

# **Big brands, small business: Why there is no major brewing company in Germany?**

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## **Introduction**

Beer is an important part of the German national image. The Germans are extremely fond of their beer as well, of the purity law and the (alleged) specialness of taste. It is just a few months ago that articles about US-American Micro-breweries outpacing German companies provoked a public outcry. The per capita beer consumption is still one of the highest in the world, even it is shrinking since the 1970s.

On the other hand, breweries in Germany are comparatively small and multinationals have begun to get a foot into the German market. It is necessary to sustain different brands to enable consumers to pretend that they have an individual taste, but in most countries there is only a handful companies which dominate the market. In small countries like Denmark or the Netherlands there is even merely one dominating company and it is telling that these companies, Carlsberg and Heineken, are very successful internationally. In the USA, one of the biggest markets for beer, there were for a long time two dominating companies, Miller and Anheuser-Busch. Since the merger of the latter with the Inbev Company from South-Africa, the concentration movement is still on the advance.

In 1990, the average beer output per brewery in the USA was 1.424.500 hl while in Germany it was merely 78.000 hl.<sup>1</sup> In the same year, Germany hosted 1178 independent breweries; in Belgium it were 124, in Great Britain 105, in the Netherlands 17, in Irland seven, in Greece six.<sup>2</sup> The biggest player in the German market today is the Radeberger-Group, which is owned by the family-owned food company Oetker, with a market share of merely 15%, and this firm owns more than 30 brands. Especially in the traditional beer-areas

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<sup>1</sup> Lothar Ebbertz, Die Konzentration im Braugewerbe der Bundesrepublik Deutschland. Entwicklung und Ursachen, Frankfurt/M. 1992.

<sup>2</sup> Ibid, p.2.

of Old-Bavaria and Franconia there still is a big number of relatively small breweries. Germany's still most important "Bierstadt" (beer city) is Munich. Even when this market is dominated by the "Schörghuber"-group, at least three companies compete with each other.

This paper wants to answer the question, why there is still such a big number of breweries in Germany respectively why the concentration process in German brewing industry was relatively slow in comparison to other countries. My hypothesis is, furthermore, that the relatively slow concentration process provides also an answer to the question, why there is no brewing company of international importance in Germany. In the first part of this paper, I want to outline some basic characteristics of the concentration movement in the brewing business. Furthermore, I am trying to identify some basic factors of the relationship between concentration grade and international expansion. In the second chapter, I give a quantitative overview on the concentration movement in the 20<sup>th</sup> century. In the following parts I am going to identify some basic explanations for the concentration process and put them into perspective with the development in other countries. In the conclusion I will try to answer the question, what the special characteristics of the German development were.

## **1. Concentration and Oligopoly: the economics of brewing**

If we compare the situation of the European and American brewing business 100 years ago with its shape today, it seems to be relatively clear that the brewing business tends to create oligopolies. The market structure of the most highly industrialized states in Europe and Northern America shows a typical dichotomy between huge, nationwide operating companies and micro-breweries providing regional markets.<sup>3</sup>

This dichotomy is the result of several developments. First, technological progress has diminished the entry barrier of markets. It is possible nowadays to produce beer with excellent results with small facilities in a profitable manner. On the other hand, big companies have enormous advantages in respect of productions costs of large scale production, but even more concerning distribution. While on small, regional markets the distribution costs are relatively small, supplying department store chains, for instance, make big sales organizations necessary. Substantial advertizing costs are inevitable to establish and maintain brands. In this respect, big companies have substantial advantages compared to smaller firms.

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<sup>3</sup> Hans Pfeifer, Das Bier von hier (Unternehmen), in: Capital 3/92, p. 91ff.

Beer is generally – whatever many consumers think – a standardized, mass-manufactured product. There are certainly different brands and different tastes, but the production process is not very different, or not more different than between, for instance, sundry types of tires. Standardized, mass-manufactured products tend to create structures in which the market is dominated by few big companies seizing the economies of scale.<sup>4</sup> But production costs are not everything and, in many ways, the comparison between tires and beer helps to understand the economics of the brewing business. Like tires, beer is a standardized consumer product, but has a much shorter average “life expectancy”. Its retail structure is much more decentralized.

This had, historically, the effect that the economies of scale on the production side were partly outweighed by distribution costs. As long as distribution was mainly relying on horse drawn vehicles the size of the distribution area was limited. The introduction of vans since the 1920s diminished distribution costs just as the intensified use of railway transportation. The growing importance of bottles and cans, especially since WW II, along with the establishment of supermarket-chains opened up new economies of scale favoring big firms.

