I am very proud to announce Carlsberg Group as the case company for the 2019 CBS Case Competition Global. It is my hope that the case challenge will expand your business knowledge and will allow for you to apply your academic and professional skills. I equally look forward to learning from your insights and solutions as I truly believe that great ideas can come from anywhere and anyone.

Since the beginning in 1847, we still follow our Founder’s unwavering belief in quality, perfection, and the importance of science to continuously perfecting the art of brewing beer and solving global challenges. We focus on our brands and the art of brewing, excite our consumers with quality brews and great experiences and take pride in continuously striving to improve at everything we do. We are brewing for a better today and tomorrow.

2018 was a fantastic year for Carlsberg Group. Among the highlights, we announced two profit upgrades and launched new sustainable innovations including the Snap Pack, which reduces plastic usage in our 6-pack packaging through innovative glue technology. But we can always do better and must leverage the newest technologies and innovations to be even more agile and competitive in the future.

To do this, Carlsberg Group has embarked on a digital transformation journey, which plays an essential role in our business strategy – SAIL’22. Going digital is not just about increasing business efficiency, but even more importantly about delivering even more extraordinary customer experiences.

Your challenge is thus to explore how Carlsberg can further disrupt traditional on-trade channels, such as bars, restaurants, and cafes in order to digitally engage with our consumers and ensure further revenue growth in the European region.

I am thrilled to see what innovative ideas are generated by all the participating young talents.

Thank you for your time and hard work!

Best regards,

Cees ’t Hart
CEO, Carlsberg Group
Consumer preferences are developing faster than ever. Beer has always played an important role in many social settings and is often seen as a catalyst for people to share important moments, whether with colleagues after work, with friends in a restaurant or with a large crowd at a concert. As the preferred alcoholic beverage across the globe, beer brands are part of national culture and identity. But with the global health and wellness trend on the rise, consumers are increasingly choosing other ways to share these moments, in an attempt to lower their consumption of alcohol. When they do consume alcohol, Western European consumers are increasingly choosing categories traditionally perceived as more luxurious, such as various hard liquors or wine – a category that has seen impressive growth in recent years. In addition, within the beer category, consumers are increasingly moving towards more premium brews, resulting in a few very large, cash generative players operating globally. At the other end of the spectrum, an increasing number of small breweries are popping up across Europe, catering to the demand for unique, local beer experiences.

Important changes in recent years
In recent years, the beer industry has consolidated significantly, through a wave of horizontal mergers and acquisitions. This is done to leverage scale, resulting in a few very large, cash generative players operating globally. At the other end of the spectrum, an increasing number of small breweries are popping up across Europe, catering to the demand for unique, local beer experiences.

The industry is generally separated into two sub-segments: off-trade and on-trade. Off-trade refers to beer sold through an intermediary, such as supermarkets, wholesalers and retail stores, but not consumed on premise. On-trade refers to the sale of beer for immediate consumption, such as in bars, hotels and restaurants where beverages are consumed on premise. While most beer is sold through off-trade, the greater willingness to pay a premium in on-trade channels means that this segment represents the majority of the market value. Beyond higher prices, on-trade also has other advantages. Due to breweries being closer to the final consumer, this segment is also the most promising when attempting to understand consumption patterns better – something many breweries are attempting to do with various digital solutions. It is also where breweries are best able to differentiate themselves and pilot new services to customers and build brands.

Brewing for a better today & tomorrow
As the world’s third largest brewery, Carlsberg has been on an impressive growth trajectory since its foundation in 1847. Although this growth has, to a large degree, come from successful acquisitions, the values and mission set out by the founding family – to brew for a better today and tomorrow – are still upheld to this day. This is evident in the ownership structure, in which the Carlsberg Foundation owns a majority of voting shares and spends profits on scientific development and societal contributions. Brewing for a better tomorrow also entails an ambitious sustainability programme Together Towards ZERO. Carlsberg Group has committed to improving the environmental impact of its breweries by removing the carbon footprint entirely and reducing water usage by 50% by 2030. Over the past three years, Carlsberg has completed a successful round of cost-cutting to improve operational efficiency and is now ready to invest in its group-wide strategy aiming at securing future growth.

Challenges in the European stronghold
To sustain and fulfil these ambitions, Carlsberg must find a way to stay relevant in its core region, Western Europe, where mature economies and limited economic growth mean that mainstream beer categories are seeing very low or flat volume growth rates.

An integral part of how to do this revolves around the continuous development of a leading position within on-trade. This is not only because this is where the greatest value-add for brewers is found, but because on-trade channels, like bars, are unique channels where Carlsberg delivers its brew and serves the promise of fresh and cold beer and where the brands are built.

Therefore, the question you are asked to solve is the following:

“How can Carlsberg differentiate and disrupt the on-trade scene, or find other high-value channels, to secure a 5% revenue growth in Europe by 2022.”

