Adolph Coors in the Brewing Industry

"Rarely in Adolph Coors Company's 113-year history has there been a year with as many success stories as 1985." Coors's annual report for 1985 went on to cite records set by the company's Brewing Division. In a year when domestic beer consumption was flat, Coors's beer volume had jumped by 13% to a new high of 14.7 million barrels. And its revenues from beer had topped $1 billion for the first time in the company's history.

The Brewing Division accounted for 84% of Coors's revenues in 1985, and over 100% of its operating income. Although Coors had diversified into several businesses, including porcelain, food products, biotechnology, oil and gas, and health systems, Chairman Bill Coors acknowledged that for the foreseeable future, the company's fortunes were tied to brewing.

The strategy of the Brewing Division had changed drastically over the 1975-1985 period. The changes continued: in a decision that the company billed as "the most significant event of 1985 and perhaps our history," Coors announced plans to build its second brewery in Virginia's Shenandoah Valley.

The first section of this case describes competition in the U.S. brewing industry and its structural consequences. The next two sections describe Coors's position within the industry, and the plans that it had announced for its second brewery.

Competition in the U.S. Brewing Industry

In 1985, Americans spent $38 billion to buy 183 million barrels of beer.[1] Of their expenditure, 12% was applied to taxes, 42% to retailers' margins, 12% to wholesalers' margins, and the remainder to beer at (net) wholesale prices. Domestic producers supplied 96% of the market at an average wholesale price of $67 per barrel. The rest of this section describes the ways in which the major U.S. brewers made and sold beer, and the industry structure that had resulted.

Professor Pankaj Ghemawat prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

1. One barrel contains enough beer to fill 331 12-ounce bottles or cans.

Procurement

Raw materials cost major brewers over half their net revenues. Agricultural inputs accounted for a quarter or a fifth of total raw material costs, and packaging inputs for the remainder. The key agricultural inputs were malt (germinated and dried barley), a starchy cereal such as rice or corn, hops and yeast. Large, relatively efficient markets existed for all these commodities. A brewer with a single, efficiently sized plant—about 3% of the U.S. market in 1985—could buy them on the best terms available.

Packaging inputs included cans, bottles and kegs. In 1945, 3% of the beer produced in the United States had been canned, 61% bottled, and 36% kegged; by 1985, these proportions had shifted to 57%, 30% and 13% respectively. Cans had been promoted by steel and aluminum manufacturers, bottles had proved relatively overweight, and sales of kegs had dwindled as Americans drank more and more of their beer at home.

Since World War II, beer prices had declined in real terms, and input costs had come to account for a thicker slice of them: up from 35% in 1945 to the 50-60% range by 1985. In response, major brewers had integrated backward. The most recent, and perhaps most costly, bout of integration had focused on cans, whose prices had risen sharply in the mid-1970s after the removal of price controls. In 1985, major brewers made some—but not all—of the cans they required. An efficient canmaking facility cost $40-$50 million and produced one billion cans per year. Independent canmakers had experienced significant excess capacity throughout the 1980s.

Production

Production costs, split more or less equally between direct labor and other cost components, accounted for about a quarter of major brewers' net revenues. Production involved two steps, brewing and packaging. In brewing, the agricultural inputs were mixed with water, fermented, and aged. Beer that was meant to be bottled or canned was also usually pasteurized so that it could last unrefrigerated for up to six months. Smaller brewers had traditionally pasteurized less of their beer; they sold more of it as draft, packaged in kegs. The major postwar innovation in brewing had been a fermentation process that cut the aging time of beer from 30 days to just 20. Since aging cellars were often production bottlenecks, this "stretched" brewing capacity by 20%-30%, beginning in the late 1960s.

In packaging, containers were filled with beer, labelled, and (in the case of cans and bottles) packed together. Scale economies in packaging had increased since World War II, for two reasons. First, newer vintages of filling lines—especially lines for canning and bottling—were faster and more efficient. Second, package sizes had proliferated; because of changeover costs, this increased the importance of run length.

As a result, the minimal efficient production scale for an integrated brewery (a brewing and packaging facility) had increased from 100,000 barrels per year in 1950 to 1 million barrels by 1960, 2 million barrels by 1970, and had approximated 4-5 million barrels since the mid-1970s. In 1985, a 5-million-barrel brewery cost $250-$300 million. Capital costs underlay much of the effect of increasing or decreasing production scale; according to one source, they displayed a 75% scale slope. In other words, doubling brewery scale would cut unit capital costs by 25%; halving it would increase unit capital costs by 33%. Breweries could be expanded if they had been built with that possibility in mind.

The brewing industry's capacity utilization had hovered in the 60% range in the 1950s because of stagnant demand. It increased in the 1960s and early 1970s as demand rose rapidly: the large brewers, particularly Anheuser-Busch and Schlitz, added relatively large breweries and sold them out quickly; many smaller breweries were closed. The industry's capacity utilization peaked in the mid-1970s at close to 90%. In the late 1970s, capacity surged despite stagnant demand. Miller's expansions were the most aggressive, but the other national brewers also moved to tap economies of scale. For instance, only four out of Anheuser-Busch's ten breweries exceeded four million barrels apiece in 1977; by 1985, all eleven of its breweries cleared that hurdle. Capacity utilization dropped toward 80% and stayed at that level throughout the 1980s. In 1984, excess capacity in the East forced Miller to take a $280 million pretax write-off on a nearly completed 10-million-barrel brewery in Ohio that it had intended to open in 1982.

Exhibit 1 depicts changes in breweries' actual capacities since the late 1950s, and **Exhibit 2** summarizes the production configurations of the major U.S. brewers in 1985. By that time, all of them except Coors operated several breweries apiece. Multiplant configurations reduced the risk of catastrophic shutdowns due to strikes, fires or explosions, permitted centralized production of low-volume packages (which increased run lengths), and let brewers absorb the output repercussions of a large new brewery over several existing ones.

Distribution

Beer made its way from producers to consumers via wholesalers and retailers. There were two broad categories of retail outlets for beer: on-premise and off-premise. On-premise outlets such as bars or restaurants carried a limited number of brands of beer, and averaged margins of 190% in 1985. Bars, in particular, sold more than their share of dark, local draft beers. State and federal laws prevented brewers from operating on-premise outlets except at their breweries. Off-premise outlets included supermarkets, and grocery, convenience and liquor stores. They carried a much broader selection of brands and averaged margins of 21% in 1985. Since 1945, off-premise outlets' share of beer volume had increased from 42% to 67%.

Smaller brewers had traditionally distributed their beer directly in their local markets, with a particular emphasis on selling kegged draft beer to on-premise outlets. But less than 5% of major U.S. brewers' volume went direct. They tended to rely, instead, on independent wholesalers who purchased the beer, stored it at their warehouses, and sold and delivered it to retail accounts. Wholesalers also worked with brewers to open large accounts, secure prime shelf-space, and fund local promotions. In 1985, wholesalers averaged a 28% margin on their "laid-in" or landed cost.

