2016

Can the Czech Beer Industry Learn Anything from its Belgian Brothers?

Alec Entress
Lehigh University

Follow this and additional works at: http://preserve.lehigh.edu/perspectives-v34
Part of the Business Commons, and the Economics Commons

Recommended Citation
http://preserve.lehigh.edu/perspectives-v34/11

This Article is brought to you for free and open access by the Perspectives on Business and Economics at Lehigh Preserve. It has been accepted for inclusion in Volume 34 - Post-Communist Reform in the Czech Republic: Progress and Problems (2016) by an authorized administrator of Lehigh Preserve. For more information, please contact preserve@lehigh.edu.
Introduction

The Czech Republic boasts one of the highest beer consumption rates globally and is famous for pioneering the world’s most popular style, the pilsner lager. The Czechs even joke that one of their national heroes, Good King Wenceslas, got his title by convincing the Pope to end the decades-long ban on brewing (“Prague Experience”). It is surprising, therefore, that despite this rich history, Czech beer makes only a small appearance in the global beer market. In this article, I explain the technical, economic, and cultural reasons for this phenomenon and compare the Czech and Belgian beer industries to identify future projections for how Czech brewers may increase their presence in international markets.

I discuss the relevant beer history of both the Czech Republic and Belgium and lay out a set of criteria to determine what makes a beer “belong” to a certain country. I also discuss the following three reasons for the disparity in export volumes between the two countries: (1) domestic consumption, (2) historical economic growth in relationship to globalization, and (3) differences in beer styles. Finally, I offer the following three recommendations to help bring Czech beer into international markets: (1) developing specialty beer styles and organizations, (2) change in tax structure, and (3) reacquisition of major segments of the market.

Historical Context

The modern history of brewing in the Czech Republic starts in the nineteenth century, when communities of small homebrewers found they could increase the quality and quantity of their beers by having a few dedicated breweries in the community. It was during this period that the Republic’s five best known breweries were started, including the now famous Pilsner Urquell in 1842. Over time, these community breweries
were consolidated into larger industrial productions; the 1,052 small breweries of the early nineteenth century were reduced to just 260 medium-sized breweries in 1946, two years before the beer industry was nationalized (Kozák, p. 130). During the communist period of nationalized beer production, there was little growth and consolidation, resulting in about 77 breweries in a country with around 10 million people at the time of market liberalization in 1993 (Kozák, p. 131). However, because of the lack of capital for investment during this 55-year period, these brewers were still using the same technologies and processes that they had in the 1940s. As such, when the breweries were privatized by means of a public voucher system to a relatively impoverished population during the privatization of the 1990s, the market was ripe for foreign investment and procurement.

Foreign companies have come to dominate the Czech beer industry. As of 2016, 81 percent of the beer produced in the Czech Republic is made by three of the four biggest brewing companies in the world: SABMiller, Anheuser-Busch (AB) InBev, and Heineken N.V. Table 1 shows the market share and prominent Czech brands owned by these multinational brewers. With the purchase of the biggest national breweries by large multinational corporations (MNCs), the Czech beer industry had access to new brewing technology, huge marketing potential, and, arguably most importantly, well-established global distribution chains. This positioned the industry for rapid growth, not only within its own borders but also with huge potential for export. However, as I show, this potential has not been realized.

History of Belgian Beer

The Belgian beer industry is also one of rich tradition: brewing in the country has been documented since at least the Middle Ages. In fact, the history of Belgium’s beer industry was generally comparable to that of the Czech Republic’s until modern times, except that much of the early brewing was done in monasteries instead of community breweries. Interestingly, many of the monasteries in Belgium were not allowed to use hops, which were outlawed by the Church and considered the “devil’s plant,” and instead flavored their beers with coriander and other spices. As discussed later, although hops are now used liberally in many Belgian brews, the legacy of this can still be found in the wide range of beer styles offered by popular Belgian brewers today (Persyn et al., p. 80).

One main historical difference between the two countries’ beer industries is that Belgian brewers were able to capitalize on the growing world economy much earlier than the Czech brewers. In the 1960s, Brouwerij Artois, maker of the now famous Stella Artois, started purchasing smaller breweries, culminating in the former Interbrew purchasing Canadian Labatt, forming what was one of the first international brewing companies, InBev. Importantly, however, despite its international presence today, AB InBev is still headquartered in Belgium (“Interbrew S.A History,” p. 3).

