CASE 13 Corona Beer: From a Local Mexican Player to a Global Brand

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It's a typical Friday afternoon in 2007, and Carlos Fernandez, chairman of Grupo Modelo's board since 1997, was making an unexpected stop at one of his company's brewing facilities in Zacatecas, Mexico, where the plant was going through major renovations to increase capacity. Grupo Modelo S.A. de C.V. (Modelo) was Mexico's largest beer producer and distributor. It was expanding production capabilities across the board. Among the company's many brands was Corona Extra, which had been the world's fourth best selling beer in terms of volume (see Exhibit 1 for world ranking). With an investment of more than $300 million to renovate its facilities, Modelo aimed to increase production to face growing international demand. Carlos Fernandez clarified his ambition soon after his appointment as CEO in 1997:

> [I want] Modelo to leapfrog the competition and catapult itself into the ranks of the world's top five brewers.

And they did that when Grupo Modelo surpassed Heineken for bragging rights as the number one selling import in the United States in 1997. Yet competitors did not let that happen without reacting, and Grupo Modelo soon faced tough times both in its domestic market and abroad.

How did Modelo build up its domestic power? How did it consider the attack on the U.S. market? Could the company sustain its success trend against competition? Those were some of the questions analysts asked at the time.

Exhibit 1 World's Top 10 Beer Brands, 2005 and 2006 (Millions of barrels—shipments)

Brands	2005	2006	2006 Market Share
1. Bud Light	39.3	41.1	3.0%
2. Budweiser	34.6	33.7	2.5
3. Skol	27.9	28.6	2.1
4. Snow	13.5	25.9	1.9
5. Corona	24.5	25.6	1.9
6. Brahma Chopp	20.6	21.6	1.6
7. Heineken	20.0	21.4	1.6
8. Miller Lite	18.2	18.2	1.3
9. Coors Light	16.5	16.8	1.2
10. Asahi Super Dry	15.0	14.8	1.1
Total top 10	229.9	247.6	18.2%

Source: Grupo Modelo annual report, 2007.

THE GRUPO MODELO STORY: BUILT TO BE A LOCAL LEADER

Cervecería Modelo S.A. was formed on March 8, 1922, and officially opened its first brewery three years later, with a strategic aim to focus on Mexico City and the surrounding areas. Modelo was the first brand to be produced by the group, followed a month later by Corona.

Headed in the early days by Pablo Diez Fernandez, Braulio Iriarte, and Martin Oyamburu, the company was soon controlled by Diez and Oyamburu after Iriarte died in 1932. Under the operational direction of Diez, Cervecia Modelo started producing Corona in clear quarter bottles in response to consumers' preference for clear glasses. Diez oversaw the expansion of the group's brewing capabilities that would turn it into Mexico's largest and most modern producer.

The 1930s were trying years for Modelo. After surviving the prohibition policy and the death of the company's president during the early 1930s, Diez bought Oyamburu's shares and became sole owner of the company in 1936, with financial help from Banco Nacional de Mexico. The company has remained under the majority ownership of the Fernandez family ever since.

In 1935, once financial stability was restored to the company, Cerveceria Modelo bought the brands and assets of the Toluca y México Brewery. From then on, Victoria, the country's oldest established brand of beer, would spearhead the company's fight to dominate the popular market. With these acquisitions, the 1940s proved to be a period of strong growth for the company, with production sky-rocketing as did its popularity. While most Mexican companies were focusing on selling beer to the American army for WWII efforts, Diez decided to concentrate domestically and improve distribution methods and production facilities within Mexico.

As Mexico became industrialized, the country's infrastructure allowed for large scale distribution. The key element behind the rapid growth domestically during the post-WWII era was a new way of distribution: direct with profit sharing.

> Modelo's sales were revolutionized by the idea of direct distribution with the executive in charge getting a share of profits. A key element of this second stage was specialized concessions. In other words, splitting beer from groceries and making it an exclusive business gave rise to direct distributors—sometimes run by the concessionaire or his successors, or sometimes by a person sent from head office, a traveling agent, supervisor, or manager who would be moved from area to area.

In 1971, Antonino Fernandez was appointed CEO of Modelo. He was the husband of Pablo's niece. Under his control, Corona was listed on the Mexican Stock exchange in 1994. At that time, Anheuser-Busch acquired 17.7 percent of the equity and had an option to increase its ownership to 50.2 percent over time. The 50.2 percent represented only 43.9 percent of voting rights in order to preserve the ownership of the Diez family over Grupo Modelo S.A.

