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Brewing up business in Ukraine Jørn Pedersen
BY JØRN PEDERSE N

T e brewing industry in
emerging markets is fasci-
nating to be a part of. Not
only because beer in general
is an interesting and socia-
ble product that everybody
has an opinion about, but
because the beer industry
refects the development of
other business sectors and
the market economy.

Naturally, this also goes for the
brewing industry in Ukraine.
Here, the beer market has
shown double digit growth
rates in recent years and even
when taking into account
an expected slowdown, the
Ukrainian beer industry will
grow by approximately another
10% per year for the next three
years. Such growth rates will
leave many Western European
brewery management teams
envious.

A developing
market
Ti s growth does not actu-
ally come as a surprise - there
are many good reasons for it.
Some of them are the general
economic growth, the develop-
ment and increase of trade, and
the fact that the quality of beer
is now the same as in Western
Europe.

We know very well
what will happen next.
We also know that it

will happen at a higher
pace than previously
seen in other countries

Despite the growth, consump-
tion of beer in Ukraine is still
relatively low. T e current av-
erage beer consumption is ap-
proximately 60 litres per capita.
In comparison beer consump-
tion in Russia is 80 litres and in
Germany more than 100 litres,
so there is still a long way to go
before the Ukrainian beer mar-
ket will mature.

On its way to maturity, the
brewing industry in Ukraine
has now passed the product-
focused phase, in which qual-
ity was an issue, and moved on
to a new and more interesting
phase. As this is fully in line
with what has already hap-
pened in other emerging mar-
kets, we know very well what
will happen next. We also know
that it will happen at a higher
pace than previously seen in
other countries, as experience
will be brought in from already
developed markets.

Four dominant
players
At the moment, the Ukrainian
beer market is dominated by
two international and two lo-
cal players. In total, these four
companies control more than
90% of the market. Under nor-
mal circumstances, this would
be categorised as a fairly con-
solidated market, but in fact
there is every reason to believe
that further consolidation will
take place.

First of all, the market is still
quite price-sensitive, and to be
able to compete, it is necessary
to produce large quantities in
order to achieve economies
of scale. Secondly, the market
consists of a huge number of
beer brands, and in a growing
market, this will call for con-
solidation - there are simply
too many small beer brands
that cannot survive in the long
run. However, once the mar-
ket has matured, we will see a
larger quantity of beer brands
returning to it.

Tis brings us to the main issue
in the future development of
the brewing industry.

The future
beer game
What will happen is that the
beer business will move from
being very production and
product-oriented to being
brands and brands portfolio-
oriented. Furthermore, trade
will consolidate and expand at
the same time. Consolidation
will also take place among the
distributors in the business.

T e winners in the beer game
will be those who succeed in
these three areas of expertise:

- Brand-building and brand
portfolio development
- Developing people
competencies and efective
organizations
- Establishing consistent and
meaningful internal and exter-
nal communication

The brand
Building a brand or a brands
portfolio is a complicated
process. Especially in a market
like the Ukrainian, in which
all focus has so far been on the
physical product and on distri-
bution.

Every single employee
has to know where

the company is going,
and what is required to
change its direction

As the market develops, focus
is shifing from the production
department to the short, but
very important, moment when
the consumer makes his choice
of brand. T e required inter-
nal and external eforts of this
switch are enormous and very
resource-demanding: Brand
building is consumer focus
to the extreme. Its basis is the
consumers’ emotional benefts
from choosing your brand.

that until recently focused
merely on salary and contract
administration.

Communicating
And as if this was not enough,
the Ukrainian beer brands
business has to change the way
it communicates, both inter-
nally and externally.

Previously, communication
was rather limited and the
quality low. Now all internal

because it involves the risk that
journalists ask difcult ques-
tions. Now, on the contrary,
interviews with staf members
several times during a month
are regarded natural for a high-
quality brand company. Tis is
a process and a way of working
that requires a lot of change in
the mindset of people in the
organization.

3500000- The ukrainian beer market 2006 & 2007

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Jan. Mar. May. Jul. Sep. Nov. Year

60 pct.

50 pct.

40 pct.

30 pct.

20 pct.

10 pct.

0 pct.

Competencies
and organization
T e above-mentioned shif of
focus requires new skills that
are usually not present in the
organization, and developing
internal competencies there-
fore becomes crucial. To attract
the right people, to build on
these and retain the core peo-
ple is a huge challenge for the
Human Resources department

communication has to be fo-
cused towards both the em-
ployees and the brands. Every
single employee has to know
where the company is going,
and what is required to change
its direction.

Externally much more open
communication is needed.
Until recently, communica-
tion was avoided completely,

Accelerated
development
In spite of these challenges,
the expected development will
take place in Ukraine, and it
will happen at an accelerated
speed compared to neighbour-
ing emerging markets. T e
change process will be painful
for some, but is needed in or-
der to survive in the long run.

In 1985, danish na-
tional Jørn Peder-
sen graduated with
a masters in Busi-
ness Administration
and Strategic Plan-
ning. He spent 17
years in the interna-
tional Fast Moving
Consumer Goods
(FMCG) business.
After several short
and long term posi-
tions in such diverse
countries as Malawi,
Croatia and Turkey,
working for Carls-
berg A/S, he has
recently held the
position as General
Director at Sarmat
Group - currently
4th in the Ukrainian
beer market.

T e beer industry
refects the

development of other
business sectors and

the market economy

Enjoy your refreshing beer –
and the next time you enjoy
one, think about it: is your
choice of beer made on the
basis of the product or on the
basis of the brand?
Cheers!

SAS re-opens Kyiv - Copenhagen route

As of March 30, 2008, SAS
customers are ofered a di-
rect fight from Copenhagen
to the Ukrainian capital,
Kyiv.

In the initial stage of SAS pres-
ence in Kyiv, the fight will op-
erate three times a week: every
Wednesday, Friday and Sunday.
T e departure and arrival times

at SAS hub in Copenhagen are
tailored to conveniently con-
nect with a variety of Nordic,
European and overseas desti-
nations. T e ambition is to in-
crease the operations to daily,
as soon as feasible.
“As a part of our strive to de-
liver Northern Europe’s most
comprehensive and attrac-
tive trafc system, this direct

route will further strengthen
the business links and foster
tourism and cultural exchange
between the Nordic countries
and Ukraine. We have put a
very attractive customer ofer-
ing in place covering all market
segments and the frst signs are
very encouraging” says Marek
Pedersen, SAS District Man-
ager for Latvia & CIS.

Flight schedule

Copenhagen - Kyiv
Wednesdays, Fridays and
Sundays (9:15 - 12:35)

Connecting flights
from Kyiv to:
Lviv (13:35),
Odessa (15:40),
Donets’k (13:25)
Dnipropetrovs’k
(13:00/14:00)

Kyiv - Copenhagen
Wednesdays, Fridays and
Sundays (13:25 - 14:45)

Connecting flights
from Cph. to:
Lviv (09:00),
Odessa (09:15/09:40),
Donets’k (10:35)
Dnipropetrovs’k (9:35)

Flight Schedule as of April 2008
and subject to change