The Current State of Each Industry

The comparison between the two countries is significant not only because of their shared brewing history but also because of the similar scales of both industries today. The Czech Republic and Belgium are similarly sized, with populations of 10.6 million and 11.3 million, respectively. As seen in Figure 1, both countries produced about the same amount of beer in 2013, with Czech production around 1.82 billion L compared to Belgium’s 1.81 billion L. Expressed in per capita terms, the Czech Republic produces 172 L per inhabitant while Belgium produces 160 L (Van de Walle, p. 11). The point of departure for the rest of this article, however, is that Belgium exports 1.1 billion L per year compared with the Czech Republic’s 336 million L. My goal is to determine why Belgium exports more than three times as much beer as the Czech Republic and to identify ways the Czech beer industry can break into international markets.

What Makes A Beer?

It is important to define what is meant by either a Czech or Belgian beer. After all, if I limit the definition to brews produced by companies owned in a target country, there would be only one major Czech beer in international markets, the state-owned Budweiser Budvar. Nor would
### Table 1
**Owners of the Major Czech Brewers**

<table>
<thead>
<tr>
<th>Brewery Owner</th>
<th>Market Share by Volume (%)</th>
<th>Annual Production Volume (Million Liters)</th>
<th>Major Brands Sold in Czech Republic</th>
</tr>
</thead>
<tbody>
<tr>
<td>SABMiller</td>
<td>50.7</td>
<td>922</td>
<td>Pilsner Urquell, Staropramen, Birell, Frisco, Gambrinus, Radegast, Kozel, Klasik</td>
</tr>
<tr>
<td>Heineken N.V.</td>
<td>15.1</td>
<td>275</td>
<td>Starabrno, Krušovice, Březňák</td>
</tr>
<tr>
<td>AB InBev</td>
<td>15.2</td>
<td>277</td>
<td>No brands exclusive to Czech Republic</td>
</tr>
<tr>
<td>Other/privately owned</td>
<td>19.0</td>
<td>346</td>
<td>Budweiser Budvar, Bernard, Svijany</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td>1,820</td>
<td></td>
</tr>
</tbody>
</table>

*Sources: “Beer in The Czech Republic”; Kozák.*

### Figure 1
**Per Capita Consumption and Total Production of Czech Republic and Belgium**

*Sources: Balach; “Czech Republic...”; Persyn et al.*

*Note: Data are only available per decade between 1930 and 2000.*
it make sense to define each beer by the location where it is brewed; Stella Artois, traditionally thought of as a Belgian beer, is brewed not only in Belgium but also in the United Kingdom, Australia, Brazil, and Ukraine. Lastly, a beer’s country certainly cannot be attributed to its style, because Lagunitas, a California-based brewer, makes a fairly accurate California pilsner. For the purpose of this article, a beer “belongs” to a certain country when it fulfills these three criteria:

1. The brewery on the label has its historical origins in the geographic region currently part of the target country.
2. At least some portion of the brand is produced in the country from which the brewery originates.
3. The beer must be sold, at least in part, in the country in which it is brewed.

These criteria eliminate from analysis a foreign brewer that simply uses the target country as a manufacturing plant. For example, I exclude the possibility of examining SABMiller opening a Miller Lite brewery in the Czech Republic for distribution across the Central and Eastern European countries. I do not, however, exclude craft or microbrews or the possibility of new brands introduced by existing breweries, while also allowing for large brands, such as Stella Artois, that are brewed in multiple locations. Lastly, these criteria allow for the current marketplace ownership mainly by MNCs in the Czech Republic. Refer back to Table 1 for a non-exhaustive list of some of the most prominent beers that fit these criteria. In the following section, I discuss three factors that explain why the Belgian beer industry exports far more beer than does the Czech Republic.

Reasons for the Difference in Exports between Czech Republic and Belgium

Breweries Respond to Drops in Domestic Consumption

One reason that Belgian beers have such a strong export presence is a combination of necessity and good timing. Per capita beer consumption in Belgium fell from around 225 L in 1900 to 93 L in 2004. The most often cited reasons for this include a change in consumer tastes toward sweeter drinks (such as soft drinks), a lower tolerance for alcohol abuse, and a shift away from the low-alcohol table beers that traditionally accompanied every meal. Others argue that as Belgium became wealthier, consumer tastes shifted from beer to wine (Persyn et al., p. 85). Whatever the causes, the Belgian beer industry had to seek new customers to survive as early as the 1970s and started exporting beers mainly to other European countries. This shift was rapid and pronounced: 60 percent of Belgian production was exported in 2009 compared to less than 20 percent in the early 1990s. Interestingly, from 1975 to 1995 the volume of exports increased by almost exactly the same amount that domestic consumption dropped, meaning that the total production of each brewery stayed relatively constant. As I discuss later, it was only after 1995 that Belgium began to increase its total production capacity and become the world’s brew house (Persyn et al., p. 88).