A necessary precondition that big companies can realize their advantages and crowd out smaller firms is the existing of a functioning price competition. In the brewing business this is very often not the case. The beer business seems to be the typical market, beside cars, in which the price is highly dependent on a brand’s image. In other words: the better the image the higher the price. This sometimes has the paradox effect that a “strategic” price-cut leads to a sales slump because consumer connect a cheaper price with bad taste. This is the result of developments during the last 30 years. However, since a much longer time there are restrictions which reduce the beer price’s elasticity: beer supply agreements between the firm and the buyer (mostly innkeepers), which were especially important in the German case. Furthermore, the beer price has a social dimension as well. Selling beer cheaply can harm social peace.

For this reasons, the beer price has turned out to be very rigid historically. At the same time, his inelasticity brought about substantial profit margins – when merely the costs of production are compared with the retail price. Technological progress reduced the distribution costs while costs for sales promotion are still extremely important for branding. This is the most important reason why beer brands are extremely present in advertizing while the

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<sup>4</sup> Paul Erker, Vom nationalen zum globalen Wettbewerb. Die deutsche und die amerikanische Reifenindustrie im 19. Und 20. Jahrhundert, Paderborn 2005, p.9ff.

macroeconomic importance of the brewing industry is much smaller (at least today<sup>5</sup>). This fundamental profitability makes it possible for smaller breweries to survive on regional and local markets although they cannot compete with bigger firms on a financial scale. The beer price's rigidity was for a long time a big hindrance for the concentration movement, but it could not stop it in the long run.

These admittedly rather "impressionistic" considerations suggest that there is a natural concentration grade in the brewing industry determined by the economies of scale, the technological level, distribution costs, and the market size.<sup>6</sup> They moreover suggest that the German case is something special. The brewing business tends to create oligopolies and for some reasons this did not happen in Germany. During the next chapters I am going to discuss possible reasons for this.

## **2. Concentration in German brewing industry: a quantitative overview**

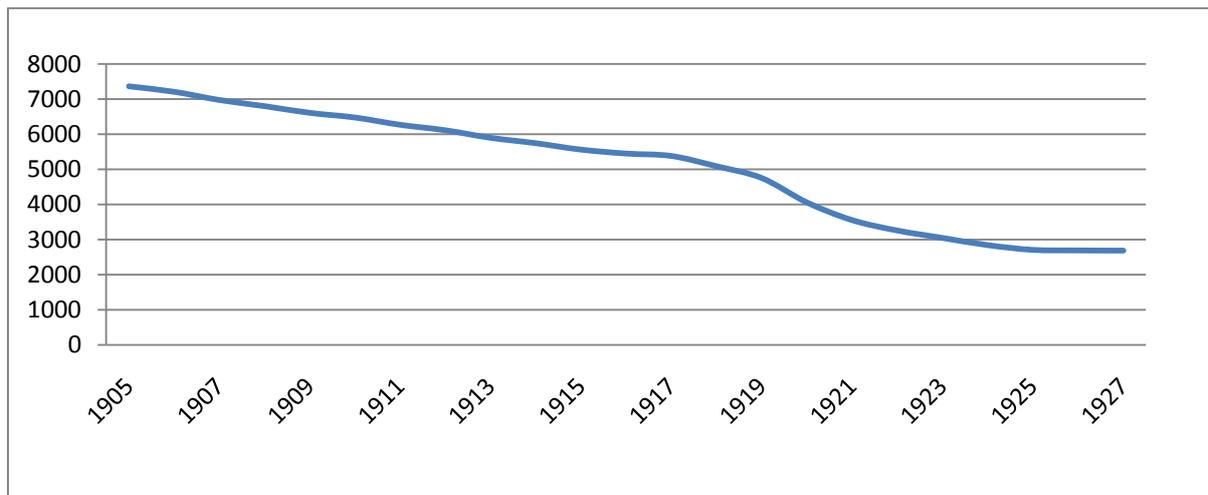
During the 20<sup>th</sup> century, the German brewing industry experienced an ongoing concentration movement which had two main aspects: the number of breweries was shrinking and the gap between industrial breweries and small local breweries became bigger. However, the concentration movement was a very uneven development:

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<sup>5</sup> In 1913, brewing industry was the second most important branch in Germany concerning the value of production. Mikulas Teich, *Bier, Wissenschaft und Wirtschaft in Deutschland 1800-1914. Ein Beitrag zur deutschen Industrialisierungsgeschichte*, Wien 2000, p.7.

