

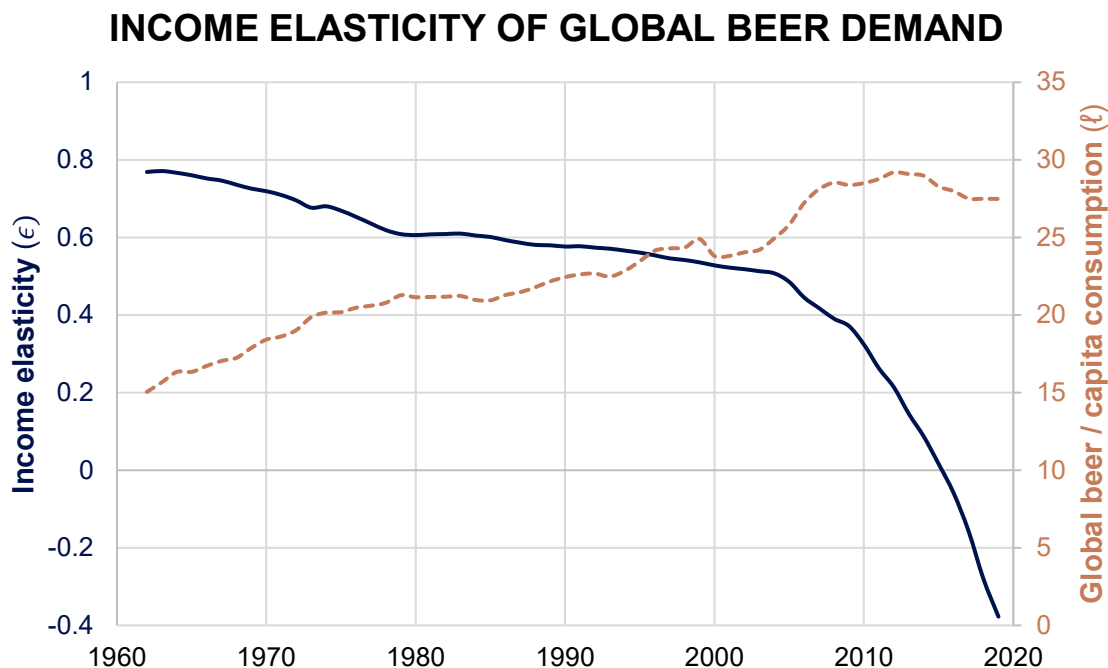
TELLUSANT QUICK READS

INCOME ELASTICITY— THE GLOBAL BEER EXAMPLE

How does demand for a category or industry change with disposable income and how do you go from analysis to strategic implications?

We use global beer demand to illustrate. The World Health Organization's alcoholic beverages database (GISAH)¹ and Tellusant's TelluBase² provide data.

The way to answer the first question is to quantify the income elasticity. That is, how much a percentage increase in demand is caused by percentage increase in disposable income:
 $\Delta D/D = \epsilon \cdot \Delta I/I$.



$$\text{Income elasticity} = \frac{\% \text{ change in demand}}{\% \text{ change in income}} \quad \epsilon_I = \frac{\Delta D/D}{\Delta I/I} = \frac{dD}{dI} \cdot \frac{I}{D}$$

Source: WHO alcoholic beverages database; TelluBase; Tellusant analysis

The graph shows the astonishing decline in global income elasticity. It used to be close to 1 (a 1% income change leads to a 1% demand change).

It is now, más o menos, around 0. Global income has no impact on global beer demand.

Interesting, but how should the global players The Heineken Company, AB InBev, Asahi Beverages, Carlsberg Group react to this.

There are fundamental strategic implications:

- ① The elasticities are different at country and subnational levels. Quantify the elasticity for each geographic unit to see where the opportunities are. E.g., African countries typically have high income elasticity.
- ② The elasticity varies by price segment and beer style. Understand this at a granular level; and why. E.g., premium beer has high income elasticity in some countries like the U.S., but not in many emerging countries.
- ③ A dramatic change like this has profound strategic implications. Scrap the old strategy; firm up resource allocation; diversify prudently.

Dolf van den Brink, Heineken CEO: "From scaling premiumisation to pioneering choice in low and no alcohol products, expanding beyond beer to building our route to consumer." But, all brewers talk like this. Necessary, but not sufficient.

Thus, the strategic canvas needs to be larger. What are these companies good at apart from selling beer?

- A. Could they become distribution and retail companies given their distribution excellence? FEMSA used to be a beer company but made the transition many years ago.
- B. They are world class at marketing. Can they diversify into more than "beyond beer"? E.g., PepsiCo diversified from CSDs to snacks.
- C. Do they have hidden tech opportunities? E.g., AB InBev is rapidly scaling its cloud-based platform BEES. It would not surprise us if, with good execution, BEES is worth much more than the rest of the company.

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This illustrates how you go from one fundamental analysis to massive implications.

¹ <https://www.who.int/data/gho/data/themes/global-information-system-on-alcohol-and-health>

² <https://tellubase.telluplan.com>