A LOCAL LEADER GOING ABROAD

Modelo's first entry into the U.S. beer market came in 1979 with Corona distributed by Amalgamated Distillery Products Inc. (later renamed Barton Beers Ltd.). Due to its nonrefundable policy, its clear and unique bottle, and different marketing, Corona quickly distinguished itself from the competition and gained popularity in southern states. Corona's sales experienced rapid growth throughout the 1980s and by 1988 it had become the second most popular imported beer in the United States. It wasn't until late 1991, with the doubling of federal excise tax on beer, that Corona's rise to the top of America's import beer market was slowed considerably (a decrease of 15 percent). An important change in the pricing strategy by Corona's distributor, namely to absorb the tax rather than pass it on to consumers, in 1992 rectified the downward trend, and Modelo has experience increasing sales of Corona ever since.

In 1997, with his grandfather still chairman of the board and taking over for his uncle, Carlos Fernandez was appointed the new chief executive office of the company. At the young age of 29, Carlos encompassed all the attributes needed to take the company into the new millennium. Not only had the young man dedicated himself to the family business since he was 13, when he first started working at the company, but he carried with him a vision of an international business model—one that had the company expand internationally in order to capitalize on the newly introduced North American Free Trade Agreement (NAFTA) and streamline the company's focus. In just 12 years since his appointment, Carlos accomplished one of his more ambitious goals of leapfrogging his international competitors to become one of the top five beer companies in the world.

In 1997, at 37 years of age, Carlos Fernandez was named chairman when his grandfather stepped aside. In 2007, Grupo Modelo was exporting five kinds of beer to the United States: Corona Extra,

Exhibit 2 Total Imported Beers in the United States, 2006–2007 (thousands of cases)

Brand	2006	2007*
1. Corona Extra	116,155	115,060
2. Heineken	68,790	68,100
3. Modelo	19,605	22,404
4. Tecate	17,480	19,050
5. Guinness	12,725	13,360
6. Corona Light	11,055	12,207
7. Labatt Blue	12,500	12,000
8. Heineken Light	7,520	9,775
9. Stella Artois	6,175	8,335
10. Amstel Light	8,900	8,188
Total top 10	280,905	288,479

*Estimate.
Source: Grupo Modelo's annual report, 2007.

Corona Light, Modelo Especial, Pacifico Clara, and Negra Modelo. These exports represented 131 million cases in 2005 and three Grupo Modelo brands ranked among eight firsts in the United States (see Exhibit 2 for detailed rankings).

THE BEER MARKET, A PROGRESSIVE CONSOLIDATION

Modern beer was first brewed in Europe in the 14th century. The industry developed differently in every country in order to address local tastes and specific recipes. This resulted in a clustered industry with many local breweries. The lack of a transportation network made exportation impossible for centuries and brewing remained a local and then a national domain for a long time. The first steps of national consolidation were carried out in the 19th century in the United Kingdom and the United States to achieve economies of scale. In other, smaller countries, with several mid-size players, the consolidation process was lighter and local breweries survived and became specialists. One determining factor behind the type of domestic beer was the national taste of the particular country. Some countries have distinct cultural tastes, where beer is not the alcoholic drink of preference. In countries such as Italy and France, wine outperforms beer for consumption per capita, whereas in countries like Germany and Ireland, the reverse is true. Whereas Italy and France have a few national beer brands, Germany and Ireland both have numerous medium brewing companies that are well respected domestically and internationally.

In the 1990s, a new phenomenon appeared whereby national leaders began expanding abroad. For example, the Belgian company Interbrew acquired breweries in 20 countries and expanded its sales to 110 countries, leaving local managers controlling the local brands while enjoying their presence to develop sales of its flagship brand: Stella Artois. This trend also might be due to the fact that initial startup costs of a brewery have always been extremely high and the need for a constant cash flow for maintenance and the fluctuating price of resources. That structure of the industry supported concentration.

Other companies followed the same strategy and the consolidation process led to a small number of global players. On March 3, 2004, the world's third largest brewery company, Belgium-based Interbrew, and the world's fifth largest brewery, Brazil-based AmBev, announced plans to merge their operations. In a deal valued at $12.8 billion, the merger created the world's largest brewing company in terms of volume. In 2007, the panorama of the brewing industry was clear, showing the top players as InBev, Anheuser-Busch, SABMiller, and Heineken ranking as the market leaders. See Exhibit 3 for the top six global producers as of 2005.