There were 4,500 independent wholesalers in the United States in 1985. Each wholesaler had exclusive rights to sell a specific brand within a market usually no larger than a metropolitan area. Wholesalers often carried more than one brand, and might represent more than one brewer. In 1985, a market usually had at least two large wholesalers (one for Anheuser-Busch and one for Miller), one or two other large ones that might carry another major as their lead brewer, and several smaller ones who carried brands or retail outlets that the larger ones didn't. Anheuser-Busch's network was the strongest: its 970 wholesalers usually did not carry other brewers' beer, simplifying inventory management and delivery. Miller's wholesalers were about as large, but often carried 5-12 brands besides Miller's. The other competitors had had increasing difficulty finding large wholesalers to carry them as lead brewers. The average pretax return on sales for wholesalers had fallen from 3.0% in 1981 to 2.1% by 1984.

In 1985, five of the six majors—Coors was the exception—distributed their beer in all 50 states. The five national brewers shipped beer a median distance of 300-400 miles to wholesalers' warehouses, at an average cost of $1.50-$2.00 per barrel. Wholesalers picked up this cost in name only; brewers absorbed it, in effect, by adjusting their F.O.B. prices. Median shipping distances had stayed the same over the past three decades because the national brewers, who had displaced regional and local competitors, had all moved to multiplant configurations.

Marketing

Exhibit 3 tracks U.S. beer consumption over the 1945-1985 period. Demand grew at less than a 1% rate over 1945-1960 and 1980-1985; that was also the rate of growth predicted for the 1985-2000 period. Virtually all the volume gains in the postwar period had been registered between 1960 and 1980. The major reason for the gains was demographic: as baby boomers reached the legal drinking age, they swelled the number of beer drinkers; volume went up even more because younger drinkers consumed more beer than older ones. The second important reason was related to the marketing variables brewers worked with: price and differentiation.

Without controlling for changes in mix, beer prices fell by 30% between 1960 and 1980; this must have stimulated volume even though the price-elasticity of demand for beer seemed to be relatively low (between -0.7 and -0.9). Most observers thought that prices fell because of cost reductions and pressures to fill excess capacity rather than because of conscious predation. Anheuser-Busch and to a lesser extent, Miller, continued to charge higher-than-average prices. Brewers used low prices to enter new markets or promote new products, but if they kept them low, could impair the images of all but downscale "popular" brands. Pabst and Schlitz were often cited as cautionary examples of companies that had weakened their premium brands by discounting them.

Brewers differentiated their beers through advertising, segmentation, and packaging. Advertising increased after the war because of the emergence of TV, rising consumer incomes, the shift to off-premise consumption, and brewers' moves to broaden distribution: total advertising expenditures jumped from $50 million (2.6% of the industry's gross sales) in 1945 to $255 million (7.1% of sales) by 1965. Partly because the 1965 expenditures were "overkill," and partly because the national rollouts of the major brands had been completed, advertising expenditures drifted down to $200 million (3.3% of sales) by 1973. But then they skyrocketed again because of a steep increase by Miller (which had been acquired by Philip Morris in 1969), a delayed but even steeper response by Anheuser-Busch, and attempts by the next-largest brewers to keep up. In 1980, advertising expenditures reached $641 million (4.5% of sales); by 1985, they approximated $1,200 million (about 10% of sales; see **Exhibit 4**). Statistical studies suggested that 90% of the effect of advertising dissipated within a year.

Intensified advertising helped national brewers in several ways: they could buy space or time in larger quantities, use media such as network TV and national magazines, achieve critical thresholds of exposure, and spread the fixed costs of advertising campaigns over more volume. Nevertheless, a large regional brewer still had a wide choice of effective media: for instance, spot TV, even though it cost 15%-30% more than network TV, could be tailored to local market conditions. According to a careful study conducted in the early 1970s, "The cost savings attributable to advertising on a nationwide scale [rather than regionally] could hardly amount to more than one percent of. . . revenues, other things held equal."[2]

Segmentation was the second tool used to differentiate beer. Before 1970, there were just two categories of beer: popular beers which were sold primarily on the basis of price, and premium beers which didn't cost more to produce, but were sold primarily on the basis of their images. The premium segment had gotten off the ground when brewers going national had added price premiums to their products to offset extra transportation costs. The construction of regionally dispersed breweries had since eliminated national brewers' extra transportation costs, but the price premia remained: they were used, among other things, to fund advertising. Because of increased advertising by brewers and trading up by customers, popular beers' share of volume had declined from 86% in 1947 to 58% by 1970.

Over the 1970-1985 period, the major U.S. brewers introduced even higher-priced brands and also differentiated beers according to their alcohol content (see **Exhibit 5**). Over the 1970-1975 period, popular beers yielded 16 points of share, mainly to premium beers. Between 1975 and 1980, popular beers gave up another 22 points, but this time, light beers, paced by the premium-priced Lite brand Miller had introduced in 1975, absorbed most of the increase. And over 1980-1985, premium beers yielded eight share points; light beers registered an equivalent gain. Superpremium beers, led by Anheuser-Busch's Michelob brand, had increased their share from 1% in 1970 to 6% by 1980, but had since receded to 4%.

Major brewers' brands proliferated as segments multiplied: between 1977 and 1981 alone, their number increased from 30 to 60. Larger brewers had several advantages in introducing new brands: their existing brand names provided leverage, they could afford launch costs ($20-$35 million per brand) and maintenance advertising (about $10 million annually per brand), and their production and distribution capabilities let them quickly ramp up sales. By 1985, a major brewer typically had a popular, a premium, and a superpremium brand in the regular category, and at least one brand in the light category. **Exhibit 6** tracks the market shares of the six largest brewers' major brands over the 1977-1985 period.

Packaging was the third way in which beer was differentiated. Brewers had traditionally bottled or canned their output in 12-ounce containers. That changed in 1972 with Miller's introduction of the seven-ounce "pony" bottle, which attracted consumers who drank beer in small amounts or slowly. As states eased their regulation of package sizes in the 1970s, beer was made available in 7, 8, 10, 12, 14 16, 24 and 32 ounce containers packed in units of 6, 8, 12 or 24.

Structural Impact

By 1934, a year after the repeal of Prohibition, 700 breweries had reopened in the United States. A third went out of business before World War II broke out. After the war, consolidation continued. Six major brewers had since come to account for virtually all domestic shipments: **Exhibits 7-9** supply information on their market shares and operating performance. Only the uppermost end of the market had resisted consolidation. Several hundred imported brands, which wholesaled at twice the average price of domestic brands, accounted for 4% of domestic consumption. And the ultrapremium "boutique" beers offered by domestic microbrewers added

2. F.M. Scherer et al., *The Economics of Multi-Plant Operation*, Harvard University Press, 1975, p. 248.

up to less than 1% of domestic consumption. In the words of one analyst, imports and boutique beers might eventually account for "two or three drops in the bucket, rather than just one."