You are tasked with formulating a three-year business plan, which should be scalable across Europe to allow Carlsberg to deliver on these goals. This will require innovative thinking, and you are encouraged to be creative. Additionally, a successful proposal should be in line with Carlsberg’s purpose and ambitions.
The global beer market is valued at 510 bn EUR with a volume of 180 bn liters of beer. The global volume is expected to grow at 1.3% CAGR towards 2023, with almost all growth in the developing markets of Asia, Latin America and Africa, where people are increasingly consuming beer and wine instead of hard spirits, and increasing overall consumption due to rising wealth. The more mature markets of Europe and North America are expected to experience volume growth rates of less than one percent. While beer represents less than a tenth of total beverage consumption by volume – the largest categories being coffee and water – it represents more than 20% of value.

While beer brands are, to a large extent, still local – most global volume is from relatively small national brands – the industry has seen vast consolidation in the past 20 years with the three largest global brewers accounting for almost 50% of global volume. The consolidation of the market has mainly been driven by M&A activity by the major players, perhaps best exemplified by the fact that five of the world’s six largest breweries 20 years ago have since merged to become Carlsberg’s largest global competitor, the Belgium based AB-Inbev. One of the main reasons for this consolidation has been to achieve the necessary scale to stay profitable in the competitive beer market, but also to gain access to new markets, as most markets are dominated by local brands. Another important characteristic of the beer industry is that marketing plays a huge role, with brewers spending a large share of revenue on marketing and advertising. Generally, breweries spend between 5% and 10% of revenues on marketing. This money is typically spent on TV adverts and sponsorships of sports teams, music festivals and the like.
The Western European market is highly mature, with a value of 140bn EUR and a volume of 386 bn liters. Unlike the global market, there is little or no volume growth in most markets. While revenues are growing slightly due to price increases and mix effects (consumers choosing more expensive brands), it is unlikely that more beer will be sold in Western Europe in the years to come.

This stagnation is mainly driven by macro trends relating to ageing demographics, low economic growth and an increased health awareness. Furthermore, within alcoholic beverages, other categories such as wine, spirits and so-called RTD products (Ready to Drink), such as premixed alcoholic drinks, have experienced more growth than the beer segment. Some of these trends do, however, represent an opportunity. While consumers are becoming more health conscious and turning their backs on alcoholic drinks, beer stands as a low alcohol alternative to stronger spirits and Alcohol Free Brew (AFB) is a rapidly growing sub-segment. Finally, the market for craft beers has seen an immense development in the past 10 years, with small specialty and craft breweries popping up across Europe.

“It is clear that the way Europeans chose to go out is changing. In the future we might not just be in pubs, we might also be present in coffee outlets as well.”

CEES ‘T HART
CEO

BEER VOLUME BILLION LITERS

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>39</td>
<td>39</td>
<td>39</td>
<td>40</td>
<td>40</td>
</tr>
</tbody>
</table>
SALES CHANNELS
OFF-TRADE

Off-trade sales refer to the sales of typically bottled or canned beer at different retail outlets. Two-thirds of beer volume in Western Europe are sold through off-trade channels; however, off-trade only represents one-third of revenues. The reason for the very low prices at off-trade outlets is twofold. Firstly, consumers are very price sensitive when buying in supermarkets; key purchasing criteria are price and visibility of the products on the shelves. Secondly, there has been a wave of consolidation within supermarket and hypermarket chains throughout Europe. This has led to some significant buying power on behalf of the supermarket chains, which have pushed brewers for lower prices in order to stay on the shelves.

Within off-trade, one recent trend is the increased focus on convenience over price, with consumers being willing to pay a premium if the product is available at more locations and at odd times, in stores such as 7-eleven or kiosks.
On-trade is the sale of beer to consumers which is consumed on premise in outlets such as bars, pubs, nightclubs, restaurants and the like. On-trade accounts for just one-third of Western European volume but two-thirds of the value. The reasons for these significantly higher prices in on-trade than off-trade are plentiful: on-trade vendors are able to charge a premium for the service of serving the beer and for a prime location – in the city center or at a nice restaurant, for example. Furthermore, the social nature of on-trade consumption means that the consumer purchasing criteria are significantly different at on-trade channels. The experience of going out, the atmosphere at the place, the look, feel and head of a draught beer as opposed to that of a bottled or canned one and finally a choice of potentially exotic beers all play a role. This is not only due to the different purchasing criteria of the end consumer, but also due to the much more fragmented nature of the bar market – with most bars being owned by a single person – and, finally, because of the extra service breweries provide to their on-trade customers – this typically involves to-door delivery of the beer and picking up of empty kegs. Generally, breweries’ margins when selling to on-trade customers are twice those compared to selling to off-trade customers. Beyond higher margins, it is within the on-trade channels that a brewer’s products are presented in their best possible form. The Western European on-trade market for food and beverages as a whole is growing; however, this is not the case for the large breweries. Three trends are shaping this development of the on-trade beer market. Firstly, consumers are switching from alcoholic to non-alcoholic drinks when going out; the major development here is within coffee, where premium Italian-style cafes have gained ground throughout the continent over the past 20 years. Secondly, within alcoholic drinks, there is a trend towards products other than beer, especially cocktails, but also wine. Finally, within the beer category, there is a trend away from typical mass-produced pale lagers and towards craft and specialty beers, although lagers still represent 90% of global beer consumption.

