Flanders
State of the Art

BEER IN CROATIA

FLANDERS INVESTMENT & TRADE MARKET SURVEY

This paper was written and compiled by Marin Kovačić and Dora Bencetić,
Interns at the Belgian Trade Office in Zagreb, Croatia

July 2016

Belgian Trade Office
Embassy of Belgium
Pantovcak 125 b1
HR-10000 Zagreb (Croatia)

office@beltrade-croatia.com
T: +385 1 457 74 44
F: +385 1 457 74 45

Contents

1. OVERVIEW OF CROATIA 3
   - 1.1. GENERAL 3
   - 1.2. ECONOMY 4
   - 1.3. BREWING SECTOR IN CROATIA 4
2. ANALYSYS OF CROATIAN BREWING SECTOR IN 2013. AND 2014. 5
3. GOVERNMENT REVENUES RELATED TO BEER 7
4. EXPERT OPINIONS ON THE BEER INDUSTRY IN CROATIA 8
5. THE CROATIAN MICROBREWING REVOLUTION 9
6. ANALYSIS OF BEER CONSUMPTION IN CROATIA 10
   - A. CHOICE OF STORES 10
   - B. HABITS AND REASONS FOR CONSUMPTION 10
   - C. BEER - SYMBOL OF FRIENDSHIP 11
   - D. WHAT AFFECTS THE DECISION WHEN BUYING BEER 12

1. OVERVIEW OF CROATIA

1.1. GENERAL

Population	4,464,844 (July 2015 est.)
Main cities	Zagreb (Capital) Split Rijeka Osijek
National currency	Kuna
GDP GDP per capita	€ 43.921 billion (2015 est.) (source - HNB) € 10.364
GDP - composition, by sector of origin	agriculture: 4.3% industry: 26.7% services: 69.1% (2015 est.)
VAT	25%
Unemployment rate	16,3%
Major export countries	Bosnia and Herzegovina, Slovenia, Italy, Serbia

Source: https://www.cia.gov/library/publications/the-world-factbook/

1.2. ECONOMY

Croatia borders Bosnia and Herzegovina, Hungary, Montenegro, Serbia and Slovenia and has been an independent country since 1991. The country has a long and dramatic coastline with the Adriatic Sea, and it has over 1 000 islands and islets, of which just 48 are permanently inhabited.

The most important sectors of Croatia's economy in 2015 were wholesale and retail trade, transport, tourism and food services (21.2%), industry (21.1%) and public administration, defence, education, healthcare and social work activities (15.4%).

Croatia's main export partners are Italy, Bosnia & Herzegovina and Slovenia while its main import partners are Germany, Italy and Slovenia.

In 2015, Croatia finally came out of its six-year long recession. Between 2008 and 2014, GDP shrunk by more than 12% in real terms and unemployment surged from below 9% to more than 17%. The situation started to improve at the end of 2014, and in the course of 2015 real GDP growth surpassed expectations. Economic activity was expected to have expanded by 1.8% in 2015. The external sector performed strongly, and Croatia recovered some of its lost market shares. Growth was however mainly driven by the rebound in consumption and – to some extent – investment.

The recovery is set to strengthen over the next couple of years, but risks remain. By 2017, GDP growth is forecast to attain 2.1% and unemployment to contract to below 14%, while the current account surplus should stabilize at around 3% of GDP. The external sector is expected to continue to contribute to this positive performance, but the main driver of growth will be internal demand. Investments, in particular, are set to start growing more robustly, on the back of an increased absorption of EU structural and investment funds.

Nevertheless, growth is projected to remain subdued for a catching up economy and it will take several years before output returns to pre-crisis levels. In a low inflation environment, high government and private debt, jointly representing more than 200% of GDP in 2014, public and private investment as well as household consumption will continue to be constrained. Given the depth and length of the recession, Croatia is currently expected to grow above its potential over the next two years. Eventually, however, the economy is set to return to its long-term potential growth, currently estimated at below 1%. This low rate weighs on the convergence process and slows down the unwinding of macroeconomic imbalances. Lifting potential growth requires sustained investments and deep structural reforms in labour and especially product markets in view of fostering full utilization of the labour force, while ensuring robust productivity growth.

