Budweiser's Digital Transformation in the Context of the Epidemic

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Abstract. The COVID-19 epidemic has plagued the world in recent years, causing drastic changes in people's lifestyles. Beer is the third beverage in global sales after water and tea. Simultaneously, the digital economy is fast evolving. Many organizations are undertaking digital transformation. This essay focuses on how Budweiser is transforming digitally to achieve profitable growth in the post-epidemic era. Through the competitor analysis, environmental analysis, and SWOT analysis, this piece examines the company's competitiveness and development potential. This report offers Budweiser viable solutions to aid with its digital transition. COVID-19 has had a significant impact on numerous industries; therefore, businesses should have a better grasp of themselves and the industry in which they operate. "Know the enemy and know yourself," as the Chinese proverb goes, "and you can fight a hundred battles with no danger of defeat." Companies can only go to the next stage if they completely understand themselves, their competitors, and the macro-environment.

Keywords: COVID-19; digital economics; digital transformation.

1. Introduction

Beer is the third beverage in global sales after water and tea. As the world's largest beer producer, China's beer output reached 37.653 million kiloliters in 2019, accounting for about 24.5 percent of the global beer output. Due to COVID-19, China's beer production in the first three quarters of 2020 reached 28.135 million kiloliters, which decreased 25.28 % a year.

Early in the 1980s, China's beer business demonstrated its global dominance, underpinned by the sheer number of the Chinese population. Beer is more adapted to Chinese taste and takes a significant role in social relationships. In terms of both global production and domestic consumption, China is the world's largest market for beer.

Budweiser Asia Pacific Holdings Limited is a subsidiary of AB InBev Group, brewing and distributing beer in the Asia Pacific region. As a leader in the domestic high-end beer market in China, the company has a leading advantage in product mix and channel promotion.

As one of the most popular beer brands in the world, Budweiser has been sold all over the world. Due to its superior quality and early entry in Chinese market since 1995, Budweiser has grown to dominate the ultra-high-end beer market [1-3].

Tsingtao Brewery, China Resources Brewery, Yanjing Beer, and Anheuser-Busch InBev account for more than half of the industry contributions as the leading market shareholders in the nation (Fig 1).

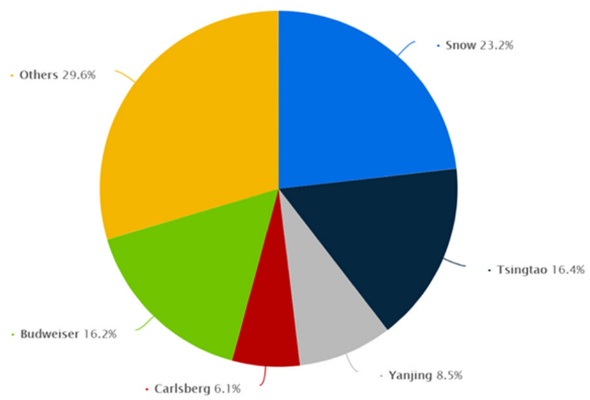

Fig 1. Market share in China

This article's research issue is how should Budweiser digitally alter itself in the context of the epidemic. According to this research, Budweiser could boost digital supply chain management, increase distribution rates in non-ready-to-drink channels, and relocate its commercial centers online.

The remainder of the paper is organized as followings: Section 2 analyzes the five major competitors of Budweiser in China; Section 3 introduces the concept of digital economics and analyzes the shift of people's shopping mode from offline to online; Section 4 conducts a SWOT analysis of Budweiser; Section 5 gives three possible strategies. The last section presents conclusions.

2. Competitors analysis

2.1 Carlsberg breweries:

As a brand with a long history originating in Denmark, Carlsberg has always inherited J.C. Jacobson's spirit of exploration and pursuit of perfection. The current president and CEO of Carlsberg, Mr. Wei Yaoguo, has injected FMCG culture into this century-old industry. Since then, Carlsberg has continued the tradition of producing high-quality beer products and introduced new products to cater to the needs of consumers, and focused on cultivating their tastes and needs. In order to better realize this new concept, Carlsberg has implemented the brand extension and western expansion strategy in China.

2.2 Beijing Yanjing brewery:

Yanjing has grown rapidly and healthily for 31 years, which is now one of China's major breweries. Among them, the goodwill value of subsidiary brands Liquan Brewery was 4.586 billion yuan, Huiquan Brewery was 2.726 billion yuan, and Xuelu Brewery was 1.506 billion yuan. The company has 33,500 employees, covers 3.89 million square meters, and has 42 holding subsidiaries (plants), including 30 beer production enterprises and eight related and affiliated product enterprises.

2.3 Tsingtao Brewery:

Tsingtao Beer is produced by Tsingtao Brewery Co., Ltd., formerly known as the state-run Tsingtao Brewery, which was founded in 1903 by British and German businessmen and was one of the earliest beer producers.