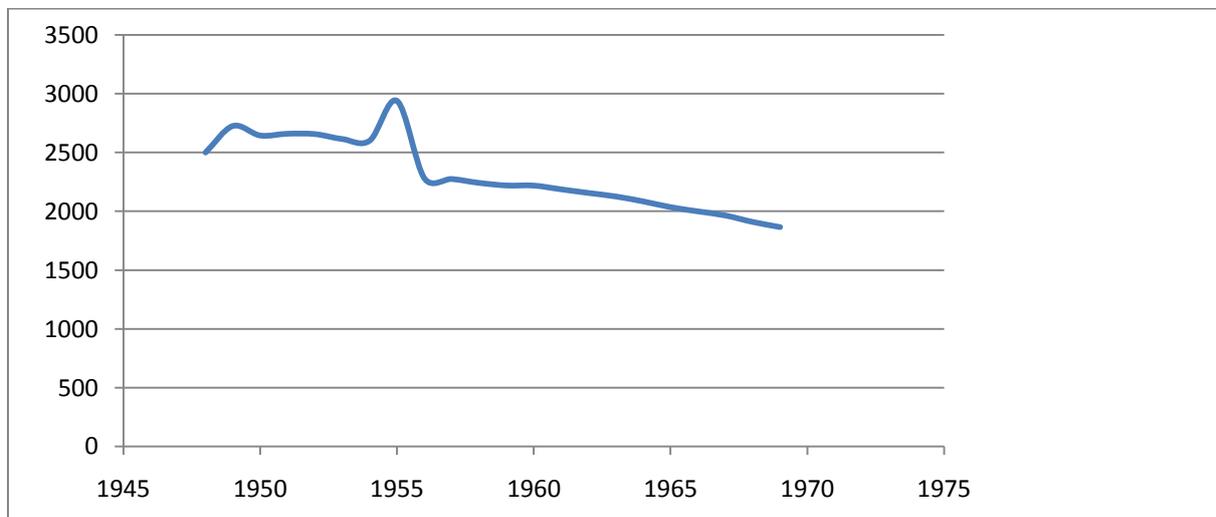
<sup>6</sup> Cp. Hans-Otto Lenel, *Zur Problematik eines optimalen Konzentrationsgrades*, in: Fritz Neumark et al. (ed.): *Wettbewerb, Konzentration und wirtschaftliche Macht. Festschrift für Helmut Arndt zum 65. Geburtstag*. Berlin 1976, S.192

### Number of breweries in Germany 1905-1927:<sup>7</sup>



The “external shock” of WW I led to an accelerated concentration. From the mid-1920s until the 1960s, the concentration process was going on rather slowly. This was not at least due to a growing beer consumption during the 1950s and 1960s.

### Number of breweries in West Germany 1948-1970<sup>8</sup>



The basic statistical result is that there was an accelerated concentration movement between 1914 and 1924. This was due to wartime restraints which I am going to deal with in the next chapter. After the end of the inflation the brewing industry was consolidated. Neither the Great Depression nor WW II led to a comparable concentration. The next concentration wave took place in the 1960s. Since this time, the number of breweries was constantly shrinking

<sup>7</sup> Alfred Mauritz: Die Brauerei- und Mälzerei-Berufsgenossenschaft, in: Die Brauindustrie der Gegenwart (ed. with support of the Deutschen Brauer-Bund), Mannheim 1930, p.39

<sup>8</sup> Ebertz, Konzentration, p.124

until 1990. In this year there were approximately 1200 breweries in Germany; a number which remained relatively constant from now on. However, there was a substantial increase in importance of big brewing companies. The typical dichotomy between large firms and small local breweries came to the fore just as in other countries.<sup>9</sup>

An important contribution to this development was beer consumption: it was rising during the years of the “economic miracle” and had its heyday in the 1960s. Since the 1970s, however, consumption experienced a slow but continued decline. At the same time, bottled beer gained more and more importance compared to beer on tap.

### Per capita beer consumption in Germany<sup>10</sup>

Year	Per capita consumption (l)
1950	35,6
1960	95,3
1970	141,1
1980	145,9
1985	145,8
1989	142,9

The result of this short statistical overview is that there was a substantial concentration movement, especially between 1914-24 and since the 1960s, which was outpaced however by the development in other countries.

