

COMPETITIVENESS PROFILE

Name of Sector: BREWERY SECTOR

1. STRUCTURE AND PERFORMANCE

Structure:

- The brewing industry (SIC 1131) produces lager, ale, porter, and stout, both bottled and draught. The industry focusses directly on consumers and the hospitality industry as its major customers. Key backward linkages are to the malting industry and to the packaging industry for bottles, boxes and labels.
- The Canadian brewing industry is dominated by three large companies: John Labatt Limited, the Molson Companies Limited and Carling O'Keefe Limited which together hold a 97% share of the domestic market. The first two are the largest and are Canadian owned, John Labatt by Brascan Limited (41% of common shares representing effective control) while majority control of The Molson Companies Limited is held by the Molson family. Carling O'Keefe Limited is 50.1% owned by the U.K. firm, Rothman's of Pall Mall. Several smaller regional breweries, and imported brands, accounts for the remaining 3% of the domestic market.
- While three major companies dominate the Canadian industry, the market is divided into provincial markets served by breweries in each province. This is due to provincial government regulations that require a brewer to maintain production facilities in a province if it wishes to market its brands there. The result is a tightly controlled, concentrated industry with production fragmented along provincial lines, limiting the economies of scale available to Canadian brewing operations and thus increasing their vulnerability to international competition.

Performance:

- In 1983 the Canadian brewing industry had total sales of \$1,843 million with shipments of approximately 21.8 million hectolitres. Industry shipments accounted for 5.4% of total food and beverage industry shipments in that year, and .9% of total manufacturing industries shipments. Employment in 1983 was approximately 13,000 representing a 5.3% increase from 1980. The brewing industry is significantly export oriented, with exports valued at \$157 million in 1983 and imports of only \$19 million, exclusive of licencing arrangements.
- Canada's major brewing companies are highly competitive and the industry has been profitable and had excellent financial reserves. However, in the face of shrinking demand, capacity utilization rates have dropped off to about 85% in recent years after several decades of constant growth, and profit margins and financial reserves have declined somewhat. As a result, competition for market share has intensified among the major firms with stronger advertising efforts, new packaging to appeal to consumer tastes and new products such as low calorie and low alcohol beverages. Among the most successful efforts has been the production, under license, of major U.S. brands to capitalize on the "spill over" advertising on U.S. television networks.

2. STRENGTHS AND WEAKNESSES

a) Structural

- While Canadian brewers are performing well in the current domestic regulatory environment, there are some structural weaknesses in the industry that could become apparent in a more internationally