2.4 China Resource Beer (Snow):

China Resources Snow Brewery (China) Co., Ltd., was established in 1994, which is a national professional beer firm that manufactures and distributes beer. CRC Snow Brewery has 98 breweries in China, which include Snow Brewery brands as well as more than 30 other regional brands. China Resources Snow beer's total sales volume in 2016 was 11.715 million kiloliters, accounting for around 26% of China's beer market share. With an annual sales volume of 11.72 million tons, China Resources Snow has been ranking first in the Chinese beer business for eight straight years. Snow beer brand sales volume of 10.62 million tons ranked top in China beer brand sales for nine consecutive years.

3. Environmental analysis-Digital economies

3.1 The Importance of Digital Transformation

Digital transformation is a very significant concept in today's business world. Digital transformation can help to capture new market opportunities for companies, innovate new business models, and help companies get a leading start in the market. For users, it saves their purchasing time. For the country, it is beneficial to the transformation and upgrading of China's economy [4].

3.2 The basic concept of digital economies

A digital economy is one that is based on digital computing technologies. It has also been aided by the widespread adoption of information and communication technologies (ICT) across all economic sectors (OECD,2014). The globe is flooded with data in today's society. Smartphones, Wi-Fi, robotics, artificial intelligence (AI), and a slew of other technological marvels have swept the globe in the last quarter-century, altering all societies (PWC, 2019).

According to the OECD, we can find some facts about ICT in the digital economy worldwide. Figures 2 and Figure 3 show that countries pay massive attention to ICT to improve their digital economies. Figure 3 reveals that China is the biggest exporter of ICT, which means China has fundamental support and essential condition to develop its digital economy [5-6].

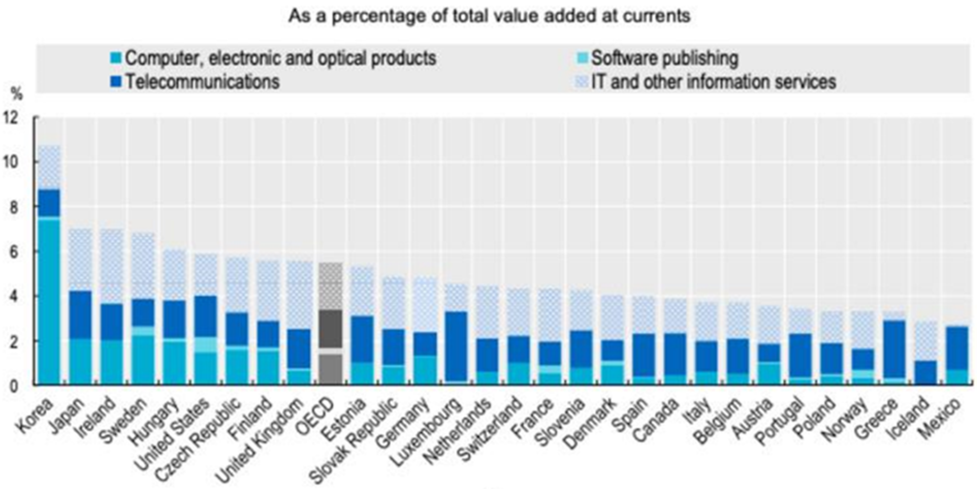

Fig 2. Value added of ICT sector and sub-sectors, 2013

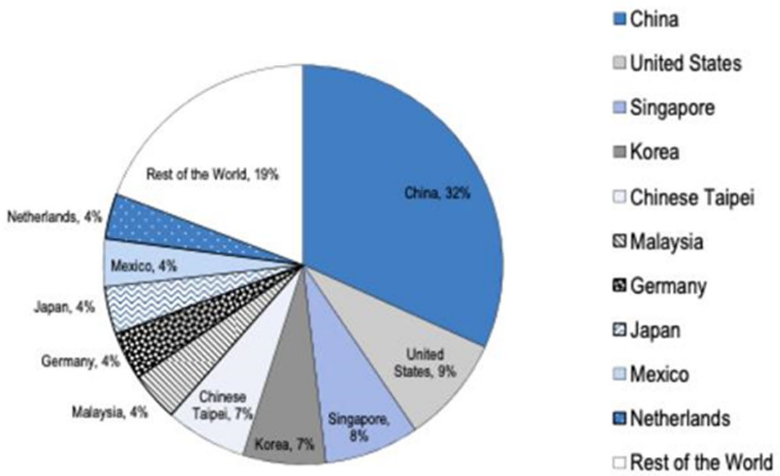

Fig 3. Top ten exporters of ICT goods, 2013

3.3 Means of purchase changing from offline to online

With the development of digital economies, the means of purchase are changing from offline to online. This phenomenon is becoming more evident in Chinese economic society. In China, the e-commerce industry developed rapidly and brought people into a new era: online shopping substitutes offline shopping since it is more convenient with lower prices and adequate categories. According to surveys, only six businesses control 58% of worldwide e-commerce. Furthermore, four Chinese enterprises account for nearly half of worldwide digital revenues.