“Winning in on-trade has always been about superior experience for the customer and consumer, the big challenge is how to give them just that.”

CEES ‘T HART
CEO

On- and off-trade are not always completely distinguishable, as demonstrated by a range of mixed formats, such as beer on tap placed within hypermarkets, or direct beer delivery to end consumers from the breweries. A large range of initiatives therefore offer synergies between on- and off-trade, as brands that perform well in bars and restaurants will also see greater sales in off-trade channels.
COMPETITIVE LANDSCAPE

While Carlsberg faces several important competitors that are limited to one or few local markets, on a global level the most important competitors are the largest and second-largest brewing companies, Belgian AB-InBev and Dutch Heineken. Together with Carlsberg group, they represent 48% of the global beer market. As all three have achieved their size mainly through acquisitions, they all have very large portfolios of both large international brands and small local brands.

The importance of scale in both production, marketing and sales is evident from the fact that AB-InBev has significantly higher EBIT margins than the other large brewers. The difference is driven by scale in production – driving costs down – but also within sales, where larger scale translates into better bargaining power with large off-trade and on-trade buyers.

Looking beyond the consolidation that has taken place among the major global brewers, the beer industry has also seen an opposing trend, namely towards smaller and more specialized craft beer producers.

The number of so-called microbreweries, typically high-end breweries producing small quantities of premium beer, has grown dramatically in the past 10 years. The number of microbreweries in Europe grew from less than 2000 in 2008 to more than 7000 in 2017.

Within other categories of alcoholic drinks there is significantly less concentration than within beer manufacturing. While there are some major global players in the spirits industry, the largest three being Diageo (€14.6 bn in revenues), Pernod Ricard (€9.4bn), and Smirnoff (€5.2bn), the industry is not nearly as consolidated as the beer industry. The wine industry is largely dominated by small and local players, with the largest wine producers having less than 3% of market share.

Finally, while the beer industry has remained largely untouched by the digital disruption that many other industries have undergone, some small agile startups are creating solutions even within the beer industry. Examples include systems to monitor and control the alcohol sales live at on-trade venues, disruptive delivery channels and increased customization.

“We find competitive pressure coming from two directions. Above us in size we have two major cash generating players that keep growing in size and share of the global market, and below us we have small start-up breweries with the agility to come up with new tastes, varieties and revenue models.”

NANCY CRUICKSHANK
SVP Digital Business Transformation

GLOBAL MARKET SHARE OF CARLSBERG & COMPETITORS

GLOBAL EBIT MARGINS OF CARLSBERG & ITS MAIN COMPETITORS

<table>
<thead>
<tr>
<th>Brewer</th>
<th>Financials 2017</th>
<th>Short story</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABInBev</td>
<td>Market share: 30%</td>
<td>Created through the merger of the two largest brewers in the world, AB-InBev and SAB-Miller, in 2016. Both were results of long sprees of acquisitions between the largest global brewers. Holds a very strong position in North America, South America and Africa.</td>
</tr>
<tr>
<td>Heineken</td>
<td>Market share: 11%</td>
<td>Like its competitors, Heineken has used M&amp;A to achieve its international presence; however, unlike its competitors, it has placed an emphasis on its main brand Heineken throughout its markets.</td>
</tr>
<tr>
<td>Carlsberg</td>
<td>Market share: 7%</td>
<td>Carlsberg's first major merger was with Denmark's second largest brewer Tuborg in 1970; since then, Carlsberg has expanded its international footprint. Carlsberg holds a very strong presence in Western Europe, Russia and Asia.</td>
</tr>
</tbody>
</table>

Brewer Largest Financials 2017 Short story
HISTORY & INTRODUCTION TO CARLSBERG

Today, Carlsberg is the third largest brewer of beer in the world. It all started back in J.C. Jacobsen’s mother’s copper wash basin in 1845, where J.C. Jacobsen made his first batch of lager. He had just returned from Munich carrying two pots of spaten yeast in a customized hat box. His new lager soon needed facilities with a larger cool storage space, and on a hill just outside of Copenhagen, he built his new brewery. He named the brewery after his son, Carl, and the Danish word for hill, bjerg, and with that, Carlsberg was born in 1847. Driven by his passion for beer and interest in natural science, J.C. Jacobsen set out on a lifelong journey to improve the quality and experience of beer that would shape the core of Carlsberg.

“Giving back to society has been in the DNA of the Carlsberg Group ever since our founder J.C. Jacobsen established the Carlsberg Foundation back in 1876.”

FLEMMING BESENBAECHER
Chairman of Carlsberg Group and Carlsberg Foundation.