Most other large industrialized countries had highly concentrated brewing industries as well. West Germany, the second largest market for beer after the United States, was a striking exception to this rule.[3] The West German market was characterized by long-term contracts between brewers and retail outlets that guaranteed brewers exclusive supply rights, and by restrictions on the television advertising of beer. Although industry concentration had increased significantly in West Germany since the 1960s, mainly because of mergers, the three largest brewers still accounted for less than 30% of total ouput and approximately 1,300 breweries continued to operate there. Medium-to-large German brewers dominated the low-price category; many of the small local brewers, in contrast, operated in the mid-price segment.

The Brewing Division of Adolph Coors

Background

Adolph Coors, Sr., opened the doors of his brewery in Golden, Colorado, in 1873. His beer company got through Prohibition by making near beer, malted milk, cement and porcelain. Adolph Coors, Jr., took over in 1929 when his father died. Four years later, Prohibition was repealed; that year, Coors sold 90,000 barrels of beer. It also appointed its first independent wholesalers and began selling outside Colorado by adding Arizona to its distribution territory.

During the 1930s, Coors began to sell beer in eight other western states: California, Idaho, Kansas, Nevada, New Mexico, Oklahoma, Utah and Wyoming. In 1941, it introduced its premium "Banquet" label. And in 1948, it started rolling into Texas. It confined itself to those 11 states through 1975.

Sales of Coors's beer had jumped from 137,000 barrels in 1940 to 666,000 barrels by 1950. Between 1951 and 1974, Coors posted uninterrupted year-to-year volume gains: volume reached 1.9 million barrels by 1960, 7.3 million barrels by 1970, and 12.3 million barrels by 1974. One analyst, commenting on the 16% ROS that Coors had posted in 1972, said, "It's the best private company in America. I'd pay any multiple for that stock." A mystique had developed around the company's only brand, premium Coors Banquet (usually referred to as just Coors). Paul Newman and Clint Eastwood insisted on having it on location; Gerald Ford and Henry Kissinger flew cases back east; college students outside Coors's 11-state distribution territory paid premia of several hundred percent for bootlegged supplies. Concerned about maintaining quality (i.e., consistent refrigeration), Coors even placed an unusual advertisement in the Washington Post: "Please do not buy our beer."

In 1975, Coors's volume dropped for the first time in two decades: by 4% to 11.9 million barrels. At roughly the same time, it began adding new states to its distribution territory: its official position became, "We do want to go national if it makes sense financially."[4] Since then, its growth and profitability had come under pressure, as had its market valuation. The Coors family had first offered stock—all of it nonvoting—to the public in June 1975 in order to settle

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3. John Sutton, *Sunk Costs and Market Structure*, MIT Press, pp. 300-301.
4. *Beverage World*, November 1977, p. 134.

a $50 million inheritance tax bill. The stock sold for $25.50 at the end of 1975, had paid dividends of $2.79 per share through 1985, and sold for $21.25 in 1985. In 1985, the Coors family continued to hold all of the voting stock (4% of the total), as well as 16% of the nonvoting stock. The book value of all shareholder equity was $936 million at the end of the year, corresponding to $26.46 per share, and the company had set itself the target of a 10% after-tax return on equity.

In May 1985, the company's operations were officially handed over to the fourth generation of the Coors family. Bill Coors, 68, relinquished his title of CEO but retained his position as chairman; Joe Coors, 67, stepped down as president but remained the company's vice chairman. Joe's sons, Jeff, 40, and Peter, 38, took over as presidents of the holding company and the Brewing Division, respectively. All four members of the Coors family remained on the board; the other five directors were also insiders.

The younger members of the Coors family believed that the company's traditional strengths in production had to be supplemented with attention to and expertise at marketing skills. Peter Coors had, in fact, cast the first dissenting board vote in the company's history back in 1976, against the retention of a hard-to-open press tab on its beer cans. Peter and Jeff were also expected to steer clear of the controversies that the older members of the family had periodically ignited. One example dated from March 1984: the *Rocky Mountain News* alleged that Bill Coors had told an audience of more than 100 minority businessmen that blacks "lack the intellectual capacity to succeed"; Bill Coors insisted that he had been grossly misquoted. Under the new generation, Coors had committed itself to spending $650 million over five years working with minority vendors and distributors, hiring minority employees, and supporting local communities.

The rest of this section describes Coors's traditional strategy in brewing, and the changes that had been made to it between 1975 and 1985. **Exhibit 10** summarizes the vital statistics of the Brewing Division over the 1975-1985 period.

Procurement

In procuring inputs, Coors had always stressed quality and self-reliance. The "pure Rocky Mountain spring water" Coors had emphasized on its label for half a century came from 60 springs on company-owned land in Golden, Colorado, the site of its brewery; it continued to acquire water rights and to add reservoir capacity as a hedge against a prolonged drought.

Of the various agricultural inputs to brewing, Coors made its own malt out of proprietary strains of Moravian barley grown for it by 2,000 farmers under long-term contract. Its brewing process could use either rice or refined cereal starch; Coors had long operated its own rice-processing facilities to protect itself from fluctuations in the price of broken "brewing" rice, and in 1983, had acquired a grain processing facility that supplied a third of its refined cereal starch requirements during 1985. Premium hops were purchased from both domestic and European suppliers. According to a Coors legal brief, "From a raw [agricultural] materials standpoint, Coors is . . . the most expensive beer made in America."

Although bottles cost slightly less than cans, Coors canned more of its beer than did other U.S. brewers: 69% versus an average of 57% for the industry as a whole in 1985. Coors had pioneered the first two-piece, all-aluminum can for beverages in 1959, and since then, had sourced all its cans from a captive canmaking facility that had grown to be the largest in the world. It was the first brewer to start a can recycling program and in 1984, using technology developed with

Alusuisse, had opened its own can recycling facility. The new facility was still experiencing start-up problems. It had, however, supplied 14% of the company's aluminum requirements in 1985; long-range plans called for it to supply a third of the company's aluminum needs.

Coors also made most of its labels and secondary packaging, and after the 1976 acquisition of its principal glass bottle supplier, virtually all the bottles that it required (unlike any other major brewer). This pattern of above-average vertical integration extended into areas other than packaging. In an industry where even the biggest brewer bought machinery from outside suppliers, Coors built all of its malting equipment, 90% of its brewing equipment and 75% of its packaging equipment. Since the mid-1970s, it had also invested heavily to become self-sufficient in energy, mainly by developing its own coalfield.

Production

In the area of production, Coors had emphasized quality and scale. The company's claims of superior quality hinged not only on the ingredients that it used, but also on two unique aspects of its brewing process. First, Coors aged its beer for 70 days, compared to an average of 20-30 days for other brewers; part of the reason was the company's "natural" fermentation process, which minimized the use of additives. The longer brewing cycle tied up more capital: in 1984, assets per barrel of capacity amounted to $57 for Coors, $45 for Anheuser-Busch, $43 for Miller and $16 for Heileman, which had bought capacity cheaply from failing regional brewers.