According to a new Activate Consulting estimate, worldwide e-commerce reached $3.4 trillion last year. Thousands of brands and retailers account for only 37% of the pie, while six titans, mainly Chinese corporations, account for more than half. One significant aspect is that retail in China is much more digital than in Europe or North America. In that case, the Chinese consumer market for online shopping increases, and offline shopping decreases with a lower market share by consumers.

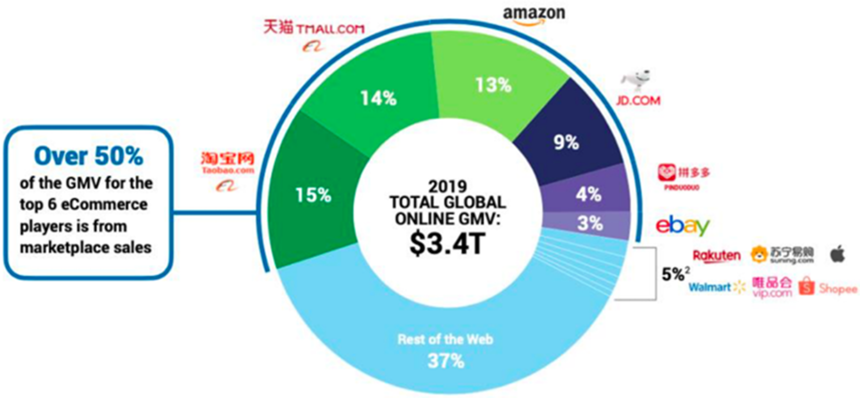

Fig 4. Means of purchase

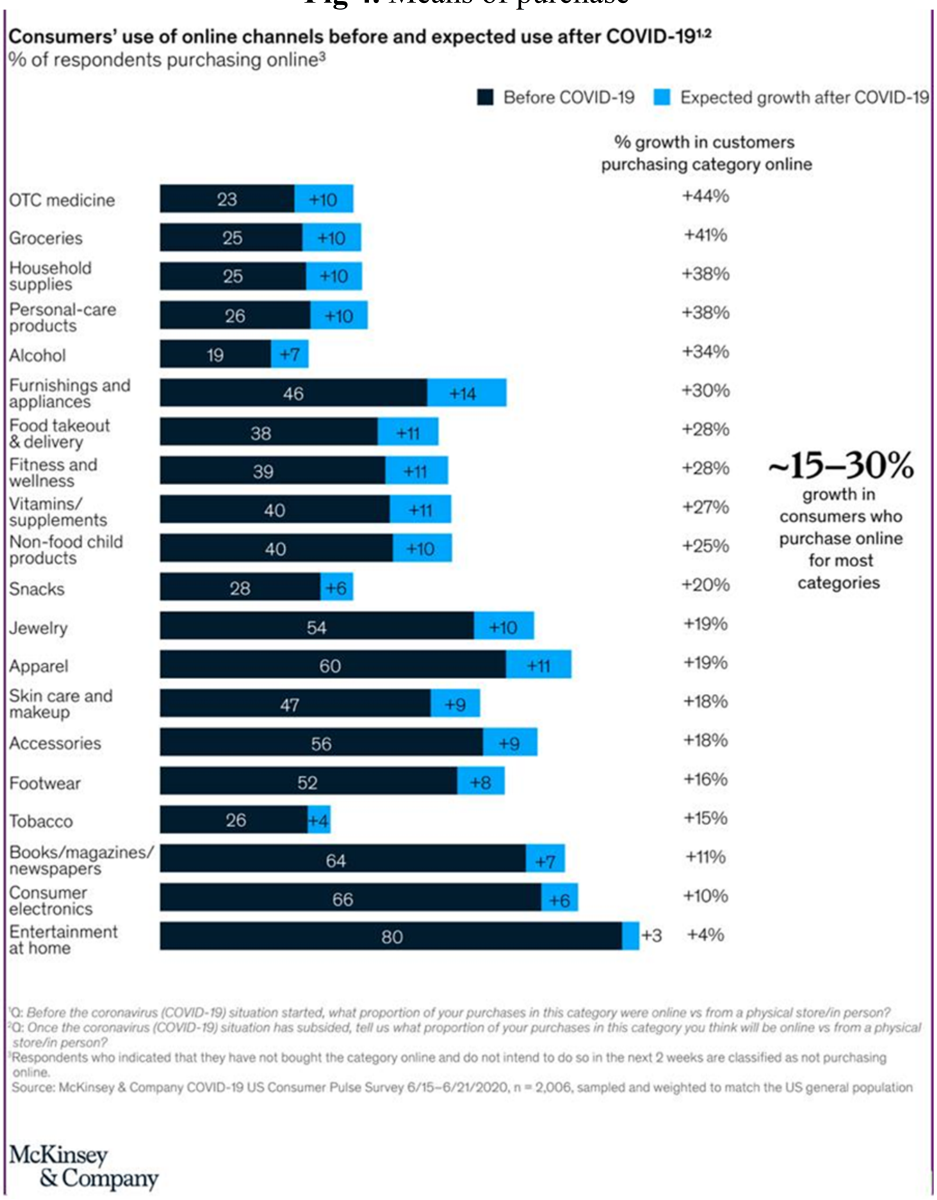

Fig 5. More people expect to make a portion of their purchases online post-COVID-19 than before.