J.C. Jacobsen’s passion for beer brewing, but also for science and culture, has engrained itself in Carlsberg and the company has a long history of contributing to society and supporting both the scientific and cultural fields, with inventions such as the pH scale and cultural gifts such as the famous Little Mermaid. Today, Carlsberg is a publicly listed company, but the Carlsberg Foundation owns 75% of the votes and 30% of the equity; the main objectives are to secure quality through a controlling interest in Carlsberg and to give back the dividends from Carlsberg to society.
GROWING TO BECOME THE WORLD’S 3RD-LARGEST BREWERY

J.C. Jacobsen’s son, Carl, took over as managing director in 1906, and the journey to become the third-largest brewery in the world began. Until the first half of the 20th century, Carlsberg had continuous expansion and growth. Most international expansions were driven by exports, and the first export department was established in 1932. In 1966, the first overseas license was given and Carlsberg was brewed outside of Denmark for the first time. In the period from 1966 to the 1990s, Carlsberg opened more international breweries in Malaysia, the UK and Hong Kong. However, in 1990 Carlsberg only had breweries in five countries outside of Denmark. In the 2000s Carlsberg undertook a heavy international expansion that led to high growth driven by M&A activity and growing exports. Beer is a product that is a big part of local culture and the consumption of it is shaped by local norms, habits and regulations. Additionally, beer is bulky and expensive to transport, therefore local production and distribution is preferred. Local beer brands are usually also engrained in a country’s heritage and a source of pride for the country’s inhabitants. As a result, it is difficult to enter a new market as an international brewer and gain enough market share to achieve the necessary scale to be profitable. Therefore, the international expansion in the beer market has traditionally happened by buying the local brands through M&A activity.

“In the last two decades, Carlsberg Group has grown mostly through mergers and acquisitions of existing breweries and beer brands, which translates to a high level of complexity within the company.”

LUCAS CICCARELLI
Director of Strategy

1990 Carlsberg is an international beer brand but mainly through export and licensed Brewing.

2008 Carlsberg is a big international beer brand with brewing activity all over Europe and Asia.

1847 1868 1875 1876 1889 1909
First brew finished – Carlsberg founded.

Carlsberg establishes an export department and regular visits to import agents are initiated.

Bottle agreements are signed with companies in Ireland, Gibraltar and Malta to bottle Carlsberg beer for their local markets.

Carlsberg’s iconic tagline ‘Probably the best beer in the world’ is created.

Operations in Denmark, the UK and Malawi, as well as minority ownership in Finland and Italy. International mainly driven by export.

Carlsberg becomes the biggest player in Russia, with the acquisition of ‘Baltika’.

Cees ’t Hart becomes CEO and the new strategic direction is launched with ‘SAIL 22’.

Carlsberg launches its new sustainability program called ‘Together Towards ZERO’.

“In the last two decades, Carlsberg Group has grown mostly through mergers and acquisitions of existing breweries and beer brands, which translates to a high level of complexity within the company.”

LUCAS CICCARELLI
Director of Strategy
Building on the values of our founders, we are brewing for a better today & tomorrow. A better today through our great beers and by constantly evolving the art of brewing. A better tomorrow by investing in science and contributing to society.

Our purpose tree shows our strong roots that make us who we are today, and our branches that are growing as our purpose guides our way forward.

The roots of the tree represent Carlsberg Group’s heritage, which includes other brewing companies and their founders which were acquired by Carlsberg Group. The branches and leaves of the tree represent Carlsberg Group’s current ambitions and priorities.
75% OF VOLUMES
Sold in #1 or 2 markets

TOP 10 MARKETS
WESTERN EUROPE
#1-2 position in 13 markets
EASTERN EUROPE
#1-2 position in 5 markets
ASIA
#1-2 position in 7 markets

WESTERN EUROPE
Share of Group volumes
Share of Group net revenue
Share of Group operating profit
47%
59%
50%

EASTERN EUROPE
Share of Group volumes
Share of Group net revenue
Share of Group operating profit
24%
17%
22%

ASIA
Share of Group volumes
Share of Group net revenue
Share of Group operating profit
29%
24%
28%

75% OF VOLUMES
Sold in #1 or 2 markets

TOP 5 MARKETS
~50% of operating profit

TOP 10 MARKETS
~70% of operating profit

THE GLOBAL PRESENCE OF CARLSBERG
Today, Carlsberg is the third largest international brewer, with number 1 or number 2 positions in 25 markets across Europe and Asia. Carlsberg’s products reach more than 150 markets all across the globe, either through local production in Carlsberg-owned breweries, licensed brewing or exports. Carlsberg spans a portfolio of 140 brands of beer, each with a unique character, flavor and history. Carlsberg distinguishes between its big international premium brands, which are marketed globally, and its local power brands, which have a special position in local identities and cultures. Even though Carlsberg has some strong and powerful international brands, such as Carlsberg, Tuborg, Kronenbourg, Somersby and Grimbergen, the local power brands are an essential and distinguishing element of Carlsberg Group. The local power brands harness the power of local identity and culture and each has a close relationship with local consumers through its history and heritage. These local power brands are number one or two in the local markets in terms of market-share and represent more than 40% of the net beer sales across the Carlsberg Group. Local brands as a general category (including non-market leading brands) account for more than 70% of net revenue.

The local power brands are not only an important part of Carlsberg Group commercially; they also play an important role in Carlsberg Group’s organizational setup. While Carlsberg subsidiaries have quite a significant amount of autonomy in terms of marketing and sales strategies for their local power brands, they apply the learnings and best practices provided by Carlsberg Group. The Group collects insights from across all markets to identify common areas of growth potential and create synergies in areas such as positioning, brand experience, innovation and activation.