Second, Coors, unlike other major brewers, did not pasteurize the beer that it bottled or canned; it claimed that intense heat harmed the taste of beer. (As a result, all Coors beer was draft, irrespective of whether it had been canned, bottled, or kegged). To check bacterial contamination, Coors brewed its beer aseptically, used a sterile-fill process to package it, and stored it in refrigerated warehouses. The extra costs of refrigeration roughly equalled the energy saved in skipping pasteurization.

Coors had traditionally controlled its production costs by brewing a single kind of beer, running the fastest packaging lines in the industry, and operating the largest brewery in the world. Coors had expanded its single brewery in Golden, Colorado, from 3 million barrels in 1963 to 7 million barrels by 1970, and 13 million barrels by 1975. Although plans had originally called for expanding the Golden brewery to 20 million barrels by the mid-1980s, they had to be deferred because of stagnant demand: in 1985, the capacity at Golden was 16 million barrels.

Through 1975, Coors's capacity additions had lagged its sales growth, leading to shortages during peak consumption periods. One analyst described Coors's capacity expansion strategy as follows: "We make a little beer, if we sell it, we make a little more." Capacity utilization had traditionally hovered in the 90%-95% range. Since 1977, however, average capacity utilization had fallen to 84%, only slightly above the level for the industry as a whole.

One factor that had helped Coors's capacity utilization in the sixties and early seventies was the capacity shortfall in the ten states west of Colorado (including New Mexico but excluding Alaska and Hawaii): in 1975, for instance, 24 million barrels of beer were consumed in these states, but only 17 million barrels of capacity were located within the region. Coors was well-positioned to make up this deficit because its brewery in Colorado was closer to most of these markets than were competitors' breweries in Texas, Missouri and Wisconsin. But in the late seventies and early eighties, Anheuser-Busch and Miller reacted to the vacuum by adding 11 and

3 million barrels of capacity respectively in California. By 1985, 31 million barrels of capacity were available from breweries within the region to meet 34 million barrels of demand.

Coors's operating practices had led to numerous strikes over the years by workers, and occasional suits by federal agencies. The grounds included alleged racial and sexual discrimination, mandatory lie-detector tests and loyalty oaths, and dismissals for reasons such as denigration of the Coors family and refusal to be searched at work. To quote a 1978 article in *Forbes*, "Coors ranks with J.P. Stevens on union hate lists." The most recent strike was the one called in April 1977 by the Brewery Workers Union, which represented 1,500 of the company's 8,200 employees. Coors said that workers who crossed the picket line, employees transferred from other departments and new hires had returned the brewery to normal production levels in three weeks. The strike officially ended in December 1978 when workers voted to oust the Brewery Workers Union as their bargaining agent. Since then, the AFL-CIO and other groups had organized a boycott of Coors, which had finally retaliated with lawsuits that were still in process. According to Bill Coors, "This is the kind of war we want to get into, not shy away from."[5] The boycott continued in 1985, although independent analysts thought that it had proved ineffective. And Coors continued to be the only major brewer that was not unionized.

Distribution

Coors's distribution was governed by the fact that its unpasteurized beer tended to spoil rather quickly. The company shipped its beer in refrigerated rail cars and trucks to wholesalers' warehouses. Wholesalers had to keep it chilled and to abide by a strict "freshness policy": any Coors beer that had been on the shelves longer than 60 days was destroyed at the wholesaler's expense. By its own account, "Adolph Coors Company has one of the industry's most extensive distributor monitoring programs."

The company's tough policies towards its channels had been challenged in 1971 by the FTC, which attacked Coors for restricting the geographic distribution of its beer, and also charged that Coors had refused to sell its draft beer to bars unless they carried it exclusively, that it did not allow its wholesalers to cut prices, and that its provisions for terminating wholesalers were high-handed. By January 1975, the courts had conclusively found for the FTC on the first three counts, and for Coors on the fourth.

Citing economic advantages, Coors began to widen its 11-state distribution territory in 1976, initially by moving into two or three new states each year. In 1981, it began to sell beer east of the Mississippi River for the first time. In 1983, it stepped up the pace: over the 1983-1985 period, it added an average of eight states each year. **Exhibit 11** summarizes the pattern of the rollout into 44 states through 1985. The company planned to enter Michigan in 1986, New York and New Jersey in 1987, and the three remaining states—Pennsylvania, Delaware, and Indiana by the end of the decade.

The national rollout had two important consequences. First, the median distance Coors shipped its beer increased from 800 miles in 1977 to 1,500 miles by 1985. Coors responded by establishing distribution centers in outlying markets (Sacramento, Baltimore, Memphis and Greenville (S.C.)) in 1983; it absorbed the cost of shipping beer from its brewery to these centers

5. *Wall Street Journal*, October 6, 1982, p. 27.

directly, and in line with industry practice, indirectly picked up the cost of getting beer from the distribution centers to wholesalers. Second, Coors quickly had to find new wholesalers in new states. It typically chose weaker wholesalers willing to carry Coors as their lead brand instead of stronger Anheuser-Busch or Miller wholesalers who would have carried it as a secondary brand. Each new wholesaler had to spend about $500,000-$2 million on market development, depending on the size of its territory.

The circumstances of Coors's existing wholesalers had also changed. In the 1970s, they were so profitable that dozens and sometimes hundreds of applicants clamored for each new Coors franchise; over two-thirds of the company's wholesalers then carried no other brands. But in the 1980s, wholesalers who carried nothing but Coors dwindled to a minority, and one-fifth of the company's franchises changed hands over the 1980-1982 period alone. (In some of the states penetrated after 1975, that proportion was as high as one-third). In response, Coors had begun to place more importance on applicants' previous experience in the beer business; its wholesalers also agreed that it had become more responsive to their concerns and suggestions.

In 1985, Coors's distribution network comprised 569 independent wholesalers and 5 company-owned ones. The company shipped 74% of its beer in refrigerated rail cars, and the remainder in refrigerated trucks. The company's trucking subsidiary, Coors Transportation Company, hauled nearly half of the truck shipments—a higher proportion than at other major brewers. Even though Coors Transportation Company had gained common carrier status in 1982, it hadn't managed to tap as many sources of traffic or secure as much backhaulage as independent carriers; this probably elevated its costs by 10%-15%.

Marketing

Coors had traditionally relied on its beer to market itself by virtue of its "drinkability." Coors's beer was supposed to derive its superior drinkability from Rocky Mountain spring water and other choice ingredients, as well as the company's unique brewing process. In blind taste tests, however, consumers that managed to distinguish Coors from other premium brands did so mainly on the basis of its relatively light body—not a characteristic with universal appeal. Bill Coors had once admitted, "You could make Coors from swamp water and it would be exactly the same."[6]

Whatever their reasons, consumers drank as much Coors beer as they could get through in 1975. Despite the volume decline Coors experienced that year, it sold more beer than any other brewer in 10 of the 11 states that it had targeted. Since then, however, its volume had been flat and had spread across an increasing number of states. Even though it had achieved double-digit market shares in entering several new states, those shares had typically dropped off in subsequent years.