KEY WORLD MARKETS

The United States had the largest beer market in the world until China surpassed it in 2003. Yet the consumption per capita remained almost six times higher in the United States than it was in China at the time (see Exhibit 4 for global beer consumption). The growth expectations were significantly reduced in the United States, but performance was not consistent across the clusters.

The top three breweries controlled almost 80 percent of the U.S. market, with 45 percent for Anheuser-Busch, 23 percent for Miller Brew and 10 percent for Adolph Coors. That being said, 300 brew-

Exhibit 3 Top Brewing Companies (in millions of hectaliters)

In 2000	In 2005
1. Anheuser-Busch—121	1. InBev—233.5
2. Heineken—74	2. Anheuser-Busch—152
3. Ambev—63	3. SABMiller—135
4. Miller Brewing—53	4. Heineken—107
5. SAB (South Africa Breweries)—43	5. Carlsberg—78
6. Interbrew—87	6. Scottish & Newcastle—52

Exhibit 4 Beer Consumption around the World

Source: http://upload.wikimedia.org/wikipedia/commons/9/99/Map_of_world_by_world_by_beer_consumption.png.
Note: Chinese beer consumption was allegedly 16 liters in 2003.

remained in the country thanks to a dense network of regional craft brewing. These companies struggled to find profitability since vertical integration and economies of scale were the main drivers to operating margins. The fact that Anheuser-Bush could capture 75 percent of the industry's total operating profits emphasized the volume effect in the industry.

Mexico, the world's 11th most populated country, was one of the largest beer markets in the world. This is impressive considering that Mexico is the birthplace and still home of the most affluent tequila market in the world. For a country that has a large proportion of its alcoholic industry split between beer and another beverage, Mexico is an anomaly considering the variety of beers it has to offer. Mexico has a large variety of brands with a vast array tastes of Dos Equis to the light and citrus flavor of Corona. However, even with this diversity, the market is essentially a duopoly split among two producers with very few microbreweries. Those two companies are Grupo Modelo and FEMSA. In 2007, Grupo Modelo captured 62.8 percent of the Mexican market (compared with 50 percent in 1989) and FEMSA owned the rest of the market.

In addition to owning the main beer brands of the domestic market (Corona, Dos Equis, and Sol) FEMSA and Grupo Modelo had built up strategic alliances with some major distributors that were enjoying the NAFTA environment. Grupo Modelo could enjoy the link with Anheuser-Busch to broaden its international impact, while FEMSA was distributing Coca-Cola products in Mexico and decided to have a partnership with Heineken to attack the

U.S. market. To sum it up, the two Mexican players decided to attack the U.S. market but could not do it alone considering entrance barriers. FEMSA's CEO presented it this way in 2006:

> It was an exceptional year for exports. We continued to attract new consumers, and our volume growth exceeded expectations, up to 15.3 percent. Through our distribution agreement with Heineken USA, we significantly expanded our brands' availability and developed our brands' value across our U.S. market territories.

GRUPO MODELO EXPANDING ABROAD

Corona and the Early Successes

Since its entrance into the American beer market, Corona had built a marketing campaign around the idea of "fun in the sun." A myth surrounding the beer was that it was discovered by Californian surfers while traveling the Mexican Pacific coast looking for the next big wave. Amid mixed reviews among beer enthusiasts, Corona's ascent to stardom could be attributed to its brilliant and unique marketing campaign which was a direct result of the international strategy undertaken by Grupo Modelo when it expanded into the United States. While continuing to produce the beer domestically, Modelo entered into distribution contracts with companies that had local knowledge of the market and gave them autonomy to market the product fittingly, yet maintained an active involvement in the decision making. The result was the rise of Corona from a beer sold primarily in the states bordering Mexico, to the number one imported beer in America. An analyst underlined:

> In recognition of the outstanding performance of Corona, Modelo Especial, and Negra Modelo in the U.S. import segment, they have been included in the *Impact Magazine* "Hot Brands" list. This happened 10 times in the last 11 years.