Carlsberg Group’s local power brands include brands like Ringnes in Norway, Feldschlösschen in Switzerland, Falcon in Sweden, ChangQing in China and so on.

“Our local power brands enjoy a high level of awareness and a close relationship with consumers based on their heritage and history. After all, beer is a local product and we need to protect the integrity and authenticity of our local brands.”

LUCAS CICCARELLI
Director of Strategy

THE POWER OF LOCAL IDENTITY IS EVIDENT THROUGH CARLSBERG’S LOCAL POWER BRANDS

CURRENT SETUP OF CARLSBERG GROUP

- **Net Revenue Breakdown from Brand Type by Region**

  - **Global brands**
    - WE: 74%
    - EE: 85%
    - Asia: 54%
  - **Local brands**
    - WE: 27%
    - EE: 15%
    - Asia: 46%

LOCAL POWER BRANDS REPRESENT MORE THAN 40% OF CARLSBERG NET BEER SALES

EACH BRAND HAS A CLOSE RELATIONSHIP WITH LOCAL CONSUMERS. MARKETING AND SALES ARE LOCALLY CONTROLLED WITH GUIDANCE FROM CENTRAL OFFICE
CARLSBERG’S POSITION IN WESTERN EUROPE

STRONG FOOTHOLDS TO LEVERAGE BUT ALSO ROOM FOR GROWTH

NORDICS
Denmark, Sweden, Norway, Finland
#1 in the market (#2 in Finland)
31-54% national market share
5 breweries

SWITZERLAND
Feldschlösschen
#1 in the market
41% national market share
1 breweries

FRANCE
Kronenbourg
#2 in the market
28% national market share
1 breweries

UK
Carlsberg UK
#4 in the market
12% national market share
1 breweries

PO POLAND
Carlsberg Polska
#3 in the market
17% national market share
3 breweries

OTHER MARKETS
Italy, Germany, Portugal, Baltic, South East Europe
#1-2 in six markets with 17-47% national market share
12 breweries
In 2016, a new group strategy was set in place for Carlsberg, co-created by the newly appointed CEO Cees ‘t Hart and top 60 leaders in the Carlsberg Group. The Group had recently experienced a decline in both revenue and profitability. Revenue had declined from 66.5 billion DKK in 2012 to 62.3 billion DKK in 2016. Operating profits had likewise dropped from 9.8 billion DKK in 2012 to 8.2 billion DKK in 2016. This was the outset for the new strategy named SAIL ‘22 – a two-pronged strategy containing a part called ‘Funding the Journey’ followed by the actual growth strategy, SAIL ‘22. From 2016-2018 the group would focus on the ‘funding the journey’ part, where close to two billion DKK in cost savings had to be found across the organization. As of today, more than 2.3 billion has already been achieved in net benefits from the saving program. Half of these savings will be reinvested in Carlsberg and the SAIL ‘22 growth Strategy from 2018-2022.

The SAIL’22 strategic choices are grouped under four core themes: “Strengthen the Core”, “Position for Growth”, “Excel in Execution”, and “Create a Winning Culture”. “Strengthen the Core” is focused on actions that will strengthen the core business – that is, segments such as the local power brands and the big international brands, as well as general sales execution and the development of a digital mindset across the organization. Here, the group has managed to improve the gross beer brand contribution by 3% through a focus on value management and the launch of premium line extensions for several brands, despite volumes being negatively affected by the downsizing in Russia.

For the “Position for Growth”, three distinct priorities for driving top and bottom line growth have been defined: 1) The upsurge in craft & speciality and alcohol free-beer categories. 2) The global urbanization trend and the recognition of the high degree of consolidation in the beer industry in most markets across the globe. 3) Carlsberg’s strong presence in Asia, a region with high market growth that can easily be tapped into.

“Excel in Execution” refers to building Carlsberg’s capabilities in mastering value management, digitalization, excelling at the point of purchase, winning with consumer driven R&D and managing complexity.

“Create a Winning Culture” is the ambition for Carlsberg to create a team-based, performance-driven culture, characterized by a high standard of integrity. However, more than that, it is to set high industry leading standards within sustainability, public health, safety and responsible drinking.
UNDERSTANDING THE CONSUMER
THE GLOBAL DEMAND SPACE MODEL

Carlsberg has developed the Global Demand Space model to understand the end consumer of its products. The Global demand space model is a behavioural segmentation tool based on consumer research studies in over 40 countries, gathering data from over 130,000 consumers.

Based on this research the key demand spaces, that is the situations in which consumers could demand Carlsberg’s products, were identified. These demand spaces reflect the motivations for drinking Carlsberg’s beverages, the reasons for not choosing beer in the moments, and the potential for beer in different situations.

Carlsberg aims to have at least one product catering to each demand space in every market. As such, the model helps guide Carlsberg in different markets, so that the right products and services are offered to the consumer. E.g. the demand space ‘Fueling Fun’ is filled by the Tuborg brand which by many is considered a beer for music and concerts. Similarly, the premium Belgium Grimbergen is used to fill the space ‘Reward and Indulge’.