In the late seventies, the slump persuaded Bill and Joe Coors that the company needed to spend more money on marketing. Coors began to hire marketeers from other companies and to target niches in which its penetration had been limited, such as black and Hispanic consumers. It also launched new brands and sharply increased its advertising expenditures.

The launches caused much debate within the company because since 1958, it had offered only one brand, Coors Banquet. The first new brand, Coors Light, a premium light beer, was

6. *The San Francisco Chronicle*, January 27, 1979.

launched in 1978. Entries into all but the popular-priced segments followed. Herman Joseph's, a superpremium brand under development since 1977, went into test markets in 1980, and was finally introduced to seven states in 1984. George Killian's Irish Red ale, another superpremium brand for which Coors had secured U.S. brewing rights, was test marketed in 1981 and introduced more quickly; by 1985, Coors sold Killian's in 34 states. Golden Lager, a darker and more robust premium brand than Coors Banquet, was test marketed in 1983 and then withdrawn; Coors repositioned the brand as Coors Extra Gold and recommenced test marketing in 1985. In 1985, Coors also joined Molson of Canada, and Kaltenberg Castle of West Germany in forming the Masters Brewing Company to brew ultrapremium Masters III and test market it in four cities. That same year, Coors granted Molson a license to brew Coors in Canada. These new products had contributed to the proliferation of packages: in 1984, for instance, Coors ran 320 different packages on its lines.

Coors experienced its first success at advertising with the "Silver Bullet" theme for Coors Light. (Coors Light's label was silver; Coors Banquet's label was golden.) Each Coors Light commercial presented a vignette of men and women who worked or imbibed at the Silver Bullet bar. The characters did not endorse Coors Light; the beer was, instead, background to the story. That differentiated it from the two other leading light beers, Miller Lite and Bud Light: Miller Lite's commercials featured male athletes endorsing the beer, and Bud Light's commercials victimized male characters who ordered light beer generically in bars. By 1985, Coors Light had become the second best selling light beer; it also accounted for more than 40% of Coors's total volume. Although the introduction of Coors Light had created early technical and operational problems, it had come to contribute more to Coors's profitability than Coors Banquet. Part of the reason was that light beers used less of everything (except water) than premium beers, reducing total manufacturing costs by $2-$3 per barrel.

It took Coors longer to advertise its premium-regular Banquet brand successfully; in a 1984 survey, its wholesalers had given it a C+ in this regard.[7] After years of thematic churn, a breakthrough came in 1985 with Coors's first national advertising campaign, "Coors is the One." The advertisements were quiet—settings included mountain lakes and barley fields—and featured Mark Harmon, a quarterback-turned-actor with considerable sex appeal (according to *People* magazine) expounding on why Coors was a fresher and better beer. Other premium beers, in contrast, used life-style commercials packed with people (usually a group of men), action and music, that did not discuss product quality. According to a survey by *Advertising Age*, the new Coors commercials were the most recalled beer advertisements in 1985.

As Coors beefed up its advertising, it also increased its prices, particularly in new distribution territories. Coors Banquet had traditionally been priced well below Budweiser in the west; in eastern markets, it was priced much closer to Budweiser. Most of the added revenue per barrel was negated, however, by the additional cost of shipping beer greater distances.

7. *Beverage World*, October 1984, p. 43.

Coors's Plans for Multisite Expansion

As Coors began its national rollout, concern about the 25-30 million barrel ceiling on capacity at the Golden site and about the increase in shipping distances prompted it to study a second site. By 1979, it had identified two possible locations: one in Rockingham County, Virginia on the Shenandoah River and the other in Anson County, North Carolina on the Pee Dee River. In 1981, it completed the acquisition of 2,100 acres of land in Rockingham County. And in August 1985, it announced plans to construct a 10 million barrel brewery there.

The construction was to proceed in two phases. In the first phase, for which ground had been broken in November 1985, Coors would add a 2.4 million barrel packaging facility that would bottle and can beer shipped in refrigerated rail cars from Golden. The packaging facility was expected to cost $95 million and to start up in spring 1987. Coors estimated that it would reduce the cost of shipping beer to the East Coast by $2.50 per barrel, helping the company complete its national rollout.

In the second phase, which had not yet been committed to, the facility would be expanded into an integrated 10-million-barrel per year brewery. Analysts thought that the second phase might cost $500-$600 million and reduce transportation costs by another $2.50 per barrel. They also noted that to construct the brewery, Coors would probably have to resort to external financing for only the second time in its history. The idea of issuing debt, however, continued to be resisted by Jeff and Peter Coors.

The International Brotherhood of Teamsters quickly announced its intention to organize the 225-250 workers that the new facility would employ in its first phase. The Teamsters, and other unions, were relatively strong in the markets that the Rockingham plant was meant to serve.

Exhibit 1 Surviving Breweries by Capacity: 1959-1983 (thousands of barrels)

Capacity	1959	1963	1967	1971	1975	1979	1983
0- 100	68	54	36	21	11	10	21
100- 1000	121	105	79	65	32	21	14
1000- 2000	18	17	18	21	13	11	13
2000- 3000	5	6	5	9	9	6	4
3000- 4000	3	4	5	3	3	7	5
4000+	2	3	4	7	15	20	23

Source: Kenneth G. Elzinga, "The Beer Industry," in **The Structure of American Industry**, edited by Walter Adams. New York: Macmillan, 1986.

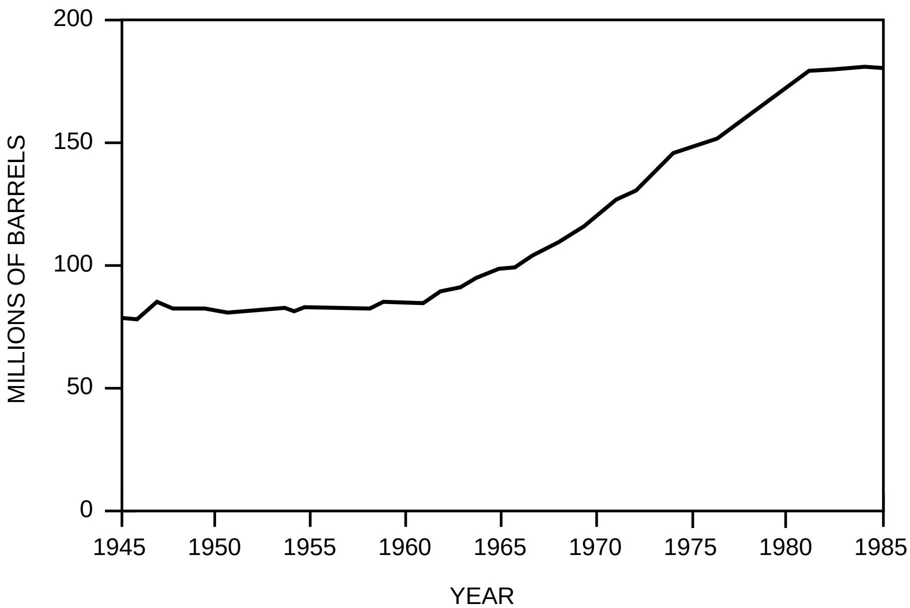
Exhibit 2 Configurations of Major U.S. Brewers in 1985[a] (million barrels)