3.4 COVID-19 increases the transforming speed

In the current world, the most significant issue must be the COVID-19 epidemic. Since 2019, this kind of virus has started to infect people around the world. Every country has suffered from it even until now. What's more, COVID-19 not only affected our health but also affected our economy. People can hardly get out of their homes because of the quarantine, and most public places were shut down due to safety considerations. Under this circumstance, the transition of shopping approaches increased. According to McKinsey, physical separation and stay-at-home ordering have caused entire client segments to alter their purchasing patterns. Just a few months after COVID-19, consumer buying online has increased considerably across various categories. Consumers are more eager to purchase online, particularly for basics and home entertainment. And these habits will likely continue. This kind of transition is a big challenge for marketing leaders of brands, but it first should be seen as an opportunity for traditional offline markets [7-8].

According to COVID-19, alcohol consumption changed nearly entirely to at-home consumption at the start of the year. While restaurants and bars have rebounded significantly, at-home situations will continue to be more popular than before the crisis. The shifting of alcohol consumption occasion reveals that the meaning of beer may be different under a new circumstance [9-10].

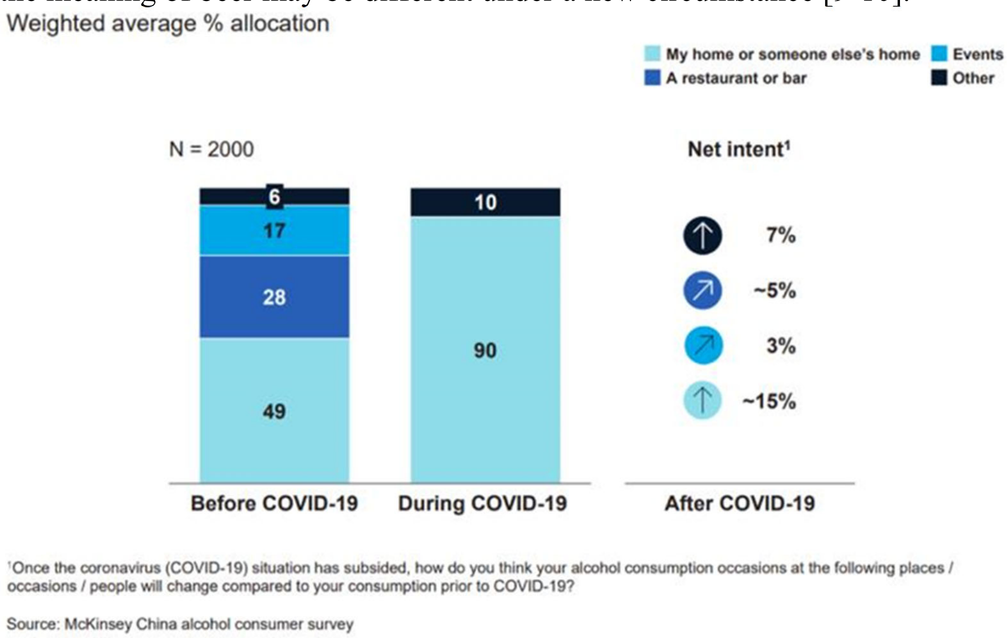

Fig 6. Alcohol consumption occasion shifts during and after COVID-19

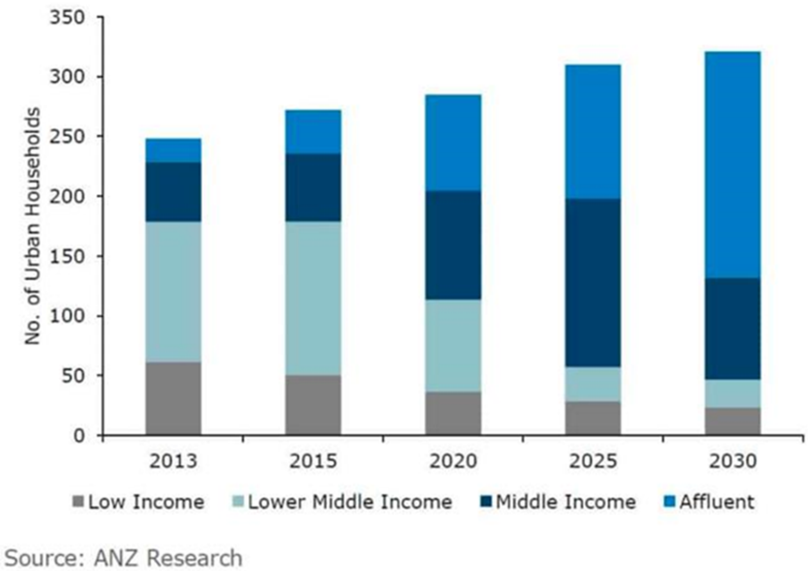

Fig 7. Projection of China's urban households by income groups

With China's rapid economic development and rising living standards, substantial changes are occurring in consuming concepts and habits, and young consumers are continuously seeking new experiences. Craft beer's rise has given Chinese consumers more options. Craft beer is the beer industry's "new high-end," and consumers are ready to spend extra for small-batch, handcrafted beer over mass-produced beer. The digitalization of channels has also become the key to achieving a successful peak season during the epidemic. Channel digitalization will move faster and faster, and it will become more and more critical to companies. If you want to achieve peak season