“With the demand space model, we get a deep understanding of consumption within each demand space: What do consumers really want, why do they want it and when.”

MELTEM KARAHAN
VP, Consumer Insights, Carlsberg Group
Description
Core Beer Brands consist of a variety of mainstream pale lager beer brands, which is the beer-type with the highest penetration and frequency in most markets. Carlsberg operates with two different types of core beer brands: International brands such as Tuborg and Carlsberg, which are marketed across different geographies, and local power brands, such as BeerLao in Laos and Karhu in Finland.

Market trend
Pale lager beer, such as the pilsner, is seeing limited volume growth or volume decline across western European markets due to changing consumer behaviour, evident by a week volume growth of 1% in the Carlsberg brand in 2017.
**Craft & Speciality**

**Description**
Craft & Speciality is a selection of premium brands with varied taste and style, that differs from the traditional pale lager brew. Examples are different ales, porter brews and pale ales. The category is comprised both of international speciality brands, such as Grimbergen and 1664 Blanc, and local craft beer brands. Craft & Speciality is sold at a premium compared to mainstream brands.

**Market trend**
Unlike the overall beer market, the Craft & Speciality segment is experiencing increased demand due to consumers seeking a premiumized experience when consuming beer, something they are willing to pay for. As such, in 2017 Carlsberg saw a 29% volume and revenue growth in the category.
ALCOHOL FREE BREWS

Description
Alcohol-free Brews (AFB) is a range of malt-based beverages with little or no alcohol content. Most are similar in taste and feel to traditional pale lager brews, such as the K1664 Blanc in France while others are less traditional with various flavors added, such as the Utenos Radler 0, a hugely popular grapefruit flavoured beverage in Lithuania.

Market trend
The segment is experiencing growth, driven by a consumer demand for healthier choices as a result of the global health and wellness trend. Market growth in 2017 is estimated at 6-7%.

<table>
<thead>
<tr>
<th>Country</th>
<th>AFB SHARE OF NATIONAL BEER MARKET</th>
<th>AFB VALUE SHARE</th>
<th>AFB VOLUME SHARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>3%</td>
<td>2,6%</td>
<td>8,5%</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>3%</td>
<td>7,1%</td>
<td>6,3%</td>
</tr>
<tr>
<td>Sweden</td>
<td>2%</td>
<td>4,1%</td>
<td>3,1%</td>
</tr>
<tr>
<td>Russia</td>
<td>5%</td>
<td>2,8%</td>
<td>2,2%</td>
</tr>
<tr>
<td>UK</td>
<td>2%</td>
<td>2,7%</td>
<td>2,2%</td>
</tr>
<tr>
<td>Denmark</td>
<td>1%</td>
<td>2,3%</td>
<td>2,2%</td>
</tr>
<tr>
<td>France</td>
<td>6%</td>
<td>2,6%</td>
<td>4,2%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>2%</td>
<td>2,2%</td>
<td>2,4%</td>
</tr>
<tr>
<td>Germany</td>
<td>3%</td>
<td>1%</td>
<td>1,8%</td>
</tr>
<tr>
<td>Norway</td>
<td>1%</td>
<td>0,6%</td>
<td>0,3%</td>
</tr>
</tbody>
</table>

SHARE OF '17 REVENUE

+15% VOLUME GROWTH
ONLY MARGINAL

ONLY MARGINAL SHARE OF '17 REVENUE

75% 57% 42% 36% 26% 19% 19% 13% 10% 11%
In June 2017, Carlsberg set out its ambition to raise the sustainability standards in the industry, and subsequently launched its Together Towards ZERO Programme. The ambition is to improve the group’s sustainability in line with the UN Sustainable Development goals in four key areas: zero carbon footprint, zero irresponsible drinking, zero water waste, and zero accidents culture. Each of these is underpinned by individual and measurable targets, leading up to 2022 and 2030.

The Together Towards ZERO programme sets industry leading targets for carbon footprint reduction and water saving. The programme was developed in partnership with leading global experts, such as WWF and Carbon Trust, using a science-based approach. The targets are tailored to the UN Sustainable Development Goals which are set to deliver emission reductions that align with the Paris Agreement on climate change to keep the global temperature rise to 1.5°C by the end of this century.

But carbon emissions are emitted through the entire Carlsberg supply-chain. Hence, Together Towards ZERO targets also include targets to reduce the beer in hand emissions. Beer in hand emissions refer to the full life-cycle carbon footprint of a product, taking into account value chain impacts beyond the Carlsberg Group’s operational control, such as agricultural production, transport logistics and retail refrigeration. Reducing beer in hand emissions, such as from packaging, requires innovative partnerships with suppliers and performance improvements. Thus, it is crucial to any sustainable strategy to involve suppliers and other stakeholders throughout the value chain in any sustainable solution. Carlsberg Group Snap Pack innovation, which replaces plastic wrapping for six packs with glue, is an example of how Carlsberg innovates together with its packaging suppliers to reduce waste.

"An idea like the Snap Pack would never have come along, were it not for our values. If our people were only focused on financial impact such an idea would have never made it through."