International Expansion through Competitive Distribution Channels

When Corona first entered the American beer market, it chose Chicago-based Barton Beers Ltd. as its distributor. According to Modelo executives, the choice to align itself with Barton Beers was an easy one because it was the largest beer importer in the 25 western states and was experienced in the marketing and sales of imported, premium beers. It was through Barton that the marketing image of "fun in the sun" was born. In 1986, to continue its growth within the United States and to supply the eastern states, Modelo decided to select a second distributor, Gambrinus Inc., which was headed by a former Modelo executive. Each company was responsible for its own 25 states and, according to Valentin Diez, Modelo's vice chairman and chief sales officer:

> There was a healthy competition that existed between the two of them, even if they didn't cover the same geographic area.

Modelo's agreement with its distributors was that each importer would be responsible for essentially all activities involving the sale of the beer, except its production, which took place in Modelo factories in Mexico. Everything—including transportation of the beer, insurance, custom clearance, pricing strategy, and creativity of the advertising campaigns—was the importers' responsibility. Although the importers were essentially autonomous to make these decisions, Modelo always took an active role in the decision making and maintained the final say on anything involving the brand image of its beers. In order to oversee all operations in the United States, Modelo set up Procermex Inc., a subsidiary whose purpose was to coordinate, support, and supervise the two distributors. The strength of the relationship between the importers and Modelo was very strong, as evidenced with the tax increase in 1991. After talks with Modelo, Grambrinus, followed shortly by Barton Beers, decided to absorb the increase instead of passing it on to customers (while all other imported beers did) after being reassured by the Mexican producer that they would be subsidized.

Marketing, the Other Key Leading to Success

Ironically, the key to Modelo's success had been foreseen by the main casualty of that success story when Michael Foley, Heineken's president, said in 1993:

> There's no mystery about brewing beer. Everyone can do it . . . Beer is all marketing. People don't drink beer, they drink marketing.

Corona's ingenious marketing philosophy, which was born out of Modelo's international expansion strategy of giving autonomous control to experienced, local distributors, focused on "fun in the sun" and quickly saw Corona in an ever-increasing number of bars and restaurants in the United States. The marketing campaign's distinguishing feature was that it did not focus on the classical target market for beer drinkers, which were males between the ages of 25 and 45. Campaigns geared toward this target market had historically been testosterone driven, focused on attractive women and party scenes. Premium imported beers differed slightly as they focused on the beers' distinguished quality, usually as a result of superior brewing and rich heritage.

Corona did away with this status quo. It needed to develop an image of a beer that would attract everyone, yet position itself as a premium import, necessary due to the import taxes and resultant higher price paid for the beer. With the "fun in the sun" campaigns, it sold the idea of escape and the idea of leaving behind everyday life for one that is relaxing. Whereas taste and quality are subjective and different for each consumer, general guidelines and surveys consistently and accurately show quality brewing standards. Undeniably, images of escape, enjoyment and relaxation are even more free-form, allowing the customers to make what they will about the image of the brand.

From the beginning, Corona's advertising accented this image as it focused on minimalist and often humorous, scenes of escape. Common to all advertisements was that these scenes of escape come in the form of relaxing on the beach. The advertisements never had a lot of action (in fact, most had little to no human action), and if there were people enjoying their time at the beach, their faces were never shown. The Corona bottle was always in the center of the screen, with no soundtrack other then the sounds of the sea and surrounding nature.

The most recent advertising slogan ("Miles away from ordinary") associated with Corona continues to conjure ideas of removing oneself from daily activities. In one advertisement, the scene shows a person relaxing by the beach on a slightly rainy day. In order to protect his Corona, he places his cellular phone above the bottle's neck so as not to allow water to drip in. By focusing on this image of escape, and not following the trend of testosterone-driven campaigns, Corona found a following like no other beer before it. Coupled with the fact that it had an unobtrusive or bland taste (a fact that beer enthusiasts continue to laud), Corona was able to get the non-beer-drinking population to drink beer, specifically, females. Eager to please the new market for beer drinkers, bars and restaurants decided to sell the beer, increasing its consumer reach. And because of its availability, it became a dependable second choice for beer drinkers who were frustrated with not having their favorite beer sold at the current establishment.

A good advertisement is not enough without the budgets to broadcast it widely. In 1996, Modelo spent \$5.1 million in the United States, compared with \$600,000 in 1985. Yet the same year Heineken spent \$15.1 million and Anheuser-Busch spent \$192 million. It must be précised that in the case of imported beers, advertising costs are shared by the producer and its distributors, the repartition being negotiated according to the campaign. Considering the performances of Heineken and Corona in 1996, the impact of the message was able to overcome a relative financial weakness.