sales in the epidemic period, we should pay more attention to e-commerce. During the outbreak, the proportion of consumers using integrated e-commerce climbed by 54.6%, while the proportion using alternative online methods increased by 47.9%. In February 2020, the sales volume of beer on the Tmall platform increased by 48.2%, sales volume increased by 42.5%, and the average online price increased by 4%, among which Budweiser and Tsingtao beer increased by a large margin [11-13].

4. SWOT

This research will apply the SWOT analysis to clarify both internal and external factors of Budweiser's current situation in order to help with strategic planning.

4.1 Strength

High market share in China market, especially dominating in the high-end beer market.

Product diversification: Budweiser has a mature brand matrix, all with long histories of precipitation and unique brewing technology, which can meet the different needs of consumers. After years of acquisitions, Budweiser's sub-brands can cover high-end, core categories, and low-end markets [14].

Strong digital foundation: Budweiser actively adapts to digitization and has successfully launched a number of digital marketing activities.

Good reputation and social responsibility: Budweiser conducted a series of donation activities during COVID-19, building up an excellent organizational image.

4.2 Weakness

The digitization in the supply chain is to be strengthened, and lack of direct consumer data. At present, Budweiser mainly adopts a retail integration model that combines intermediate retail stores and franchises. Therefore, Budweiser lacks end-to-end consumer data and requires increasing target marketing accuracy.

4.3 Opportunity

Further digitization trend after COVID-19: E-commerce, represented by digital takeaway and instant fresh food delivery platforms, has enormous growth potential, especially in tier 3&4 cities. This trend will become a new driving force in the future.

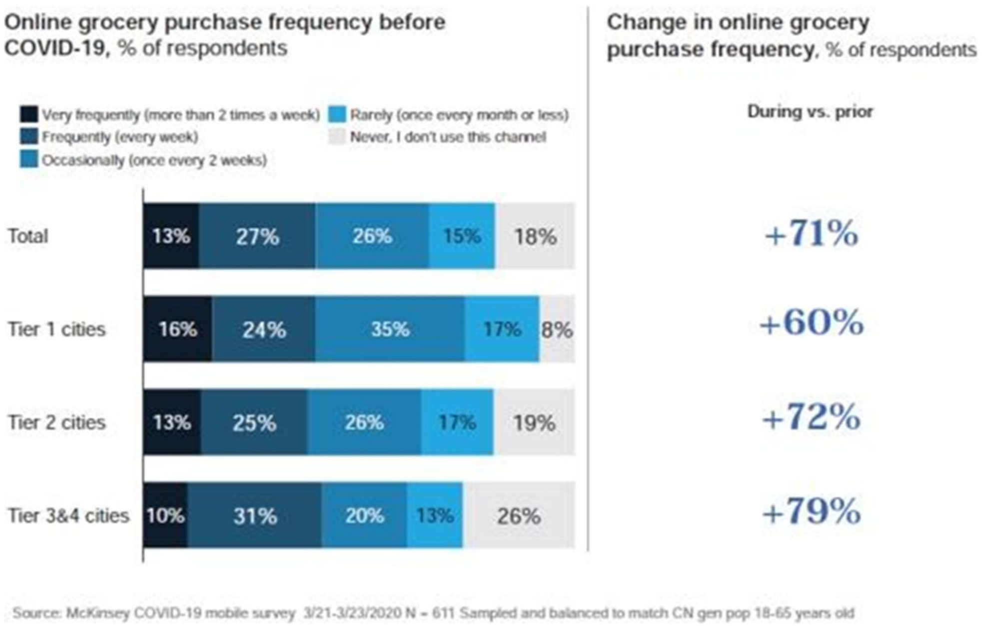

Fig 8. Increase in online grocery purchase frequency by McKinsey & Company (2020)

Changes in the drinking scene: Except for social males, relax alone, and party, the beer-drinking scene will also include leisure and family occasions involving multiple age groups and genders. The target consumer will increasingly include young people and females [15].