Company	Number of Breweries	Total Capacity	Capacity in Efficiently Scaled Breweries (%)[a]	Capacity Utilization (%)
Anheuser-Busch	11	74.0	100	85
Miller	6	44.0	100	84
Stroh	7	24.5	70	96
Heileman	10	26.0	42	62
Coors	1	16.0	100	92
Pabst	4	11.0	60	81

[a]Efficient scale is defined as 4.5 million barrels of annual capacity. The figures for Stroh and Pabst are rough estimates.

Source: Gregory Pieschala, "G. Heileman Brewing Company," Harvard Business School, 1985.

Exhibit 3 U.S. Beer Consumption: 1945-1985



Source: David J. Collis, "The Value Added Structure and Competition within Industries," unpublished Ph.D. dissertation, Harvard University, 1986.

Exhibit 4 Advertising by Major U.S. Brewers in 1985

Company	Total Advertising ($ millions)	Advertising/ Barrel ($)	Advertising/ Sales (%)
Anheuser-Busch	471	6.92	8.9
Miller[a]	300	8.09	11.6
Stroh[a]	150	6.41	9.4
Heileman	103	6.36	12.0
Coors	165	11.20	15.3
Pabst	15	1.70	3.1

[a]Rough estimates.

Sources: Annual reports and casewriter's estimates.

Exhibit 5 The Segmentation of Domestic Beers in 1985

<table>
<tr><th rowspan="2">Retail Price (Per Six Pack)</th><th rowspan="2"></th><th colspan="4">Alcohol Content (%)</th></tr>
<tr><th>Regular (6%)</th><th>Light (2-3%)</th><th>Low (<0.5%)</th><th>High[a] (>6%)</th></tr>
<tr><td rowspan="4">Retail Price (Per Six Pack)</td><td>Ultrapremium ($5.75-7.25)</td><td>1. SHARE <1%[b] C4 < 25%[c]</td><td></td><td></td><td></td></tr>
<tr><td>Superpremium ($4.20-5.30)</td><td>2. SHARE = 5% C4 = 100%</td><td rowspan="3">5. SHARE = 22% C4 = 83%</td><td></td><td></td></tr>
<tr><td>Premium (3.70-4.00)</td><td>3. SHARE = 45% C4 = 91%</td><td rowspan="2">6. SHARE <1% C4 = 100%</td><td rowspan="2">7. SHARE = 3% C4 = 84%</td></tr>
<tr><td>Popular (2.85-3.50)</td><td>4. SHARE = 24% C4 = 49%</td></tr>
</table>

[a]Malt liquors.
[b]Share denotes the proportion of domestic production accounted for by a particular segment (all brands).
[c]C4 denotes the proportion of a particular segment's volume accounted for by the top four brands within it.

Sources: Coors Corporate Communications Department, *Beer Marketer's INSIGHT*.

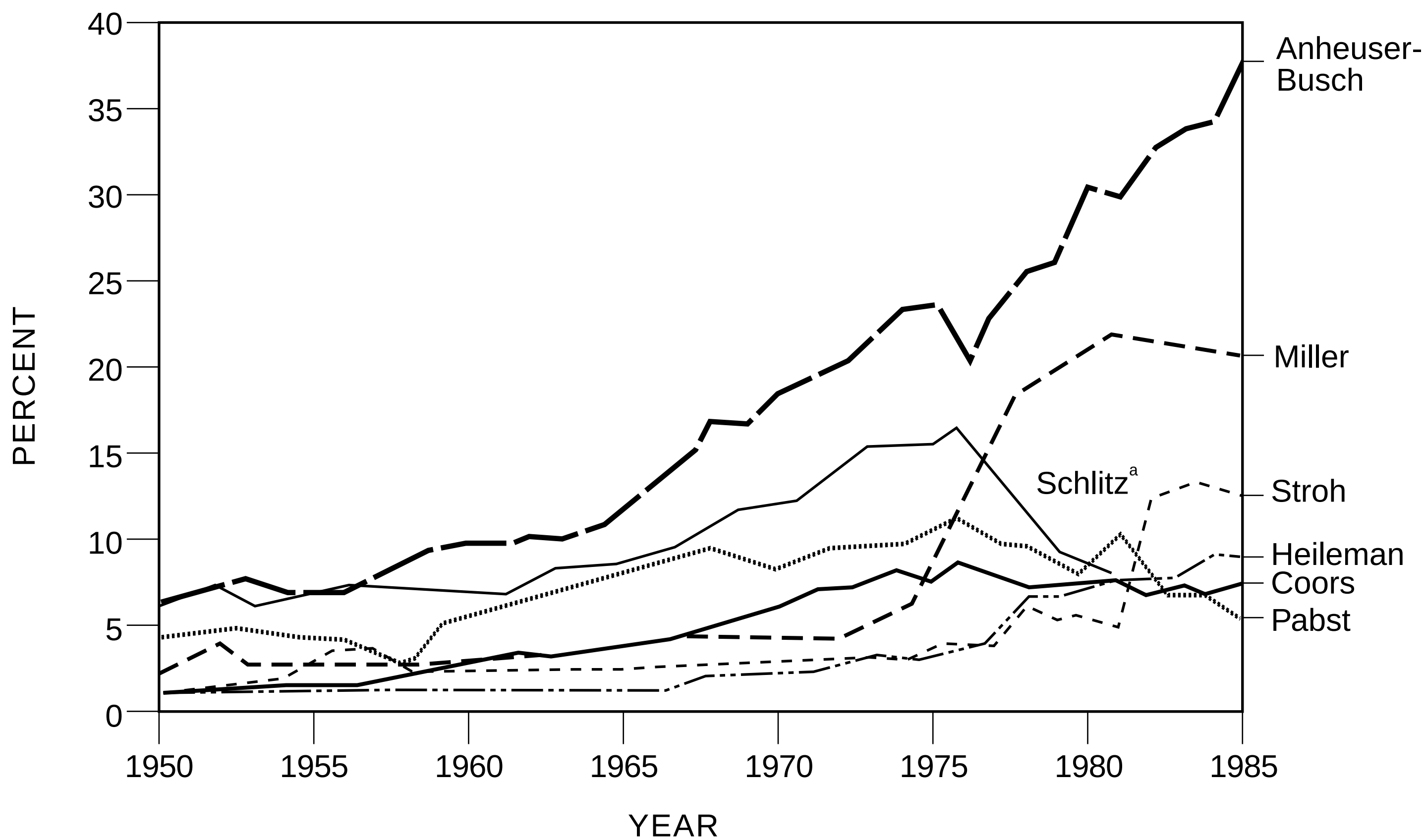
Exhibit 6 Major U.S. Brands' Market Shares: 1977-1985 (% of total domestic volume)

