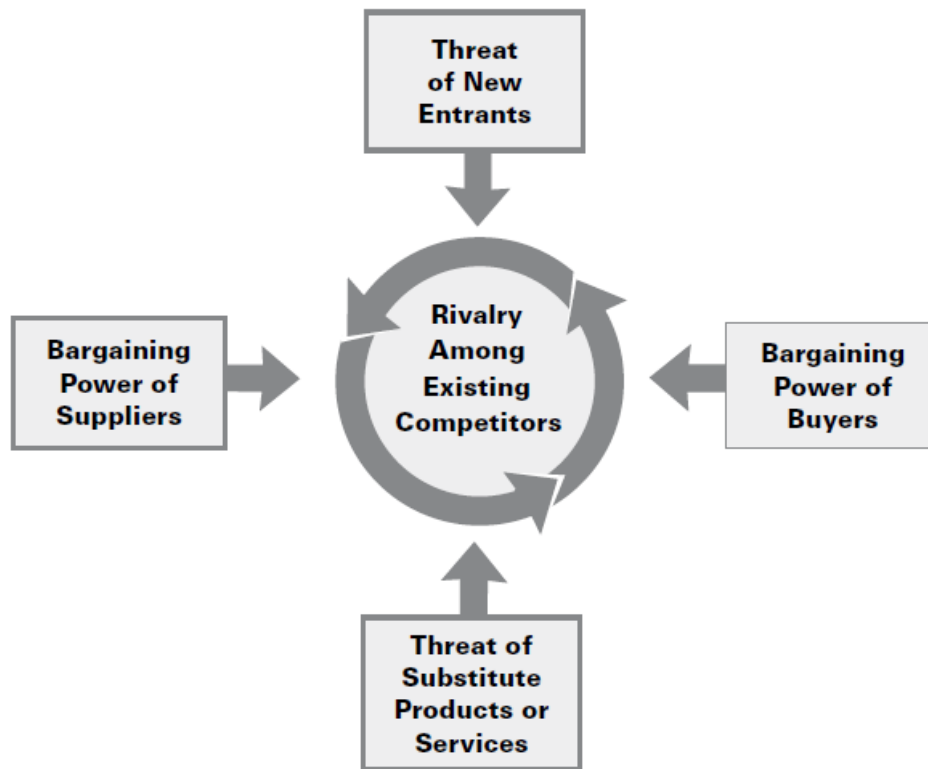
Brarudi is the biggest company of Burundi and partly owned by the government. This involvement gives the company significant protection against the entrance of competition. The main competition for Brarudi comes from traditional beverages like banana beer and sorghum based beers (Brarudi, 2008). It is difficult to give the exact number but according to the latest studies nearly 50% of the national consumption comes from traditional beverages. As these numbers are not reliable they are not taken into account in the figures stated below.

- **Full name:** Republic of Burundi
- **Population:** 8.9 million (UN, 2008)
- **Capital:** Bujumbura
- **Area:** 27,816 sq km (10,740 sq miles)
- **Major languages:** Kirundi (official), French (official), Swahili
- **Major religions:** Christianity, indigenous beliefs
- **Life expectancy:** 48 years (men), 51 years (women) (UN)
- **Monetary unit:** 1 Burundi franc = 100 centimes
- **Main exports:** coffee, tea, sugar, cotton, hides
- **GNI per capita:** US \$110 (World Bank, 2007)

	<b>key data Brarudi</b>					
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
domestic beer market sales volume (HL x 1000)	1004	1231	1276	1306	1238	1324
domestic beer market sales volume OPCO (HL x 1000)	1004	1231	1276	1296	1222	1299
<b>market share beer OPCO</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>99%</b>	<b>99%</b>	<b>98%</b>
domestic soft drink market sales volume (HL x 1000)	148	257	280	280	306	338
domestic soft drink market sales volume OPCO (HL x 1000)	148	257	280	280	303	331
<b>market share soft drink OPCO</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>99%</b>	<b>98%</b>
per capita beer consumption (l/year)	13	16	16	16	15	15
per capita soft drink consumption (l/year)	2	3	3	3	4	4