Source: http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_croatia_en.pdf

1.3. BREWING SECTOR IN CROATIA

The Croatian market is dominated by three large breweries owned by global brewing companies. Additionally, there are a dozen medium-sized, small and microbreweries. Of the total number of breweries six of them have a production capacity in excess of one hundred thousand hectolitres annually. Total beer consumption in 2014 was 3.41 million hectolitres, and with consumption of

80 litres per capita per year, Croatia is among the top ten European countries. The beer market in Croatia, as well as in other neighbouring countries, is still developing.

Leading manufacturers are Zagrebačka pivovara (Ožujsko, Becks, Löwenbräu, Staropramen, Stella Artois, Tomislav), Heineken Hrvatska (Karlovačko, Heineken) and Carlsberg (Pan, Holsten, Tuborg). Smaller manufacturers are Osiječka pivovara, Pivovara Daruvar and Pivovara Ličanka.

2. ANALYSYS OF CROATIAN BREWING SECTOR IN 2013. AND 2014.

Amounts in thousands of HRK, average salaries in HRK

Description	Beer production		
	2013.	2014.	Index
Number of businesses		32	-
Businesses operated with profit	15	17	113,3
Businesses operated with loss	13	15	115,4
Number of employed	1.474	1.503	102,0
Total revenue	2.453.618	2.160.726	88,1
Total expenditure	1.903.528	1.787.336	93,9
Profit before taxation	688.906	402.883	58,5
Loss before taxation	138.816	29.493	21,2
Profit tax	52.062	74.539	143,2
Period profit	629.574	326.259	51,8
Period loss	131.546	27.409	20,8
Consolidated financial results – profit (+) or loss (-) in a period	498.028	298.850	60,0
Export	243.940	269.487	110,5
Import	226.935	272.741	120,2
Trade balance	17.005	-3.254	-
Investments in long term assets	219.018	169.049	77,2
Average monthly net salary per employee	8.729	8.812	100,9

Source: FINA - Registry of annual financial report

The number of exporters in the sector in 2014 remained the same as in 2013 (a total of 7), while the number of importers has decreased by 16.7% (total of 5). The result of export businesses shows an increase of 10.5% with respect to the previous period (269.5 million HRK in 2014). Imports increased by 20.2% (272.7 million HRK in 2014).

Among the 32 beer producers, ZAGREBAČKA PIVOVARA d.o.o. has a dominant role. Its share in total revenues amounted to 42.3%, and the employees received an average monthly net salary of 11.078 HRK. The company employs 583 workers.

The highest achieved total revenue was reported by ZAGREBAČKA PIVOVARA d.o.o. in the amount of 914.1 million HRK. The following, with total revenue of 695.2 million HRK is HEINEKEN HRVATSKA d.o.o. which achieved a positive operating result in 2014, in the amount of 112.1 million

HRK. Employees in the company HEINEKEN HRVATSKA d.o.o. had the average monthly net salary of 11.194 HRK.

Table 1: Top 5 businesses in the total revenues in 2014 - Amounts in thousands of HRK

Name	Location	Total revenue	Share in total business
ZAGREBAČKA PIVOVARA D.O.O.	ZAGREB	914.116	42,3%
HEINEKEN HRVATSKA D.O.O.	KARLOVAC	695.244	32,2%
CARLSBERG CROATIA D.O.O.	KOPRIVNICA	294.686	13,6%
PIVOVARA OSIJEK D.O.O.	OSIJEK	60.311	2,8%
ISTARSKA PIVOVARA D.O.O.	BUZET	48.265	2,2%
Total of all (32) in business		**2.160.726**	**100,0%**

Source: FINA, the Registry of annual financial reports, processing of GFI for the year 2014

Table 2: Basic characteristics of the Croatia brewing sector

	2013	2014
Total production (in hectolitres)	3,408,000	3,405,000
Brewing companies	6	6
Breweries (including microbreweries)	6	6
Microbreweries	N/A	N/A

Source: National Associations.