Company	Beer Brand	Segment	1977	1978	1979	1980	1981	1982	1983	1984	1985
Anheuser-Busch	Michelob	Superpremium	4.0	4.5	4.6	4.8	4.7	4.7	4.0	3.8	3.2
	Budweiser	Premium	15.7	16.4	17.4	19.0	20.8	21.7	22.8	24.0	25.8
	Busch	Popular	2.0	2.0	1.6	1.7	1.6	1.9	2.4	2.9	3.3
	Michelob Light	Light	-	0.6	1.0	1.2	1.3	1.4	1.4	1.5	1.5
	Bud Light	Light	-	-	-	-	-	1.8	2.1	2.3	3.1
	Natural Light	Light	1.0	1.4	1.4	1.3	1.1	1.1	NA	NA	NA
Miller	Lowenbrau	Superpremium	0.3	0.7	0.5	0.7	0.6	0.9	0.9	0.8	0.8
	High Life	Premium	10.6	12.6	13.7	12.8	12.3	11.2	9.6	7.8	7.0
	Lite	Light	4.3	5.7	6.1	7.4	9.0	9.6	9.7	10.0	10.5
Schlitz[a]	Schlitz	Premium	9.1	7.5	5.4	4.0	3.1	2.3	NA	NA	NA
	Old Milwaukee	Popular	2.7	2.2	1.8	2.9	3.3	3.3	3.7	2.8	4.1
Stroh	Stroh's	Premium	3.6	3.2	3.2	3.0	3.0	3.1	3.1	3.2	2.6
Heileman	Old Style	Premium	1.9	2.3	2.7	3.0	3.1	3.0	3.0	2.9	2.0
Coors	Coors Banquet	Premium	8.2	7.4	6.7	6.5	5.7	4.8	5.5	4.8	4.9
	Coors Light	Light	-	0.3	1.0	1.4	1.8	1.8	2.1	2.6	3.4
Pabst	Blue Ribbon	Popular	9.4	8.5	7.5	6.3	5.3	4.8	4.3	3.4	2.8

[a]Schlitz was acquired by Stroh in 1982.

Source: Research Corporation of America.

Exhibit 7 Major U.S. Brewers' National Market Shares: 1950-1985



[a]Stroh acquired Schlitz in 1982.

Source: David J. Collis, "The Value Added Structure and Competition within Industries," unpublished Ph.D. dissertation, Harvard University, 1986.

Exhibit 8 Major U.S. Brewers' Sales by Region (millions of barrels)

1977

Region	AB	Miller	Schlitz	Stroh	Heileman	Coors	Pabst	Others	Total
New England	2.0	1.8	1.6	--	NA	--	0.3	1.7	7.4
Southeast	6.4	4.4	4.1	NA	NA	--	1.6	1.8	18.2
East North Central	3.6	3.3	1.4	3.2	1.8	--	5.9	3.6	22.9
West North Central	2.7	1.4	1.7	NA	NA	0.9	2.2	3.3	12.2
West South Central	3.0	2.7	5.1	--	NA	3.7	0.3	2.5	17.3
Mountain	2.2	0.6	0.9	--	NA	3.1	0.2	1.5	8.4
Pacific	6.0	1.8	1.7	--	NA	5.1	0.5	6.3	21.4
Nonreporting States and Exports	10.9	8.1	5.7	NA	NA	--	5.0	24.1	53.8
Total	**36.6**	**24.2**	**22.1**	**6.1**	**6.2**	**12.6**	**16.0**	**37.8**	**161.7**

1981

Region	AB	Miller	Schlitz	Stroh	Heileman	Coors	Pabst	Others	Total
New England	2.9	2.8	0.6	NA	0.1	--	0.2	1.4	8.0
Southeast	8.6	6.4	2.8	0.7	0.8	0.3	1.1	1.2	21.9
East North Central	3.8	6.3	1.0	2.5	3.6	--	4.1	3.2	24.4
West North Central	3.5	2.6	1.2	NA	1.9	1.5	1.8	1.3	13.7
West South Central	5.7	6.1	3.2	--	0.2	4.5	0.3	2.0	22.0
Mountain	3.5	1.9	0.8	--	0.4	2.9	0.2	1.1	10.7
Pacific	10.4	3.1	1.3	--	1.8	4.1	1.1	3.6	25.5
Nonreporting States and Exports	16.1	11.2	3.5	NA	5.1	--	4.6	18.0	58.5
Total	**54.5**	**40.3**	**14.3**	**9.1**	**14.0**	**13.3**	**13.5**	**25.7**	**184.6**

1983

Region	AB	Miller	Schlitz/Stroh	Heileman	Coors	Pabst	Others	Total
New England	3.4	2.4	0.7	0.2	--	0.1	1.2	8.0
Southeast	9.1	5.3	4.4	1.4	2.2	0.8	1.1	24.2
East North Central	4.3	6.7	4.0	4.1	--	3.2	2.1	24.3
West North Central	4.1	2.3	1.5	2.2	1.2	1.7	0.5	13.5
West South Central	6.6	5.9	3.2	1.0	3.8	0.3	1.2	22.0
Mountain	3.9	1.7	0.8	0.7	2.4	0.8	0.3	10.6
Pacific	11.2	3.0	1.2	2.6	3.4	2.1	1.8	25.2
Nonreporting States and Exports	18.0	10.3	8.5	5.7	0.8	4.2	11.4	58.9
Total	**60.5**	**37.5**	**24.3**	**17.9**	**13.7**	**13.2**	**19.5**	**186.6**

1985

Region	AB	Miller	Schlitz/Stroh	Heileman	Coors	Pabst	Others	Total
New England	3.5	1.8	0.4	0.1	0.9	0.1	0.9	7.8
Southeast	11.4	5.3	4.0	1.3	1.7	0.7	1.1	25.5
East North Central	5.8	6.5	3.5	3.5	0.5	2.1	2.1	24.0
West North Central	4.4	2.2	2.0	1.9	1.1	1.0	0.3	13.0
West South Central	7.5	6.4	2.9	0.9	3.2	0.2	1.1	22.1
Mountain	4.4	1.7	1.0	0.7	2.1	0.5	0.3	10.7
Pacific	11.5	3.2	1.5	2.4	3.2	0.1	3.3	25.3
Nonreporting States and Exports	19.5	9.9	8.0	5.3	2.0	2.9	10.4	58.0
Total	**68.0**	**37.1**	**23.4**	**16.2**	**14.7**	**8.9**	**18.0**	**186.4**

Regions. New England: Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. **Southeast:** Alabama, Florida, Georgia, Mississippi, South Carolina, Tennessee and West Virginia. **East North Central:** Indiana, Michigan, Ohio and Wisconsin. **West North Central:** Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota and South Dakota. **West South Central:** Arkansas, Louisiana, Oklahoma and Texas. **Mountain:** Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah and Wyoming. **Pacific:** California, Oregon and Washington. **Nonreporting:** Connecticut, Virginia, North Carolina, Kentucky, Maryland, Alaska, Hawaii, Illinois, New York, New Jersey, Delaware and Pennsylvania; Washington, D.C.; Exports.