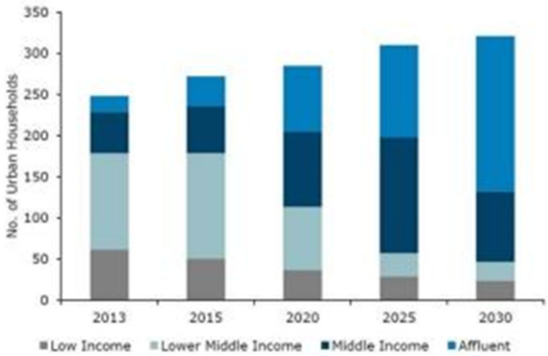

Fig 9. Projection of China's urban households by income groups

The premiumization potential of the China beer market: As the purchasing power per habitant continues to grow, Chinese consumer suggests high-quality products, expecting premium service and values. In the beer market, high-end product potential is growing, which is the benefit of Budweiser [16].

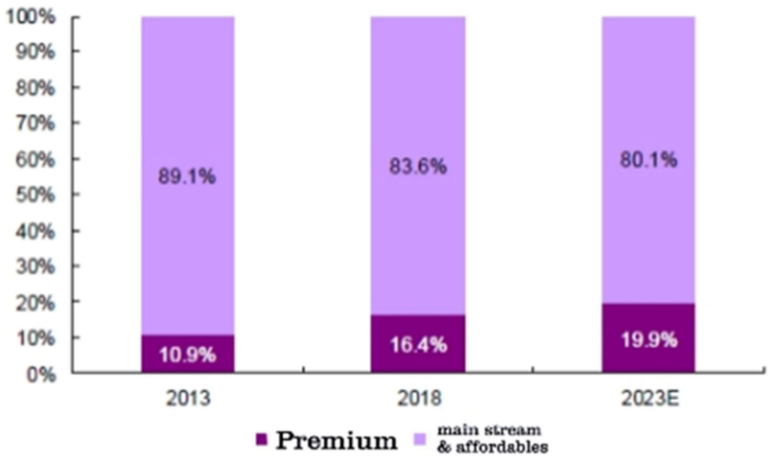

Fig 10. The proportion of premiumization beer consumption in China market

4.4 Threat

Intense competition from local brands and other beverages: Budweiser doesn't dominate in China market in total currently. Meanwhile, as the market maturity grows, the competition from different kinds of drinks also increases.

Fig 11. Progressive beer competitors for occasions by AB InBev (2018)

5. Strategy:

5.1 Strategy 1：Increase Budweiser’s distribution rate in non-ready-to-drink channels and expand the brand portfolio

Based on per capital disposable income and per capital consumption of drinks, Budweiser's global markets are divided into three maturity levels. China is classified as Middle Maturity and has been on a steady path toward High Maturity. As market maturity increases, consumers' alcohol Use options will increasingly shift away from ready-to-drink beverages (single-use beverages packed for instant consumption after purchase) and toward non-ready-to-drink beverages (beverages not ready for immediate consumption and need additional mixing), and alcohol consumption occasions will include more leisure and family occasions that involve multiple age groups and genders. Therefore, apart from drinking beer in bars, consumers tend to purchase more alcoholic beverages from convenience stores, restaurants, supermarkets, and e-commerce platforms. In response to the change in market demand, Budweiser should focus more on selling beer through non-ready-to-drink channels. There are several ways to increase Budweiser's distribution rate in these channels.

(1). Provide franchisers with more purchase discounts so that offline retail terminals are more willing to sell Budweiser beer due to higher profit margins.

(2). Set up Budweiser beer sales area in high-traffic convenience stores, restaurants, and supermarkets.

(3). Increase the variety of Budweiser beer sold on e-commerce platforms.

To cater to the high-end trend of beer consumption in the Chinese market, Budweiser should strive to provide more high-end product choices by expanding its brand portfolio. Budweiser has already been the market leader in the mid-to-high-end Chinese beer market, accounting for more than 46.4% of the entire market share. In order to further explore the consumption potential of the high-end market, Budweiser should maintain its competitive edge in the domestic mid-to-high-end beer market while accelerating the transition to high-value-added products such as canned wine and craft beer (see Figure 12).

Fig 12. high-value-added products of Budweiser

5.2 Strategy 2: Establish a digital supply chain and cooperate with third-party meal-delivery platforms

Budweiser's sales channel consists of 2 parts, of which the offline sales channel accounts for more than 90% (see Figure 13). For online sales channels, Budweiser can directly see how much exposure its ads can bring, what kind of consumers are more likely to buy its products, or which products have higher sales volumes. By analyzing these data, Budweiser is able to attract more customers through accurate advertising and product-mix selection. However, the offline sales channel, which occupies an absolute high percentage, has not been digitized. In this part, Budweiser has no way of knowing which consumers it sells its beer to or which offline retail terminals it sells its beer through. Nevertheless, establishing a digital supply chain and cooperation with third-party meal-delivery platforms can perfectly solve the above problem.