In the Czech Republic, however, beer consumption has been consistently very high throughout most of this same time period, around 160 L per capita. It is only in the last 20 years that consumption has started to fall to around 130 L per capita (Balach). In comparison, Belgian consumption started at 160 L per person in the late 1930s and, despite a peak in the 1980s, has been steadily falling until 2013 (Figure 2).

Put simply, Belgium had to figure out how to make up sales of this lost volume several decades before the Czech Republic and had the luxury of relatively unsaturated beer export markets. It is unclear to what extent the centralized markets of the communist era influenced the exports of beer. The Czech economy has always been dependent on exports and during this era most of these goods were sent to other Eastern Bloc countries. However, there are no data on the location of beer exports from Czechoslovakia during the communist era.

Globalization and Timing

The 1960s saw the beer industry begin to adapt to the quickly expanding global
economy. This included a market shift away from smaller local breweries to the dominance of national beer brands. Economically, this was accomplished by two mechanisms: increased capacity and demand for national beer brands (driven largely by television advertising), and a rapid succession of mergers and acquisitions by the leading brewers. By the late 1980s, these brands had exceeded the confines of their domestic markets and through these same mechanisms began to form the giant brewing conglomerates that dominate the beer market today. As discussed earlier, Belgian-owned AB InBev was one of the first to become a large international player. As of 2016, AB InBev owns 20 percent of the global beer market in terms of production volume but 40 percent in terms of the industry profit pool. It is also the largest single player in the world beer market (Stern, p. 2). It is a major player in the beer markets of both target countries, accounting for 55 percent of the beer produced in Belgium and 15 percent of that in the Czech Republic.

The Czech beer industry, on the other hand, had been liberalized for only two years by the time InBev had made its international debut and was severely lacking in capital and technologies that would allow for the same economies of scale (Kozák, p. 130). Instead of growth through mergers and acquisitions of

---

**Figure 2**

Per Capita Consumption of Czech Republic and Belgium

![Graph showing per capita beer consumption for Czech Republic and Belgium from 1930 to 2013.](image)

*Sources:* Balach; “Czech Republic…”; Persyn et al.

*Note:* Data are only available per decade between 1930 and 2000.

**Table 2**

SAB Miller Czech Beer Brands by Class

<table>
<thead>
<tr>
<th>Economy Line</th>
<th>Mainstream</th>
<th>Super Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Klasik</td>
<td>Kozel</td>
<td>Pilsner Urquell</td>
</tr>
<tr>
<td>Primus</td>
<td>Gambrinus</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Radegast</td>
<td></td>
</tr>
</tbody>
</table>

*Source:* “Quarterly Divisional Seminar Series.”
other Czech breweries, the biggest and most popular breweries today grew through being acquired by foreign MNCs. Pilsner Urquell, the country’s most famous beer, was bought by SABMiller in 1999, and Staropramen has been taken over by three different owners since 1991 (Kozák, p. 131). This is evident in the breakdown of the Czech Republic’s beer market as of 2016; 81 percent of the market is owned by three foreign companies.

I argue that the importance of this ownership cannot be overstated. In order to enter markets, brewing MNCs typically prefer acquiring domestic breweries instead of trying to penetrate the market with their own brands. It is easier to buy a brewery than it is to change consumer preferences. As these corporations control larger proportions of the world market, they have to be strategic about positioning and branding their beers so that they do not compete with each other. This results in very specific pricing, taste, and marketing schemes for each “class” of beer, which, although different by name in each country, follows the exact same market makeup. For example, a 2014 seminar presented by SABMiller to investors described its section of the Czech beer market by the class system (Table 2).

All but Pilsner Urquell, which is dubbed a “global premium” brand, are beers specifically designed to be sold only in the Czech Republic. Each fills a specific niche of higher-priced and higher-quality beers and seeks growth only in domestic markets. Therefore, one simple and direct answer to the question, Why does the Czech Republic export less beer than Belgium? is that the Czech brewery owners do not want to export. After all, these same owners have economy, mainstream, premium, and super-premium lines in every other country in Central and Eastern Europe, not to mention their own global brands that they seek to export. For example, it would be detrimental for MillerCoors to spend time and money trying to export an economy line beer to Slovakia since it owns the brands with which this exported beer would compete.