Sources: *Beer Marketer's INSIGHT;* Beer Statistics News.

Exhibit 9 Major U.S. Brewers' Operating Statements (in millions of units)

	Anheuser-Busch	Miller[a]	Schlitz[b]	Stroh[a]	Heileman	Coors	Pabst[a]
1977							
Barrels Sold	36.6	24.2	22.1	5.8	6.2	12.8	16.0
Net Revenue	$1,684	$1,110	$900	$223	$216	$532	$583
Cost of Goods Sold	1,340	NA	698	180	152	371	486
Advertising	73	60	54	11	13	14	27
Other SG&A	102	NA	90	19	27	38	32
Operating Income	$ 169	$ 106	$ 58	$ 13	$ 25	$109	$ 38
1985							
Barrels Sold	68.0	37.1		23.4	16.2	14.7	8.9
Net Revenue	$5,260	$2,591		$1,592	$860	$1,079	$490
Cost of Goods Sold	3,524	NA		NA	617	727	NA
Advertising	471	300		150	103	165	<15
Other SG&A	491	NA		NA	74	94	NA
Operating Income	$ 774	$ 136		NA	$ 67	$ 93	NA

[a]Figures for 1985 have been estimated.
[b]Schlitz was acquired by Stroh in 1982.

Sources: Annual reports and casewriter's estimates.

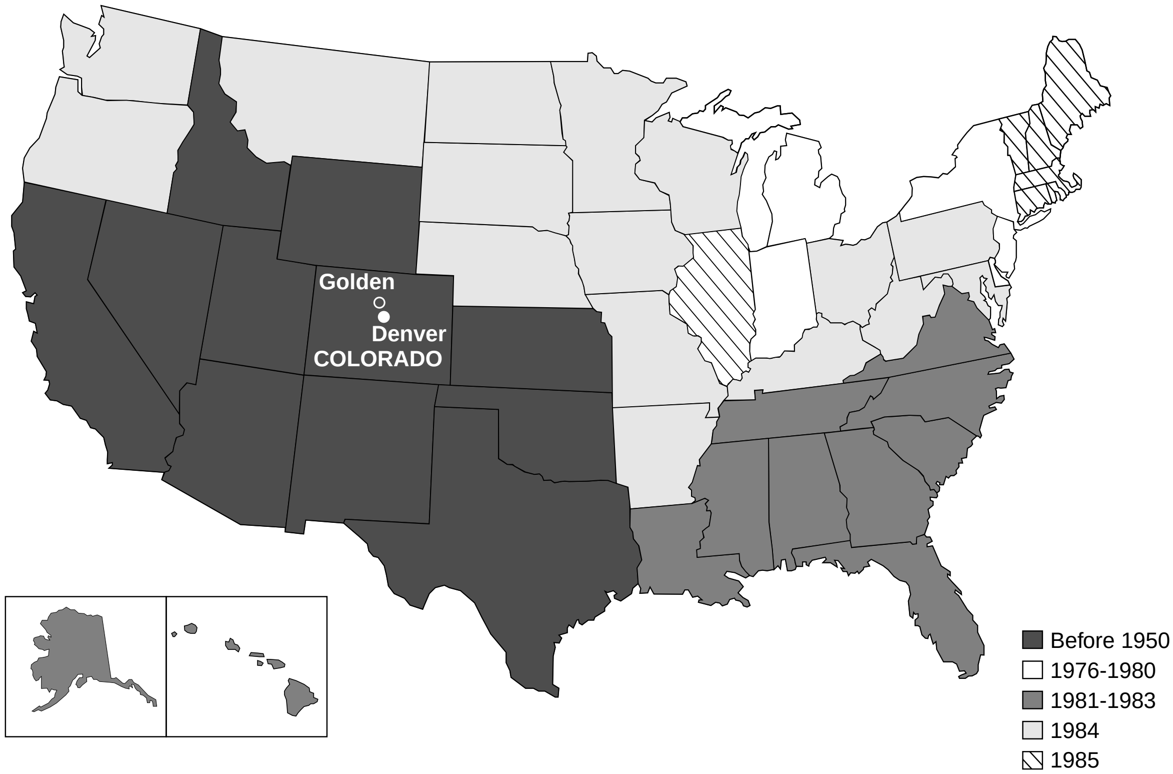
Exhibit 10 Summary Data on Coors' Brewing Division

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
A. Volumes											
Distribution Territory											
# of States	11	13	14	16	16	17	20	20	28	37	44
% of U.S. Market	25%	27%	28%	32%	32%	34%	40%	40%	54%	67%	79%
Wholesalers	NA	212	223	254	254	260	266	374	368	521	574
Capacity (millions of barrels)	13.2	14.2	15.1	15.6	15.6	15.9	15.9	15.9	16.0	16.0	16.0
Sales (millions of barrels)											
Coors Banquet	11.9	13.5	12.8	12.1	11.3	11.3	10.0	8.5	9.7	8.4	8.5
Coors Light	-	-	-	0.5	1.6	2.5	3.1	3.2	3.8	4.6	6.0
Other	-	-	-	-	-	-	0.1	0.2	0.2	0.2	0.2
Total	11.9	13.5	12.8	12.6	12.9	13.8	13.2	11.9	13.7	13.2	14.7
Capacity Utilization (%)	90%	95%	85%	81%	83%	87%	83%	75%	86%	83%	92%
B. Financials[a]											
Sales	NA	545	532	549	639	759	788	766	948	938	1,079
Cost of Goods Sold	NA	NA	371	396	447	538	559		614	666	727
Advertising	7	10	14	29	40	57	73	88	119	139	165
Other SG&A	NA	NA	38	46	54	77	92		66	80	94
Operating Income	118	139	109	79	98	87	64	46	149	53	93
Depreciation	NA	31	37	40	42	45	50	54	57	65	72
Additions to Properties	NA	69	72	72	64	92	130	84	120	92	60
Total Assets	NA	518	562	605	650	704	754	772	850	905	893
Consumer Price Index	161	171	182	195	217	247	272	289	298	311	322

[a]All financials are in current millions of dollars except for the consumer price index.

Sources: Annual reports, 10-K reports, and *Beer Marketer's INSIGHT*.

Exhibit 11 Coors's National Rollout



Source: Annual Reports.