### 3. “External shocks”

As the statistics above demonstrate, a very important explanation for concentration is the emergence of “external shocks”. In times of crisis, beer consumption is shrinking, barley and hops are scarce, the government raises taxes on beer etc. The most important external shock in the USA was certainly the Prohibition between 1920 and 1933, when the production and consumption of beverages with more than 0,25% alcohol was officially forbidden (or almost forbidden). In America this led to a severe concentration movement.<sup>11</sup> Many breweries struggled to survive by producing *ersatz*-beverages or lemonades. In Europe, the most severe external shocks certainly were the two World Wars.

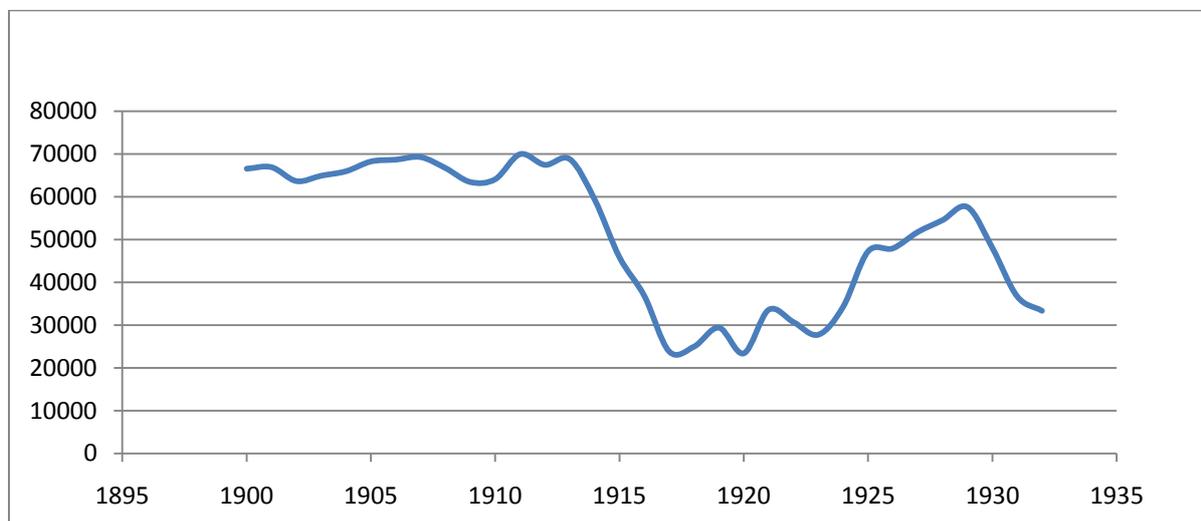
<sup>9</sup> Ebbertz, *Konzentration*, p.139.

<sup>10</sup> *Ibid*, p.3.

<sup>11</sup> Cp. the impressive new history of the Prohibition: Thomas Welskopp, *Amerikas große Ernüchterung. Eine Kulturgeschichte der Prohibition*, Paderborn 2010.

In Germany it was especially WW I which led to an accelerated concentration movement. In 1915, the quotation of barley took off which should become much more rigorous during the war.<sup>12</sup> In the end, most remaining firms brewed a beer with merely 2-3% original wort, which equates to approx. 0.5-1 % alcohol. No wonder that the demand for beer during the war's last years was extremely low. There was the possibility, though, to buy the contingent of other breweries (which was very often the foreplay of a merger), but this could not compensate war time restraints. Officials in Germany, as in other warring countries, perceived beer as important neither for public health nor public morals (which probably was a mistake).

### German beer consumption 1900-1935<sup>13</sup>



As demonstrated by the chart in the last chapter, WW I gravely affected the brewing business in Germany. The number of breweries was shrinking rapidly until the end of the inflation in 1924. This was the time when brewing companies from major cities started to expand in regional markets, mainly via buying small local breweries. The Schultheiss-Patzenhofer company from Berlin became Germany's biggest brewery just as breweries from Dortmund gained national importance during this period.<sup>14</sup> The concentration was accompanied by the

<sup>12</sup> Roman Köster, *Die Konzentrationsbewegung in der Dortmunder Brauindustrie 1914-1924. Das Beispiel der Dortmunder Actienbrauerei*, Essen 2003, p.38ff.

<sup>13</sup> Walther G. Hoffmann: *Das Wachstum der deutschen Wirtschaft seit der Mitte des 19. Jahrhunderts*, Berlin/ Heidelberg/ New York 1965, p.651ff.; Eduard Backert, *Geschichte der Brauereiarbeiterbewegung*, II.Teil: 1914 bis 1928 (bearbeitet von Carl Linné), Hamburg 1962, p.91; Rudolf Caspary: *Die Wirkungen des Krieges auf die deutsche Brauindustrie*, Stuttgart/ Berlin 1927, p.92; *Tageszeitung für Brauerei* Nr.35 (11.2.1926), p.165 – Bierbrauerei und Bierbesteuerung im deutschen Biersteuergebiet (ohne Saargebiet).