THE 21ST-CENTURY CHALLENGES

Grupo Modelo had rarely played the role of the established brewery, or having one of its brands define a category. Even from its entrance into the Mexican beer market in 1925, it was a startup company that sought to focus on Mexico City and the surrounding areas, competing against the already established breweries for market share. When Corona was introduced into the international market, more specifically the U.S. beer market, it paled in comparison to the then-established import leader, Heineken. However, this status as the beer industry's underdog soon shifted.

Since 1997, Corona has been the best-selling import beer in the United States. In 2004, Corona outsold the former number one by about 50 percent. And with a 56 percent market share of the domestic Mexican market, Grupo Modelo is the undisputed leader in one of the world's largest beer markets. And this success can be seen worldwide as well. Not only is Corono Extra the fourth best-selling beer in the world (by quantity) but Grupo Modelo is one of the top 10 biggest breweries in the world.

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Remain Mexican Leader . . .

According to surveys, the top seven best-tasting beers in Mexico are produced by a subsidiary of FEMSA, Mexico's second largest beer company in terms of market share (see Exhibit 5 for details). Until recently, FEMSA had been a distant second in the duopoly that is the Mexican beer industry.

In an industry so heavily dependent on distribution channels, FEMSA decided it wanted to control its beer from production to point of purchase. Not only did FEMSA produce all its beer domestically in Mexico, but it also owns Oxxo, Central America's largest chain of convenient stores (and one of the biggest in North America). Supplementing its beverage portfolio is the fact that FEMSA is the exclusive distributor of Coca-Cola products in Mexico and Central America.

The investment in a quality beer product, associated with the ownership of the complete distribution channel, has paid off with respect to the Mexican beer market. From 1997 to 2004, FEMSA continuously took more of the domestic beer market for Grupo Modelo. More significant is the fact

Exhibit 5 Taste Test Results for Mexican Beers

The following are the highest rated beers brewed in Mexico as they appear in the ranks at RateBeer.com. A minimum of 10 ratings is required to make the list. Beer scores are weighted means so that more ratings for a beer increase the score's tendency to the beer's actual mean.

	Name	Brewer	Ratings	Score
1	Casta Unica	Especialidades Cerveceras (FEMSA)	29	3.61
2	Casta Milenia	Especialidades Cerveceras (FEMSA)	73	3.59
3	Casta Urilca Castana	Especialidades Cerveceras (FEMSA)	17	3.48
4	Casta Morena	Especialidades Cerveceras (FEMSA)	142	3.45
5	Casta Dorade	Especialidades Cerveceras (FEMSA)	80	3.13
6	Casta Bruna	Especialidades Cerveceras (FEMSA)	105	3.12
7	Potro	Cerveceria Mexicana S.A. De C.V	18	3.09
8	Iodio	Femsa	18	2.86
9	Casta Triguera	Especialidades Cerveceras (FEMSA)	89	2.83
10	Noche Buena	Femsa	24	2.83
11	Negra Modelo	Grupo Modelo (Corona)	618	2.82
12	Dos Equis XX Amber	Femsa	616	2.55
13	Leon Negra	Grupo Modelo (Corona)	21	2.55
14	Victoria	Grupo Modelo (Corona)	23	2.42
15	Bohemia (Mexico)	Femsa	252	2.41
16	Dos Equis XX Special Lager	Femsa	405	2.24
17	Superior	Femsa	25	2.15
18	Pacifico Clara	Grupo Modelo (Corona)	350	2.13
19	Montejo	Grupo Modelo (Corona)	19	2.10
20	Modelo Especial	Grupo Modelo (Corona)	226	2.01
21	Carta Blanca	Femsa	154	2.01
22	Tecate	Femsa	369	1.86
23	Corona Extra	Grupo Modelo (Corona)	1245	1.72
24	Sol	Femsa	318	1.67
25	Chihuahua	Femsa	17	1.65
26	Tecate Light	Femsa	12	1.49
27	Corona Light	Grupo Modelo (Corona)	300	1.35

Source: www.ratebeer.com/Ratings/TopBeersByCountry.asp?CountryID=133.

that while domestic sales were decreasing for Modelo, FEMSA continued to experience steady growth which was in line with industry averages.