Specialty Beer Styles Do Better in Export Markets than Pilsner Lagers

A third factor to examine is the type of beers being made in each country. The Czech Republic is the mythic birthplace of the almost ubiquitous pilsner-style lager that is brewed and sold around the world, and 92 percent of all the beer produced in the Czech Republic conforms to this style. Indeed, nearly all of the international brands made by the MNC-owned breweries are pilsner-style lagers. Here the Czech Republic is in a bit of an ironic position: the beer that it invented has become so popular that its version of the style is not unique. Consumers are looking for different styles, or at least different tastes from what is available domestically. And although historically the Czech beers may have been different or of sufficiently high quality to compete with another market’s domestic version, this may no longer be the case. Some Czech brewers are crediting eurobeer, the pale lagers resulting from large-scale brewing operations run by the brewing giants, with bringing down the quality of Czech beers (Kozák, p. 136). Even if quality is not the issue, the numbers do not lie. In the United States in 2014, only 10 of the 45 brands that gained market share were yellow lagers, and two of those were largely driven by a drop in pricing. As Harry Schuhmacher wrote in a recent trade magazine, “...Yellow Pilsner marketers face the reality that...clear yellow beers are out” (p. 77). Therefore, if the Czech beer industry seeks to expand outside of its domestic market, it might do well to look into producing styles different than the traditional wares.

This is exactly what Belgium has done and to a large degree it explains its success in exporting around the globe. About 26 percent of Belgian production is non–lager-style brews, with 19 percent of total production styles that are almost exclusive to Belgium (Abbey, White, Blonde, Lambic, Trappist, and table beers). Even as domestic consumption of pale lagers decreases, these styles, in particular Abbey and Lambic styles, are increasing their market shares quite quickly. This has effectively divided Belgium into two separate beer markets: moderately priced pale yellow lagers and a plethora of higher-priced specialty beers. The most famous of these specialties are the Trappists, which are produced by seven monasteries and are some
of the most highly rated beers in the world. These breweries, which were started to give the Cistercian monks a livable income, trace their roots and recipes back to the mid-1800s. Today, in order to preserve their heritage and market segment, beers labeled “Trappist” must conform to the criteria set by the International Trappist Organization. This essentially dictates that Trappist beers must be produced within or near the abbey and that the monks must have control over the production. Production of all these beers is small, between 500,000 L and 12 million L annually, which due to their popularity allows producers to charge very high prices. More commercialized versions of these beers, dubbed Abbey-style beers, are essentially larger-scale spin-offs of the Trappist style without the control of the monks. They are subsequently often priced considerably lower.

Recommendations for the Future

Keeping this analysis in mind, I have identified a number of recommendations for how the Czech beer industry might increase its export volume in the future. These include specific opportunities for styles and marketing, legislative and organizational options, and an ambitious restructuring of the entire market.

Increase Production of Specialty Beers

As part of my research, I had the pleasure of traveling to the Czech Republic and, of course, doing my due diligence tasting as many different beers as possible. Apart from some of the lovely microbrewed pilsner lagers (which stood as a testament to why that often-copied and rarely reproduced style has become the world’s beer), I was struck most with a number of different black lagers that I found in small breweries around the country. Perhaps the most popular example of this beer can be found at the brewpub U Fleků, which, founded in 1499, boasts an impressive history as the oldest brewpub in the country.

U Fleků’s popular black lager retains many of the common aspects of the traditional lager, such as similar carbonation levels and heavy use of the native Saaz hop. Although it uses darker roasted malts, the flavor profile is not as toasty as other dark beers, such as porters or stouts. This, at least in part, is due to the fact these other dark beers are most often top-fermented ales, whereas the black lager uses traditional lager bottom-fermenting yeasts. Overall it has a very clean and balanced flavor profile accented nicely by the subtle Saaz hops. So too does it have a rich history and tradition, the marketing fodder so important to both the Trappists and the big Czech brewers.

As the Czech beer industry attempts to increase its international presence, I recommend that brewers capitalize on this history and unique style for a robust marketing campaign focused on this style of beer. Right now, however, U Fleků’s beer is sold only within the brew house, although a few other dark lagers can be found in Czech bars and stores. This is just one of the many options that Czech brewers have to explore creating higher-priced specialty beers.