<sup>14</sup> Erich Borkenhagen, *125 Jahre Schultheiss-Brauerei. Die Geschichte des Schultheiss-Bieres in Berlin von 1842 bis 1967*, Berlin 1967.

radical technological rationalization and gradual centralization of production. The increased distribution costs could be compensated by railway transportation.

The next “external shocks” were the Great Depression and the Second World War. During the Great Depression, the consumption of beer was declining and the state raised excise taxes. During WW II, there was a quotation of barley again. But neither the economic crisis nor WW II led to a comparable concentration movement as WW I. The reason for this seems to be that – if there is something as a “natural concentration grade” – the brewing business in Germany was consolidated after the inflation. Most breweries had a distribution area and a production plant big and effective enough to survive hard times somehow. That the brewing industry is dominated by family companies probably played a role as well, because this created a high emotional barrier to leave a market.

The next external shock – so to say – was the occupation of Germany after the lost war and its division into two parts. This had not at least the effect to weaken the position of the biggest German brewery, the Schultheiss-Patzenhofer company, whose distribution areas were mainly located in the east. On the other hand, this development favored the breweries in Northrhine-Westphalia, especially the big firms from Dortmund, which should become Germany’s most important brewing city in the 1960s.

All in all, the German brewing industry had to face several external shocks during the 20<sup>th</sup> century, severe as in other countries – or even more severe. The lack of external shocks therefore cannot explain the decelerated concentration.

#### **4. Rationalization and technological progress**

As I have tried to demonstrate in the first chapter of this paper, the technological level of production and distribution is an important factor of concentration and influences the economics of beer production. Is it possible to explain the slowed concentration by a technological backwardness of German brewing industry? This seems to be unlikely insofar as Germany had during the 20<sup>th</sup> century one of the most advanced industrialized economies and engineering here had worldwide reputation. Nevertheless, it is helpful for understanding the concentration movement to put it into perspective with technological change.

Concerning production the German brewing industry was able to maintain a high technological level. This was not at least due to the existence of an important branch of industry producing facilities and machines for breweries and malthouses. Most of the bigger

breweries since the 1920s were vertically integrated, which means that they had their own malthouse. Even if the American and British brewing industry had an advantage because the industrialized and large-scale production of beer did start earlier here, there was certainly no technological backwardness of German breweries on the production side – at least in bigger brewing companies.<sup>15</sup>

Concerning distribution it is to say that motorization took off very early in the United States after 1900, but Germany was not far behind. Vans were introduced here during WW I in cooperation with the German army, although they turned out as not very reliable.<sup>16</sup> Since the 1930s and especially after WW II, vans replaced dray-horses, a process which was almost completed until 1960. During the supra-regional expansion of industrial breweries 1914-1924 many companies installed a connection to the railway system to diminish transportation costs.<sup>17</sup>

All in all, it seems to be very difficult to assign the slowed concentration movement to the technological level or rationalization of the brewing process. The technological level of German brewing industry was well advanced. When there was a technological backwardness, especially in small breweries with outdated plants, this was more a result of the slow concentration movement than its cause. The interesting question rather is why big and modern breweries were not able to push those small breweries out of the market. To give an adequate answer it is necessary to pay attention to the regional allocation of breweries in Germany.

## **5. Regional structure of the brewing industry**

The German brewing industry had and still has a significant regional structure. When in 1990 there were still 1.200 breweries approximately 800 of them were located in Bavaria, a southern province famous for its beer, the Oktoberfest etc. In Bavaria, beer consumption was traditionally much higher than in the rest of Germany.<sup>18</sup> In 1913, for instance, people there were drinking about 232 liters of beer per year, while in Prussia people were drinking merely

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<sup>15</sup> For the technological development until WW I see: Teich, Bier, Wissenschaft und Wirtschaft.

<sup>16</sup> Frank Lippert, Lastkraftwagenverkehr und Rationalisierung in der Weimarer Republik. Technische und ökonomische Aspekte fertigungsstruktureller und logistischer Wandlungen in den 1920er Jahren, Frankfurt/M. 1999.

<sup>17</sup> Köster, Die Konzentrationsbewegung in der Dortmunder Brauindustrie, p.73f.