However, despite FEMSA's strength in the domestic market, it did not experience the same in the international arena. FEMSA beers are not nearly as popular as Modelo's in the United States. It launched a large marketing campaign in the mid-1990s, but failed to capture the imagination of the American customers and barely made an impact on the market. However, as economic conditions of the company improved, FEMSA decided to re-attempt to mass-market its beers north of the Mexican border. FEMSA recently entered into a marketing agreement with Heineken USA. With the expertise of one of the largest and most recognizable brands in the market leading the charge, FEMSA (and Heineken) hoped to dethrone Corona as the best-selling import in the United States. So far, exports for FEMSA's top three beers have greatly improved; in the 3rd quarter of 2005, the company realized an 18.7 percent growth in exports mainly driven by the U.S. market's demand.

Although Mexico's domestic beer market is one of the largest in the world, Carlos Fernandez knew that the future of Grupo Modelo was to go international. Mexico had the most trade agreements than any other country in the world, and the introduction of NAFTA in 1994 further reinforced the vision for Mexican companies that they had to have a global focus. However, with the opening of the international markets for Mexican companies comes the fact that the Mexican markets are also open to international companies. Specifically, with NAFTA and the beer market in Mexico, the newly introduced agreement opened the door for Canadian and American beer companies to operate in a previously highly protected market. Although their domestic market was now threatened by international companies, the years following 1994 showed that imported beer accounted for only 1 percent of beer sales in Mexico. Of that, half were sales from Anheuser-Busch products, which is distributed by Modelo. (Although the Fernandez family is still the primary stock holder of the company, Anheuser-Busch has a significant stake in the company, owning 50.6 percent of the available stock.)

The volatility of the Mexican economy was another reason to seek international markets for stability. With the devaluation of the Mexican peso in 1995, exporting became increasingly expensive, which led to a large decrease in sales. By having more operations internationally, Modelo would be able to rid itself of the dependency on the unstable peso for its profits. The proximity to the world's largest economy and the size of its beer market offered an opportunity for Modelo to create a beachhead for further international expansion.

Whereas Modelo sought to hedge its risk against the devaluating peso by pursuing international revenues, FEMSA went about doing the same by focusing on its core competency within Mexico. With the failed attempt to gain American market share in the 1990s, FEMSA realized it had a competitive advantage in Mexico through its distribution channel, namely OXXO, its chain of convenient stores. By owning the complete distribution channel for its different brands (therefore not having to exchange currency to transport or sell its products), coupled with the fact that its beers were made domestically, FEMSA's profits would not be significantly affected by a devaluated currency. Helping to stabilizing the company was the fact that it had the exclusive rights to Coca-Cola in Mexico. By distributing one of the most desired brands in the world, FEMSA held in its portfolio a brand that would not be susceptible to economic conditions.

. . . to Be a Global Player

Since the end of prohibition in the United States in 1935 and the introduction of imported beers shortly thereafter, the Dutch import Heineken was the undisputed best-selling import in the United States, which was consistent with its reputation for being among the top-selling beers in the world. Heineken did not see the introduction of Modelo's Corona in the United States in 1979 as threatening to its market share, nor did it see that Corona could eventually compete with it for pole position as the best-selling import. In fact, Heineken executives mocked the golden beer, saying it was nothing more than a novelty drink.

Like Modelo, Heineken decided that it would produce all its beer domestically in Holland and export to foreign markets. In contrast, Anheuser-Busch produced its beers in the foreign markets. Heineken did invest locally in its distribution channels as contracts were signed with local distributors for functions such as importing, distribution, and marketing. However, even here, Heineken headquarters remained in control as the companies that had the contracts were owned and operated by the Heineken parent company. This was the case in the United States, where Heineken USA (formerly known as Van Munching & Company) had the distribution contract for the Dutch beer but was owned and ultimately operated by executives from Holland.

Heineken's reputation throughout the years was built around marketing campaigns developed on positioning the beer as a premium import with superior taste. Because imports were subject to import taxes, distributors usually passed this tax on to their consumers to protect their profit margins, necessitating the need for the image of a premium product. To create this premium image, advertising for Heineken almost always focused on its superior quality, with little attention devoted to any other aspect of its brand.

However, this narrow-sighted vision of the beer eventually opened the door to other competitors, such as Corona, to create innovative campaigns that created more intangible myths surrounding their beers. By 1996, Corona had reached an import volume that was almost equal to Heineken's. Its "fun in the sun" advertising campaign paid no attention to taste.