Specialty Organizations

As the volume of high-quality specialty beers increases, small Czech brewers, like their Belgian counterparts, are likely to find competition from the large-scale operations. This is not necessarily a bad thing because these international organizations can use their marketing muscle and well-established distribution channels to bring these styles of beer into international markets. In much the same way that the commercialized Abbey-style beers likely improve the Trappist’s position rather than diminish it, the Czech specialty beer market would have room for both small-scale and large-scale operations. As consumers become aware of this style through the international brewer’s offerings, they will begin to seek out higher-quality niche products. However, in order to differentiate their products, micro-scale brewers may wish to establish an organization that certifies their authenticity as independently owned microbrewers. This organization could be specific to a style, or more of a catch-all for any type of specialty brewer in the Czech Republic. Of course, with the lack of a clear historical lineage, such as that enjoyed by the Trappists, this organization will have to devise its own
One possible candidate is the already existing Czech Beer and Malt Association, which according to a trade presentation “represents interests of breweries, malt houses, and other suppliers and partners in the beer sector” (Balach, p. 23). In fact, the Czech Beer and Malt Association has already instituted a “Protected Geographical Indicator” for beers that use the approved types of malt and hops. However, because this organization currently represents large, medium, and small breweries, a specific subset or group would have to be established within the association. This sort of distinction is key to the “super-premium” stature of these exported beers and should be sufficiently exclusive to differentiate the highest-quality products from their competitors.

**Changing the Tax System to Incentivize Growth in Small Breweries**

A recent polling of Czech brewers and restauranteurs showed that an increase in excise taxes for beer, passed in 2011, was rated as the principal cause for the rapid decline in Czech beer consumption (Kozák, p. 133). Currently, the beer excise tax rate in the Czech Republic is determined by production volume, which is common practice around the world. Larger producers pay a higher tax whereas smaller producers enjoy lower tax rates. Although the actual monetary values of the tax are specific to each country, more important is the relative tax per unit of production. The United States Alcohol and Tobacco Tax and Trade Bureau more than doubles its tax rate once a brewer exceeds 60,000 barrels, approximately 7 million L. This means that microbreweries face a significantly smaller relative tax burden than do medium-sized brewers. The Czech code, on the other hand, has more tax brackets based on production and increases the tax rate for small and medium-sized breweries, which is common in about half of the EU countries (“Excise Duty Tables”). While intuitively this seems to make sense, it may actually act to disincentivize microbreweries from expanding. Indeed, most microbrewers in the Czech Republic currently rely on sales onsite and focus exclusively on their local markets (Lajksnerova, p. 12). Expanding beyond this requires significant investment, both in bottling and packaging machinery and marketing. The tax increase during this expansion phase may, at least in part, be a determining factor in why the Czech Republic has so few medium-sized breweries poised for export.

**Czech Brewers Reacquire the Large Breweries**

The last and most ambitious recommendation of mine would seek to capitalize on very recent events. In November 2015, SABMiller accepted a bid for acquisition from AB InBev for about $108 billion. If this deal is allowed to go through, more than 30 percent of the entire world’s beer would come from one company. Though both companies have agreed and the price has been accepted, there are many regulatory hurdles that must first be sorted out before the brewers are allowed to combine. Essentially, both companies will be required to sell off assets in the United States, EU, South Africa, India, and other countries to receive regulatory approval. There is a lot of uncertainty in what will be sold and what will stay and, therefore, a lot of opportunity (Mickle and Chaudhuri).

The Czech Republic is strategically posed to make an ambitious and potentially profitable move. As AB InBev decides which assets to sell off, the Czech government or private investors may make an offer to buy back the breweries and brands that are controlled by both AB InBev and SABMiller. The Czech government already has a track record of running breweries and still operates the Budvar brewery today. If private investors control these brands, I expect that we will see a market structured more like Belgium’s and with a greater capacity for exporting beer.

**Conclusion**

Despite its rich history and high production volume of beer, the Czech Republic is currently underrepresented in international beer markets due to a combination of social, economic, and consumer taste factors. Moving forward, however, the Czech brewing industry is poised for growth of its exports through
changes in beer styles produced, tax legislation, independent trade organizations, and reacquisition of market segments. Although the industry had been playing catch-up with the rest of the world at the beginning of the twenty-first century, I suspect that it will move toward the front of the global beer market in the near future.

REFERENCES