Table 3: Basic characteristics beer market (2013-2014)

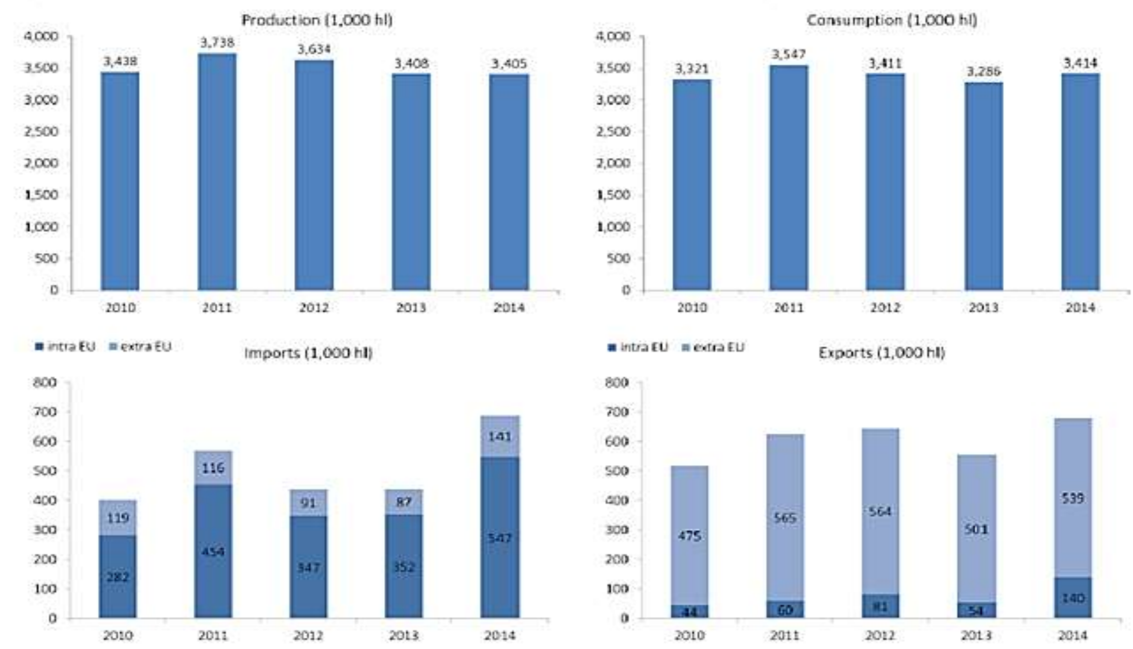
	2013	2014
Total consumption in hectolitres	3,286,000	3,414,000
Total consumer spending (in million Euro)	758	794
Consumption of beer per capita (in litres)	76.0	80.0
Beer consumption on-trade (hospitality)	36%	39%
Beer consumption off-trade (retail)	64%	61%
Average consumer price in on-trade (1 litre, including taxes) (in Euro)	3.65	3.56
Average consumer price in off-trade (1 litre, including taxes) (in Euro)	1.55	1.54

Source: National Associations.

Beer consumption increased somewhat in 2014 along with consumer spending, while prices remained stable.

Only the on-trade price slightly decreased while the related share of beer consumption in the hospitality sector increased.

In 2013, the explosive growth of flavoured/mixed lager, which supported overall growth of beer sales, suddenly reversed and left manufacturers of the remaining standard lager to think about new ways of rekindling interest in existing brands.



Source: National associations.

3. GOVERNMENT REVENUES RELATED TO BEER

Total revenue related to beer production and sales was around € 300 million. The largest share is related to VAT in the on-trade sector (€ 95 million), given also the increase in the on-trade beer consumption share. Excise duties account for around € 80 million and experienced a small reduction compared to 2014 (also in national currency, from 606.56 to 597.90) which probably reflects a change in the composition of the consumption basket. Income-related taxes and government revenues total € 59 million.

Table 4: Government revenues (2013-2014)

	2013	2014	% Change
Excise duties (million Euro)	80	78	-2 %
VAT (on-trade) (million Euro)	86	95	9.9 %
VAT (off-trade) (million Euro)	65	64	-1.9 %
Income tax, payroll tax and social security revenues (brewing companies) (million Euro)	11	11	4.7 %
Income tax, payroll tax and social security revenues (other sectors) (million Euro)	46	48	4.7 %
Total government revenues (million Euro)	288	296	2.9 %

Source: Calculations - different sources.

Note: Excise duty percentage is calculated on the basis of local currency converted to Euro, as used in the European Commission's (DG Taxud) database. For percentage change in local currency, please consult the same database.

As of 2016, beer manufacturers who produce up to 125,000 hectolitres a year, and other legal or natural persons starting with the production of beer for commercial purposes for the first time and intending to obtain a license to trade in the status of small independent breweries, can apply for a reduction in excise duties.

A small independent brewery is a brewery with an annual production up to 125,000 hectolitres, with the fulfilment of the conditions referred to in Article 66a of the Law on Excise Duties.