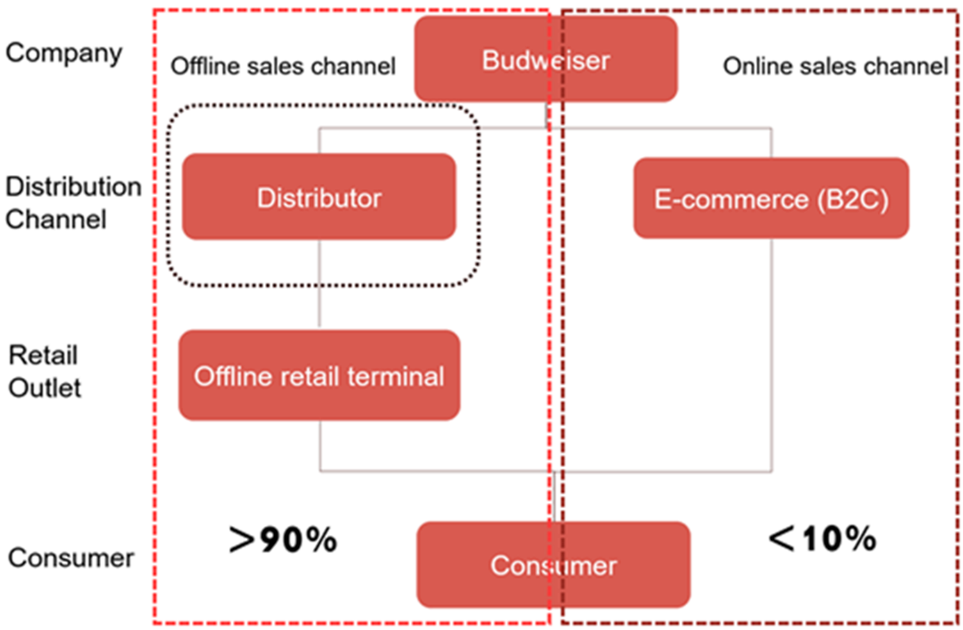

Fig 13. Budweiser's sales channel

The use of electronic technologies in all aspects of the end-to-end supply chain results in the Digital Supply Chain. Leveraging cloud computing services, Budweiser can build up a digital business sharing center where its upstream and downstream supply chain partners can update their sales data and consumer data in real time. Having these resources, Budweiser can better predict consumers' preferences, find potential customers, and improve operational efficiency. Budweiser can also seamlessly integrate with its vertical supply chain partners with this information-sharing center and help them with inventory management, planning, forecasting, and replenishment.

Budweiser may benefit from low-cost customer traffic and mature last-mile delivery operations from meal-delivery platform partners, in addition to creating a digital supply chain. Because meal-delivery platforms cover nearly all of Budweiser's offline retail terminals, Budweiser can directly obtain the beer sales performance and customer characteristics of its offline sales channels from them. Moreover, COVID-19 has dramatically increased usage of delivery apps (see Figure 13), driving higher online sales of food and beverage. By cooperating with third-party meal-delivery platforms, Budweiser can further increase beer sales and unlock more online opportunities.

5.3 Strategy 3: Transform the company's business focus from offline to online, put digital at the center of the operating model

China has long been a worldwide digital economy leader, accounting for around 45 percent of global retail e-commerce transaction value in 2018. Prior to COVID-19, consumers were turning away from traditional retail and toward digital channels. Now, COVID-19 has further accelerated consumers' use of digital services. According to Mckinsey's COVID-19 mobile poll, 74% of Chinese citizens raised their online grocery visit frequency during the pandemic, and 15% plan to increase visits after the outbreak's peak. These imply that Budweiser's business focus should transform from offline to online. To achieve this, Budweiser should deepen its partnerships with e-commerce giants, allowing it to develop its online and omni-channel offerings. Budweiser should implement a variety of digital technologies in these areas to stay connected with customers, as social media has become a vital part of consumers' life and social commerce is rapidly developing, with a number of important platforms appearing quickly (see Figure 14 and Figure 15). For example, Budweiser can launch short videos with creative content on platforms like TikTok and use digital channels to introduce consumers to the features of its existing and newly released products.