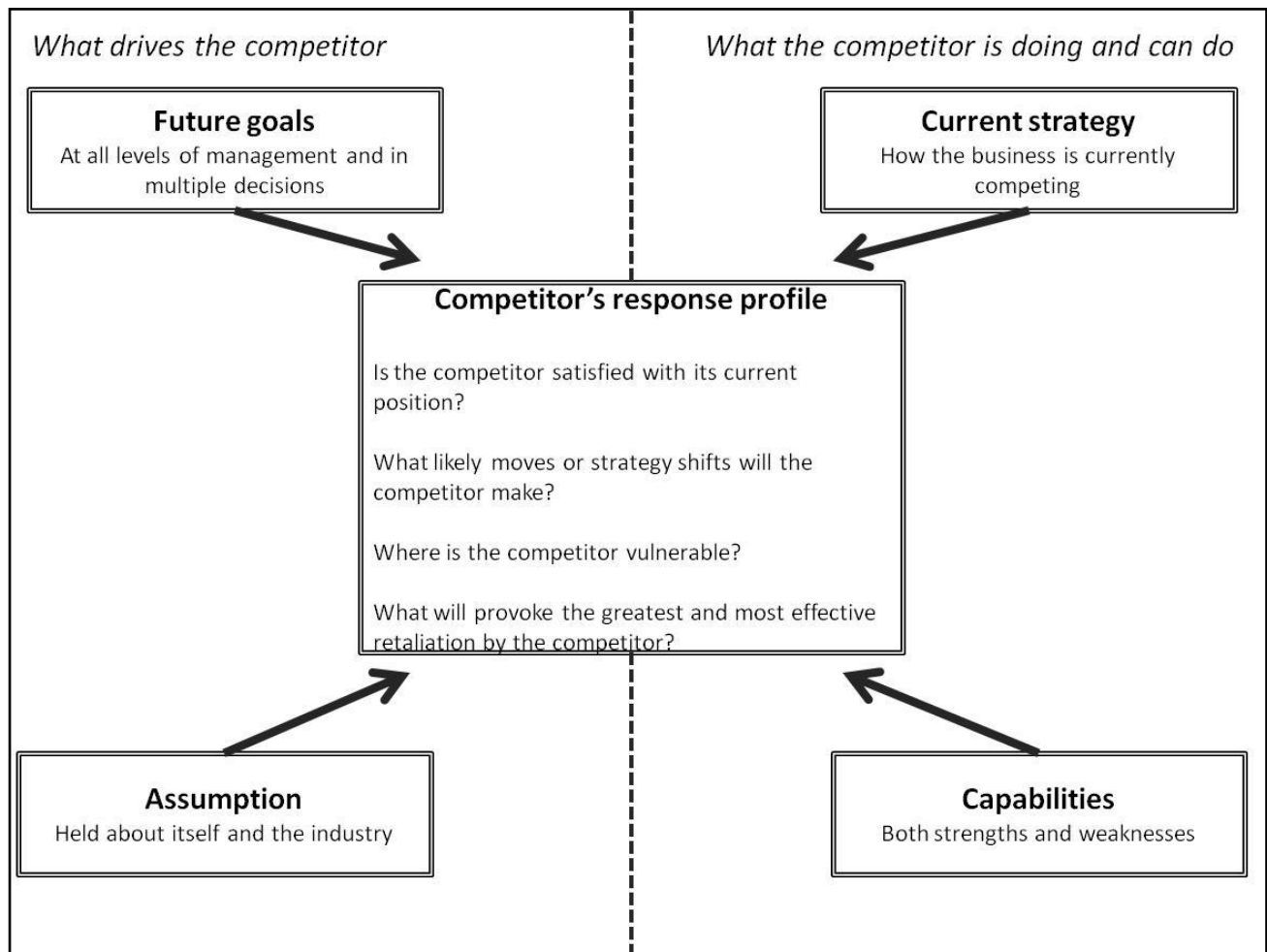


APPENDIX 7: five forces framework (Michael Porter, 1980)





APPENDIX 8: Competitor response profile (Porter, 1980)





APPENDIX 9: Competitive market mix audit (Irwin, 1991)

Marketing mix components	Fine wines		Beverage wines	
Product	Appellation	×	Varietal or blend	✓
	First growth varieties	×	Taste	✓
	Vintage	×	Consistency	✓
	Regional	×	Quality control	✓
	Limited quantity	✓		
Price	Prestige and “skimming”	✓	Sensitive and competitive	×
	Few promotions	✓	Frequent promotions	×
Place (distribution)	Specialist outlets	✓	Supermarkets, off-licences	Minimal “Place” is central to marketing vineyard outlets
Promotion (communication)	Personal recommendation and reputation	✓	Mass media	×
	PR	Minimal	Point-of-sale displays	At the vineyard outlets
Selling	Scarcity	✓	Continuous availability	×
	Quota allocation	×	Truck load quantities	×
	Case lot quantities	✓		
Inventory	Ageing and maturing essential	×	Stockturn paramount	✓

Source: Adapted for UK wines by the authors from Spawton’s (1991) framework





APPENDIX 11: Volume estimation model Heineken International (2008)

**Due to confidentiality, this part cannot be exposed. If you have special interest, please contact me via BOZ.**