<sup>18</sup> Ebbertz, Konzentration, p.51.

80 liters.<sup>19</sup> This difference became much smaller during the 20<sup>th</sup> century, especially after WW II, but Bavaria is (next to the small Saarland) still the province with the by far highest beer consumption.<sup>20</sup>

### **Breweries and provinces in West Germany 1989:<sup>21</sup>**

Province	Number of breweries	Inhabitants (millions)	People per brewery
Hamburg/ Schleswig-Holstein	12	4,17	347308
Bremen/Lower-Saxony	33	7,85	237794
Northrhine-Westphalia	96	16,87	175772
Hesse	48	5,56	116019
Rhineland-Pfalz	32	3,65	114162
Saarland	7	1,05	150586
Baden-Württemberg	179	9,43	52696
<i>Bavaria</i>	<i>764</i>	<i>11,05</i>	<i>14462</i>
Berlin	7	2,07	295471
<b>Federal Republic</b>	<b>1178</b>	<b>61,72</b>	<b>52390</b>

The traditional beer culture in Bavaria had the effect that people there developed a strong emotional connection to their traditional brands. But brand loyalty was merely one reason for the survival of so many small companies. A second reason was the availability of raw materials (mainly barley and hops) because they were mostly grown in the area. Furthermore, there was a regional knowledge network (for which the cloister Weihenstephan in Freising, a small city north of Munich, was extraordinarily important) which helped small breweries to improve production and book-keeping. So, the small average size of Bavarian breweries did not necessarily mean technological backwardness. In fact, many of these breweries occupied a regional niche and were, for this reason, able to survive. An additional factor was that the traditional characteristics of Bavarian brands fitted well together with the emergence of so-called premium brands since the late 1970s (see Chapter 8).

The high number of breweries in Bavaria alone, however, is not sufficient to explain the slow concentration. In the rest of Germany remained a big number of brewing companies as well. Until the late 1970s, the most important place outside Bavaria was the city of Dortmund located in the highly industrialized Ruhr district. Even this city hosted six big breweries until the late 1960s which mainly provided Germany's industrial West and Lower-

<sup>19</sup> Bierbrauerei und Bierbesteuerung im Rechnungsjahr 1913, in: Vierteljahrshefte zur Statistik des Deutschen Reiches H.4 (1913), p.83. This does not necessarily mean, however, that alcohol consumption of beer in Bavaria was substantially higher than in other parts of Germany, because wine and hard liquor were less common here.

<sup>20</sup> Ebbertz, *Konzentration*, p.86.

<sup>21</sup> *Ibid.*, p.128.

Saxony. These breweries had gained supra-regional importance in course of the already described external shocks, but it proved to be very difficult for them to gain additional market shares.

The main reasons for this were the rigid beer price, but also that market relations were cemented by beer supply agreements (“Bierlieferungsverträge”). These contracts, which became common during the last quarter of the 19<sup>th</sup> century, made it very complicated for innkeepers to change the supplying brewery and made it difficult for brewing companies to gain additional markets shares.<sup>22</sup> That in most cases the breweries gave credits to innkeepers to tighten the relationship between them had a double-edged effect however. On the one hand, these loans reduced the incentive to change the supplier after the contract was terminated. On the other hand, they were extremely unsafe and very often more some kind of “subsidies” and, therefore, reduced the profitability of brewing companies actually.

The regional structure of the brewing industry and the institution of beer supply agreements was definitely one of the most important reasons for decelerated concentration. Sales areas were rigid and the absence of a functioning price competition made it difficult for better performing breweries to expand.

## **6. Distribution and bottled beer**

Until the 1920s, most beer in Germany was sold in pubs, taverns, and restaurants. From this point on, however, the production of beer in bottles took off. Especially because it proved to be useful for distribution and export. The real success-story of bottled beer should start after WW II. This was part of a development which was narrowly connected to the prevalence of television: more and more people, mainly men, stayed at home in the evening and drank their beer there (which could be cooled down by refrigerators<sup>23</sup>). On the distribution-side, this development went along with the building-up of new retail structures. During the 1960s, a uniform bottle-type was established which made it much easier for store chains and breweries to organize the beer trade.

The growing importance of bottled beer definitely advanced concentration, but the development never went so far as in many other countries. In the USA, for example, during

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<sup>22</sup> Gabriele Wiedenmayer, *Die Entwicklungsdynamik in der deutschen Brauindustrie. Eine empirische Überprüfung des organisationsökologischen Ansatzes*, Frankfurt/M. 1992, p. 107f.