CEES ‘T HART
CEO
Since sustainability is an important agenda at the Carlsberg Group, it has also been an important part of the Carlsberg laboratory and the research that has been undertaken there. This has led to several new innovations coming out of the Carlsberg Research and Development department, which can help improve the green agenda at the group.

Recently Carlsberg launched the “Snap-Pack” a new innovative glue technology that helps hold the beers in a six-pack together without the traditional plastic rings. This helps keep plastic waste down, and can reduce the plastic usage from six-packs in the group by up to 76%. The initiative is estimated to save 1200 tons of plastic every year.

Another invention is a new type of ink. Printing ink has a major impact on the recyclability of packaging material, as it is often recycled along with paper fibers. The properties of green printing ink make it one of the worst when it comes to recyclability, which, ironically, makes the color green... not very green. Since green is the company color of Carlsberg Group, a lot is used every year. Thus, the company invested money into developing a new green-silver ink that is “Cradle-to-cradle” certified, which is much better for recycling.
THE DIGITAL TRANSFORMATION AT CARLSBERG

As part of the SAIL ’22 strategy, Carlsberg has increased its focus on leveraging digital capabilities. As it is a very decentralized organization, Carlsberg has more than 500 different ongoing digital projects. While many of these are great in terms of the value they create, projects are often overlapping as needs are similar across markets, and could often be run more efficiently.

In order to systemize and drive the digital agenda, Carlsberg has initiated several digital initiatives known as Lighthouses. Lighthouses are projects that address high-impact, strategically important areas with multi-market potential, such as customer engagement, distribution or e-commerce. The goal is to improve Carlsberg’s competitive position, and to stay at the forefront of innovation within the industry. Unlike the incubator model used by many large corporations, in which small teams are tasked with disrupting the traditional business almost as an external start-up, the Lighthouses are intended to work as projects deeply ingrained within the company. This is to ensure the relevance of the business issue in question, and to minimize integration and roll-out difficulties.

From a strategic perspective, the reasoning for adding developing capabilities further is simple: if Carlsberg is able to provide additional value to on-trade clients in the form of various services and opportunities, this can be leveraged to avoid competing solely on price when capturing new clients or re-negotiating contracts, increasing the value of each liter of beer sold. In the following, some of the Lighthouses currently being developed by Carlsberg will be presented.

GOALS
WHEN DEVELOPING DIGITAL SOLUTIONS, CARLSBERG AIMS TO FULFILL ONE OR MORE OF THESE GOALS

DEFEND
Solutions aimed at defending the existing on-trade business of Carlsberg – E.g. a seamless webshop for bar owners.

DIFFERENTIATE
Services and added-value that can set Carlsberg apart from its competitors – E.g. predictive refilling of bars.

DISRUPT
New inventions that radically change the dynamics of the on-trade environment – E.g. Home delivery or office fridges with payment through smartphone.

“Few years ago, telecom and breweries were equally digital. How many analog phones do you see today? I believe the same will be true for breweries in the future.”

CEES ’T HART
CEO
DRAUGHTMASTER

DraughtMaster is a proprietary keg-system developed by Carlsberg. Traditionally, once a keg is opened in an on-trade outlet, the beer must be consumed within four days to ensure its freshness, after which keg must be changed. This means that bars and restaurants can only offer beer on tap for brews that are in high demand, as the keg must be emptied often to avoid waste. Traditionally, the beer in a keg is pushed out by injecting CO₂ into the keg. DraughtMaster uses compressed air to create pressure in the keg, pushing out beer without adding CO₂. This way, the beer does not come into contact with surrounding air, increasing the life of a DraughtMaster keg to an impressive 30 days. Bars and outlets using DraughtMaster are therefore able to offer a much wider selection of tap beer. This, in turn, benefits Carlsberg as these are higher margin products. The system is also a key lever in Carlsberg’s premiumization efforts across Western Europe. This is due to the fact that additional beers added will often be Craft & Specialty, allowing Carlsberg offer more high-value products to customers.

As the system allows on-trade establishments to differentiate their offerings, Carlsberg is able to charge a premium compared to regular keg-systems. Additionally, the systems allow for monitoring of beer-flow, and the ambition is that this will enable Carlsberg to utilize data gathered from outlets.

HOW IT WORKS

1. Compressed air is pumped into the pressure chamber.
2. The keg is squeezed and fresh beer is pressed out.
3. Beer is pushed through the tap to create the perfect beer.
CRAFTED BY is a small brewery located near Carlsberg’s headquarters in Copenhagen and allows consumers to brew their own, personal beer. By choosing several parameters on a scale from 1-5, consumers can achieve their preferred strength, color and bitterness. After finishing the brew, a personal label is designed, naming the beer as well as the “brewmaster”. The beers are then sent directly to the consumer’s address. The service is also provided to companies wishing to celebrate a special event, or simply looking to treat employees with a personalized beer.