Source: Croatian chamber of Economy

4. EXPERT OPINIONS ON THE BEER INDUSTRY IN CROATIA

Representatives of the beer industry are satisfied with the business results in 2015. The results were influenced by the excellent tourist season, and a general increase in demand for various types of drinks, including beer. There is significant room for development and growth of the overall market and raising of consumption in the segment of draft beer. Oscillations in raw material prices in the region are certainly one of the biggest challenges. Most of the big manufactures use huge amounts of raw materials, particularly malt produced from barley and corn grits. The price jump on the world market has a huge impact on the business.

Looking at the price of beer and the profit of brewers in Croatia and Europe, it is clear that the situation is inversely proportional. The price of beer in Croatia is higher than in other European countries, and earnings are lower than in the rest of Europe. The Croatian market is constantly improving, and one of the most important factors for its improvement is the development of the economy and increase of the purchasing power of the average consumer. GDP growth achieved in 2015 positively affected the beer market, but the entire beverage industry, including beer, has a pronounced seasonality in the market.

Source: Privredni vjesnik

5. THE CROATIAN MICROBREWING REVOLUTION

Although commercial breweries in Croatia produce a variety of beers of the finest quality, there are always those who demand more.

Microbreweries or craft breweries are small, independently owned breweries, generally characterized with their emphasis on the art of brewing, the quality of produce and a variety of different beers. Although brewing artisans are not new in Europe, the trend of micro brewing has really taken on in the last couple of decades, starting in the USA and the UK and spreading around the world.

In the last couple of years Croatia has witnessed the blossoming of a budding micro brewing scene offering a wide range of ales, stouts, porters and other types of beer.

Source: totalcroatia.eu

RateBeer, which is the world's largest source for information on craft beer and the craft beer culture, has ranked Zagreb's Zmajska pivovara at number 9 in its annual list of the best new brewers in the world list. Considering there were more than 3,800 new world-wide brewers registered this past year and quarter at RateBeer, making the top 10 puts the team at Zagreb's Zmajska in an elite group of brewers.

Source: http://www.croatiaweek.com/

6. ANALYSIS OF BEER CONSUMPTION IN CROATIA

During the process of purchasing a product the customer goes through five stages: knowledge of the problem, information search, evaluation of information, buying and after buying behaviour. Consumers reactions to a product are the result of positions taken during the purchase process, and are affected by social and personal factors, and also by psychological processes.

The social factors include: culture, society and social status, social groups, family, situational factors and personal influence. Personal factors are: motives and motivations, perceptions, attitudes, personality characteristics, values, lifestyle and knowledge. Psychological processes include: processing of information, learning, changing attitudes and behaviour and personal effects.

A. CHOICE OF STORES

Before analysing the decision-making process on the purchase of beer, an exploratory research of beer offers was conducted in three stores in the city of Zagreb. In one of them beer is exposed in a special room, as a separate category.

Most beers come in a can, then in a glass bottle and PET packaging of 1 litre. The lowest shelves are the beer barrels. In the next store, beer is arranged randomly on several shelves, making it more complicated for the buyer to make his choice. In the last store, beer is isolated from other alcoholic and soft drinks and the consumer has the option of choosing between 126 different packaging options, tastes and beer producers.

B. HABITS AND REASONS FOR CONSUMPTION

With the aim of analysing the decision-making process of buying beer, a research was conducted on 185 adult consumers. Demographic characteristics of the respondents indicate the following; men consume beer more than women do and the research included 51% of respondents at the age of 18-34 years. These are followed by younger respondents, 45%, at the age of 18-24 years.

40% of respondents have graduated from community college or college, and 36% of them were permanently employed while 24% of respondents were unemployed.