<sup>23</sup> Jan-Otmar Hesse has identified this development as “complimentary consumption” of Germany’s economic miracle. Jan-Otmar Hesse, *Komplementarität in der Konsumgesellschaft. Zur Geschichte eines wirtschaftstheoretischen Konzeptes*, in: *Jahrbuch für Wirtschaftsgeschichte* 30, 2007, p. 147-167.

the 1960s and 1970s glass bottles were by and by substituted by cans and, later on, plastic bottles which had a massive effect on concentration there.<sup>24</sup> This development was less distinctive in Germany, not at least because of the impact of vested interests. Also in Germany it was the case that cans and plastic bottles make the constitution of retail systems much easier because of the lower weight and cheaper material which was easily disposable. But the most important lobby group, the “Deutscher Brauer Bund”, acted in favor of small breweries which represented the majority of his members. This organization feared that the replacement of glass bottles by cans and plastic bottles would strengthen the influence of big brewing companies and chains.<sup>25</sup> That since the late 1960s the German public uttered more and more environmental concerns against the growing dominance of plastics gave the Deutscher Brauer-Bund additional arguments at hand.<sup>26</sup> Furthermore, until today most consumers in Germany maintain reservations towards beer from plastic bottles. So the introduction of bottled beer initially advanced concentration. Since the 1960s, however, lobbying for bottles turned out to be an effective means to decelerate concentration.

## **7. Family companies**

The brewing industry was since its beginnings in the second half of the 19<sup>th</sup> century dominated by family-owned companies. During the so called “Gründerzeit” (period of promoterism) until 1873, many of these firms became joint-stock companies, but in most cases they were nevertheless dominated by one family holding the majority of stocks and occupying the most important positions in the managing board and the supervisory board. The for a long time very liberal stock corporation law in Germany made it possible to enjoy the advantages of a joint-stock company (especially in case of mergers) and stay a family company at the same time.

After WW II, things were changing gradually. In Bavaria, most companies remained in the hand of single families, while in case of many firms in the West many families lost their dominating position since the 1960s. Especially times of crisis endangered their influence. This does not mean, however, that the importance of families was generally in decline: Germany’s most important brewing company today, Oetker, is a family company (and no joint-stock company) as well as the Bavarian Schörghuber firm. The so called premium

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<sup>24</sup> Robert Friedel, *American Bottles: the Road to No Return* (Conference Paper Munich 2011).

<sup>25</sup> Cp. Werner Schenkel (ed.), *Leben ohne Müll? Wunsch und Wirklichkeit*, Stuttgart 1988.

<sup>26</sup> Andrea Westermann, *Plastik und politische Kultur in Westdeutschland*, Zurich 2007.

breweries, which entered the scene in the late 1970s, are family owned. So there still is an important influence of families in the German brewing industry.

That the brewing industry was traditionally dominated by families had an impact on concentration as those companies generally have a closer emotional tie to their business and a higher “market exit barrier”.<sup>27</sup> The forms of organization, which are typical for family companies in general, limited liability company (GmbH) and limited partnership (Kommanditgesellschaft) narrowed the possibilities of external growth.

## 8. “Premium brands”

Until the middle of the 1970s, German brewing industry had experienced a substantial concentration process, and the market position of big brewing companies like Dortmunder Union Brauerei (DUB, at this point of time Germany’s biggest brewery) and Dortmunder Actien Brauerei (DAB) seemed to be confirmed. But in the early 1980s, the situation changed completely, which was due to the emergence of the so-called “premium brands” belonging mainly from the rural areas *Sauerland* and *Eifel*. This development went along with the decline of Dortmund as most important location of breweries.<sup>28</sup>

The new firms had in common that their beer was relatively expensive and that their brands had a “natural image”. The Krombacher company from Kreuztal, for instance, started advertizing with natural motives already in 1967.<sup>29</sup> These firms took advantage from the fact that consumer behavior was changing: When, in former times, people had less money in their pockets they normally reduced their beer consumption. In a rich society, however, people were willing to pay a higher price for good beer. If they could not afford it was more likely that they changed to cheaper brands. This was an important reason, beside an extremely smart branding policy, that cheap beer was connected to the social status of the people drinking it. A second reason was that the new companies were aware of a changing taste from “export”-beer to pilsner, a trend largely missed by the Dortmund breweries.<sup>30</sup> “Krombacher” is today the single most important beer brand in Germany with a market share of 9-10%.