The importance of personalization is also seen among on-trade clients. In an attempt to renew the lead-generation process, an internal team recently began pulling Danish VAT registrations to detect new bars well in advance of them opening. By sending the bar owner a personalized beer with a message of congratulations for his or her new business, Carlsberg has seen conversion rates of 36% on this initiative.
CLOSING REMARKS

In a market where consumer behavior is setting a limit to the growth in beer consumed, it is imperative for Carlsberg to maximize the value of every liter of beer brewed. As consumers demand high-quality brews and premium experiences, breweries will need to adapt not only their product offering, but also the way in which products are brought to market, as well as how data on consumption is leveraged. Successfully expanding the on-trade presence or finding other high-value channels in Europe will therefore be a key ingredient to remaining relevant as the market evolves.

“\textit{It is in on-trade where consumers will meet new innovations, where they will taste new products before they will buy them in the off-trade. We look forward to see innovative solutions that excite our consumers and customers – ideas to revitalize the on-trade sale would be fantastic.}”

CEES T’HART
CEO

Carlsberg is in a unique position to capitalize on these dynamics, with a strong brand portfolio and a clear vision to benefit not only shareholders, but society as a whole. And with Funding the Journey recently finalized, it is now time to decide which investments and initiatives will be needed to secure the long-term success of the group.

This why you are tasked with developing a business strategy for Carlsberg to disrupt the on-trade scene to secure revenue growth in Europe. Such a strategy could involve new digital offerings to on-trade outlets, new revenue models, new products or targeting new customers and new outlets.
KEY FIGURES

FIVE-YEAR SUMMARY

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (in millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net profit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating profit before income statement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating profit before income statement before income statement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special items, net</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other income and expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted EBITDA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market share by brand type</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Western Europe 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rank 1-5</td>
<td>78%</td>
<td>71%</td>
<td>71%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rank 6-10</td>
<td>4%</td>
<td>17%</td>
<td>17%</td>
<td>18%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>17%</td>
<td>15%</td>
<td>14%</td>
<td>18%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Private label</td>
<td>1%</td>
<td>3%</td>
<td>4%</td>
<td>5%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Financial ratios</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current ratio</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating margin</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital (in millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term debt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial leverage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statement of retained profit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit before tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxation effect</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit for the period</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statement of cash flows</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash inflow from operating activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash outflow from operating activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net cash inflow</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in working capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other cash inflow</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other cash outflow</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net cash flow</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

MARKET SHARE BY BRAND TYPE

WESTERN EUROPE 2015

BEER VOLUME PROJECTIONS

WESTERN EUROPE 2017-2022
CARBON EMISSIONS AND WATER CONSUMPTION
OF CARLSBERG AND COMPETITORS

<table>
<thead>
<tr>
<th></th>
<th>2016 carbon emission kg/h</th>
<th>2016 water consumption h/h</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsberg</td>
<td>6.3</td>
<td>3.2</td>
</tr>
<tr>
<td>ABInBev</td>
<td>8.8</td>
<td>3.1</td>
</tr>
<tr>
<td>Heineken</td>
<td>6.5</td>
<td>3.9</td>
</tr>
<tr>
<td>Molson Coors</td>
<td>8.1</td>
<td>4.4</td>
</tr>
</tbody>
</table>

CARLSBERG’S SUSTAINABILITY GOALS
BY THE NUMBERS

CARBON FOOTPRINT

- 50% reduction in carbon emissions at our breweries
- 15% reduction in beer-in-hand carbon footprint

WATER WASTE

- 25% reduction in water usage at our breweries
- 50% reduction in water usage at our breweries
- Partner to safeguard shared water resources in high-risk areas

2022

2030
LINKS FOR MORE INFORMATION

Interactive financials tool
https://carlsberggroup.com/investor-relations/shares/interactive-analysis-tool/

Overview of the full product portfolio
https://carlsberggroup.com/beers-you-love/

Annual report

Capital market day presentation
https://carlsberggroup.com/media/20136/carlsberg-group-cmd_12-10-17_final.pdf

Sustainability report

Draughtmaster
https://www.draughtmaster.com/

Crafted By
https://craftedby.com/about

Sustainable inventions at Carlsberg Group
https://carlsberggroup.com/pursuit-of-better/better-tomorrow/snap-pack/

Case writers
Ingmar Alessio Navaretta Oemig
Jakob Damgaard Terkildsen
Jonas Lind Jerlang

Special thanks to
Carlsberg Group
Cees ’t Hart, CEO & President
Anders Bering, Vice President, Corporate Affairs
Nancy Cruickshank, Senior Vice President, Digital Business Transformation
Lucas Ciccarelli, Director of Strategy
Kaare Jessen, Vice President, DraughtMaster
Kristine Jakobik, Corporate Brand Manager
Egle Gintautaitė, Public Affairs & Communications Manager
Angela Lee, Student Assistant of Corporate Affairs

The case could not have been completed without
Berit Vedelsby, Graphic Designer

Case testers
Rikke Birgitte Knudsen
Rikke Bang Helvind
Oscar Flowers
Nina Möger Bengtsson

Legal Disclaimer
The information presented within this case is the responsibility of the writers alone. Carlsberg Group is subsequently not responsible for any statements, data or citations put forward in this case. This document cannot be used as a supporting source outside of CBS Case Competition 2019 and may not be publicly quoted without the written consent of the authors.