Even Heineken's executives realized this issue. In reference to their declining sales in the 1990s, the new head of Heineken USA decided the company needed a new approach to marketing. Foley said:

> There aren't many brands with myths in any segment of business. I think Heineken has a myth . . . that's almost intangible.

He continued to say that all that was needed was for Heineken to market that myth differently than they had in the past in order to turn the tide of decreasing sales. Over the next few years, Heineken repositioned its image through its marketing. After a few failed attempts at harnessing what they thought were their strengths in their brand image, i.e., focusing on the red star as the focal point of the brand, market share continued to decline, and in 1997 Corona surpassed Heineken as America's top imported beer. This trend continued with Corona's import volume through 2003 growing at a double-digit pace, and in 2004 it outsold Heineken by 50 percent. However, Heineken was determined to become number one again with respect to the U.S. market and had approved a new marketing budget that would see an aggressive campaign in the United States. Results came soon, and in 2006 the CEO could assert:

> In particular, our growth has been driven by the USA, where the introduction of Heineken Premium Light has made a major contribution to overall performance.

FUTURE CHALLENGES

In 2007, Corona was Mexico's best-selling beer, the top-selling imported beer in the United States, and the world's fourth best-selling beer. It propelled Modelo into the elite class of being among the top 10 beer producers in the world. Grupo Modelo's CEO could proudly claim in the annual report (see Exhibit 6 for financials of Grupo Modelo):

> Grupo Modelo is a growth company. Net sales have risen 7.8 percent on a compounded basis over the last 10 years, demonstrating solid performance in the domestic market and the growing export market year after year . . . The total volume of beer sold in 2005 was 45.5 million hectoliters, an increase of 6.4 percent compared with the previous year. This reflected growth of 4.0 percent in the domestic market and 12.3 percent in the export market. Export sales comprised 30.2 percent of total volume for the year, compared to 28.6 percent in 2004.

This feat was accomplished by Modelo as it sought to expand internationally through smart strategic partnerships with experienced distributors that knew the local market, and wisely differentiated Corona from other imported beers through its marketing. But faced with increasing competition domestically and internationally as other top international brands gained momentum by spending more on media budgets, Corona's sales were decreasing domestically and in the United States. Corona's position as the world's most recognizable Mexican beer was becoming threatened.

Yet organic growth seemed to have limits, and global players aimed at more spectacular moves, as the *Financial Times* revealed on April 2:

> There was one question on everyone's mind when Carlos Brito, InBev's chief executive, presented the brewer's annual earnings last month—was the group in preliminary merger talks with U.S. rival

Exhibit 6 Grupo Modelo's Financial Highlights, 2004–2005

Grupo Modelo, S.A. de C.V. and Subsidiaries Figures in millions of constant Mexican pesos as of December 31, 2005 except sales of beer, per share data and employees.

	Year ended December		
	2005	2004	Change
Sales of Beer (millions of hectaliters)			
Domestic market	31.80	30.59	4.0%
Export market	13.74	12.23	12.3%
Total market	45.54	62.82	6.4%
Net sales	49,551	46,307	7.0%
Gross profit	26,776	26,082	2.7%
Operating income	13,773	13,588	1.4%
Net majority income	7,291	6,389	14.1%
Total assets	80,281	75,914	5.8%
Total liabilities	12,169	13,075	–6.9%
Majority stockholders' equity	52,365	48,283	8.5%
Funds provided by operating activities	10,292	10,486	–1.9%
EBITDA	15,817	15,418	2.6%
Capital expenditures	4,027	4,444	–9.4%
Return on equity	13.9%	13.2%	
Outstanding shares at year end (millions)	3,252	3,252	0.0%
Earnings per share	2.24	1.96	14.1%
Dividend per common share	1.07	0.91	17.8%
Closing stock price	38.50	30.66	25.6%
Number of employees and workers	40,617	44,591	–8.9%

Anheuser-Busch? Such an alliance would form a brewing colossus with more than one-fifth of the world beer market by volume and could transform the sector.

Rumors of mergers and acquisitions deals in the beer industry are a dime a dozen at present amid speculation that mid-tier brewers such as Anheuser, Scottish & Newcastle, Carlsberg, Heineken, and Molson Coors will all be forced to consolidate to compete with industry behemoths InBev and SAB Miller, which have been expanding globally.

Hence, many expectations and challenges were in store for Grupo Modelo, which had to face its new status on the market in order to make its success story a sustainable one.

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