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<sup>27</sup> Christina Lubinski, Familienunternehmen in Westdeutschland. Corporate Governance und Gesellschaftskultur seit den 1960er Jahren, Munich 2010, p.273ff.

<sup>28</sup> Cp. Claus Hoffmann-Güth, Die Entwicklung der Kartsberg-Brauerei, Saarbrücken 1998, p.362ff.

<sup>29</sup> In 1967, Krombacher started using a „Forester“-motive for advertizing. Nowadays, the firm’s main slogan is that the beer is brewed with mountain spring water.

<sup>30</sup> Ebbertz, Konzentration, p.277ff.

The emergence of the premium brands brought “confusion” into the German market. Big companies as DUB and DAB had to struggle while newcomers started to occupy an important market position. Dortmund, which had been Germany’s beer city No.1 during the 1970s, did not only experience the dying of coal mining and heavy industry, but also the vanishing of the brewing industry, once the third important column of the town’s industry. The business strategy of DUB and other firms from the industrial Ruhr area was very simple: to produce a large amount of beer and sell it for a cheap price. From their point of view, the main consumer group was workers. Over-confident as they were, they missed the ongoing social changes and completely underestimated the new competitors. During the 1980s and 1990s, more and more firms from Dortmund lost their independence. Nowadays there is merely one plant left in a city and almost all brands are owned by the Oetker-company from Bielefeld.

The emergence of premium brands had the effect that established market positions were weakened and a number of newcomers gained substantial market shares. Unlike other countries, where the big brewing companies were mostly family-owned firms with strong brands that could not be shattered by industrial change, in Germany structural changes of the economy and changing consumer behavior had a massive impact on the market structure. This probably slowed down concentration because it weakened the position of the biggest companies.

## **Conclusion**

The first assumption of this paper was that there is a “natural” concentration grade in the brewing industry which is determined by the economics of scale, the technological level, distribution costs, and the market size. The second assumption was that the concentration movement in Germany’s brewing industry was not merely slower than in other countries, but also lagged behind this natural concentration grade. After this short overview on the history of German brewing business during the 20<sup>th</sup> century it is now possible to outline some explanations for this phenomenon.

- The first explanation relies on institutional factors: Even when distribution costs were shrinking, it was really difficult for German breweries to gain additional market shares. Beer supply agreements hindered concentration massively. The absence of a

functioning price competition made it possible for small breweries to survive on small and local markets.

- The policy of vested interests, especially the Deutscher Brauer Bund, protected small breweries. A good example is the conflict between glass bottles and plastic bottles/cans.
- A third explanation is the changing consumer behavior and the emergence of “premium”-brands since the early 1980s. While beer consumption was constantly shrinking since the late 1970s, the consumer’s taste changed from export to pilsner. This favored newcomers as the Krombacher brewery, while the big industrial breweries like Dortmunder Union (DUB) and Dortmunder Actienbrauerei (DAB) went down the drain.
- A further point is the dominance of family companies in the brewing industry, what presumably caused a stronger emotional tie to the own firm and created high market exit barriers. Moreover, family companies very often had fewer possibilities for external growth.
- The regional diversity of the brewing industry’s structure and numerous local “beer cultures” made it very complicated to establish national brands. Even when one company merged with another, it was in most cases necessary to maintain the traditional brand.

None of these explanations are uniquely “German” indeed. The mentioned factors can be found in many other countries too. In many ways, Belgium created almost the same conditions as Germany. Like in the USA, German breweries had to deal with massive external shocks in the 20<sup>th</sup> century, especially during the First World War. However, it was the combination of decelerating factors which made the situation here so special.

A subsequent hypothesis, which is hard to prove though, is that a high concentration grade in the home market is a precondition for international expansion. The rationale is that brewing is principally, keeping in mind the relation between production costs and retail prices, a very profitable business. The profit margin tends to be substantially higher when there is a domination of the home market because of lower costs for advertising and retailing as well as the general economies of scale. This creates the financial backbone for international expansion. This means at the same time, that the big number of breweries in Germany enhances advertizing costs, especially for breweries operating on a supra-regional level. The

low concentration grade means, in international perspective, a diminished profitability of German breweries.

This is, of course, not the only explanation: the point of time seems to be important as well just as branding policy. Today, for example, it would be much more difficult to establish a new brand on the American market than during the 1960s, because it is largely saturated (in other words: Heineken, as a genuinely European brand, came first). But nevertheless the low concentration grade can be interpreted as one reason for the small significance of German breweries in international competition.