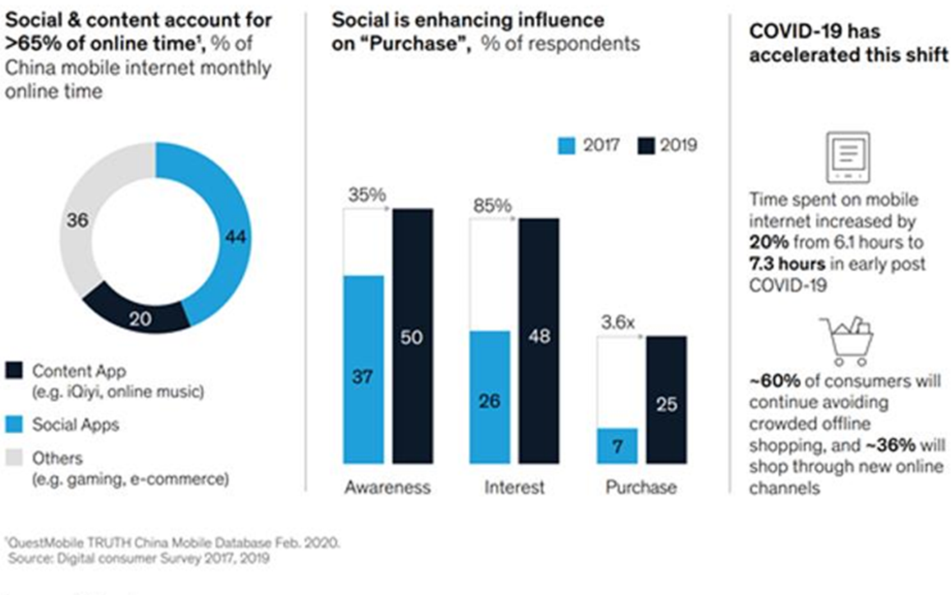

Fig 14. Social media is a core part of consumers' lives

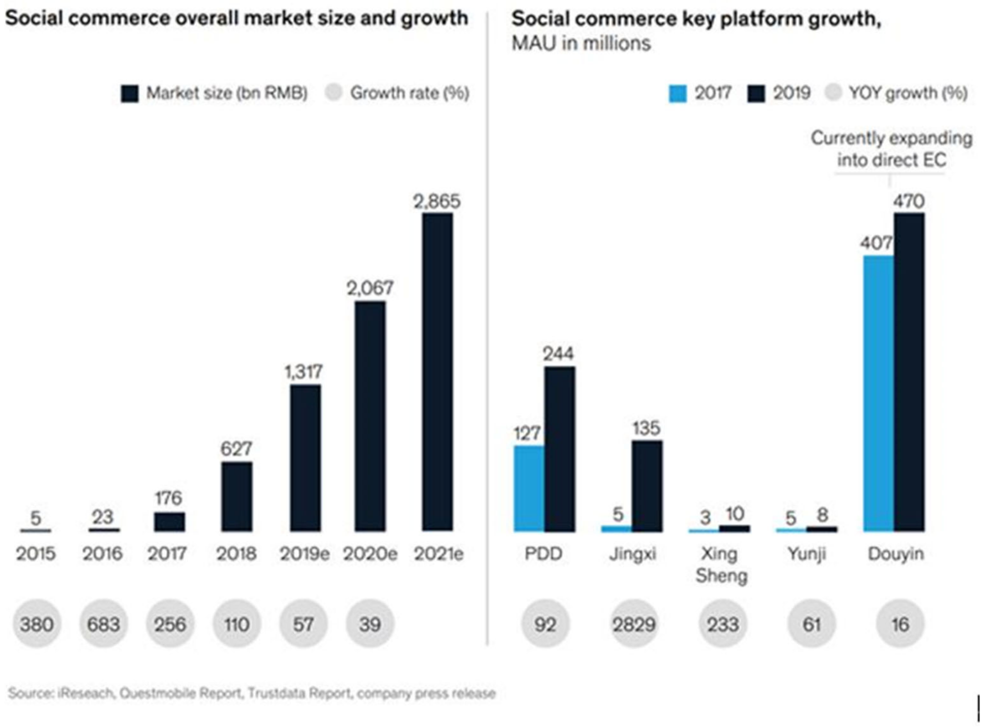

Fig 15. Social commerce is growing rapidly with a number of notable platforms emerging quickly

6. Conclusion

The world has changed dramatically since 2019 and the epidemic has started to become one of the world themes. Budweiser should follow the world trend, adapt to the epidemic economy, and undergo digital transformation in order to achieve a revenue growth.

This article reveals that Budweiser's strengths are its established brand matrix, its long history, and its unique brewing technology. However, Budweiser's supply chain digitization needs to be strengthened, and direct consumer data is lacking. Covid-19 has brought both tests and opportunities to the business world, and the epidemic has contributed to further digitization of business, a trend that Budweiser should capitalize on. Budweiser should also be mindful of the shift in the modern drinking scene and pay attention to the mixed drink scene that people prefer today so that Budweiser can expand its market share in China.

The shortcoming of this article is that the examination of Budweiser's top five competitors is insufficiently detailed and does not provide Budweiser with more precise tactics. Future research work is aimed at Budweiser's advertising and packaging methods, as well as how the company hires digital talent and strengthens its digital connections with customers.

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