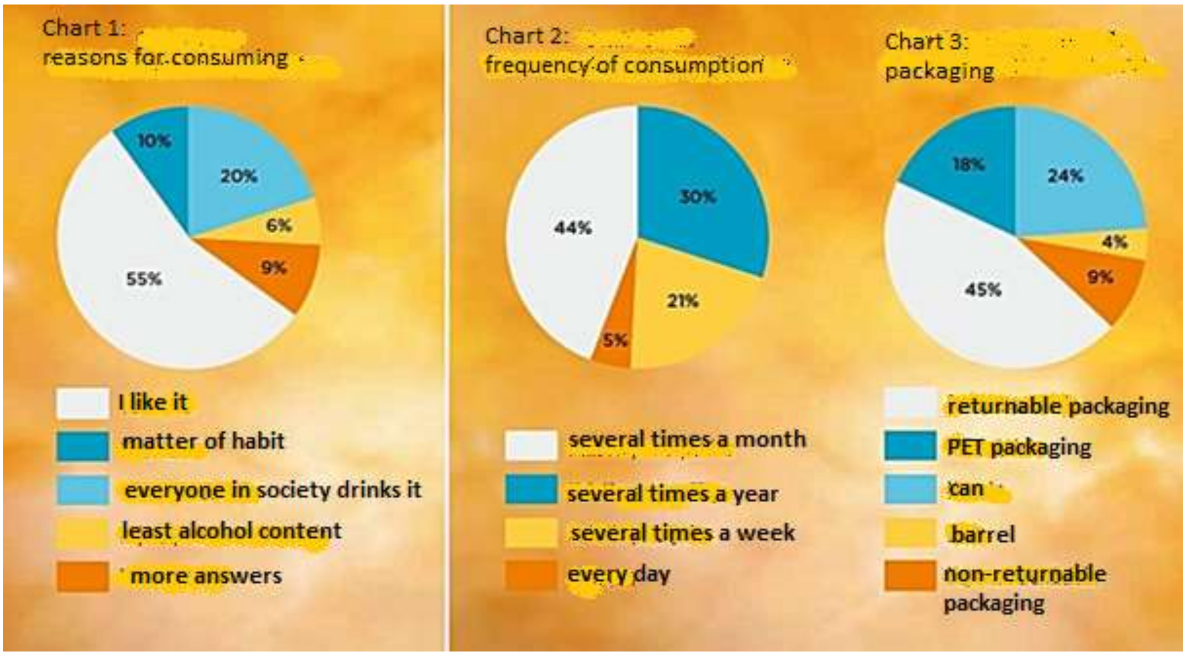
Also, 81% of respondents live in and around Zagreb and 30% of respondents have a personal monthly income between € 470.73 and € 739.51.

Regarding the monthly household income, 30% of respondents have a monthly income of more than € 1,479. The research results indicate the following: 55% of respondents stated that the main reason for drinking beer is the fact they like beer. 20% of respondents drink beer because of the society while 10% of respondents stated that the habits are the reason they consume beer. The next 6% of respondents consume beer because it contains a small amount of alcohol so they can drink it in large quantities.

9% of respondents stated that the combination of the previously mentioned reasons is the reason they consume beer. As far as the frequency of consumption of beer is concerned, 44% of respondents drink beer several times a month, 30% of respondents consume beer several times a year, 21% of them consume beer several times a week and 5% of respondents drink beer every day.

C. BEER - SYMBOL OF FRIENDSHIP

When asked "if they drink beer on their own or in company?" 96% of respondents said that they consume beer when in company of friends. When it comes to the place of consumption, 88% of the respondents drink beer in bars / restaurants, and 12% at home. Among the 22 respondents who had previously stated that they consume beer at home, 60% of them buys beer in the supermarket. Interestingly, none of the respondents buys beer in a specialized beer store. Also, among the 22 respondents who consume beer at home, 45% of them buys beer when buying food and groceries. 45% of respondents buy beer in returnable packaging, 24% of respondents drink beer from cans while 18% of respondents consumed beer from PET packaging. Only 4% of respondents drink beer from the barrel while the remaining 9% of respondents drink beer from non-returnable packaging. The majority of respondents, 64%, favors domestic producers of beer. When asked "Which beer they usually consume?", the vast majority of respondents singled out several brands of beer as their favourites. Only 5 respondents said they drink one brand of beer (Heineken, Golden Brau, Ožujsko, Karlovačko, Staropramen). Since all other respondents stated they consume several brands of beer, we will single out that the 9 respondents stated Ožujsko beer, 7 respondents Heineken, 6 respondents Beck's, 5 respondents Pan, Karlovačko and Tomislav. Other brands of beer were not specifically analysed.



D. WHAT AFFECTS THE DECISION WHEN BUYING BEER

Respondents were asked to assess the factors that influence their decision to purchase beer from 1 to 5, where 1 means that the factor was not important, and 5 that they were given factor was very important. The results indicate that the 17 respondents gave the taste of beer the highest score, 15 respondents gave a high score to quality of beer. The next important factor is the brand of beer and 10 respondents considered this very important.

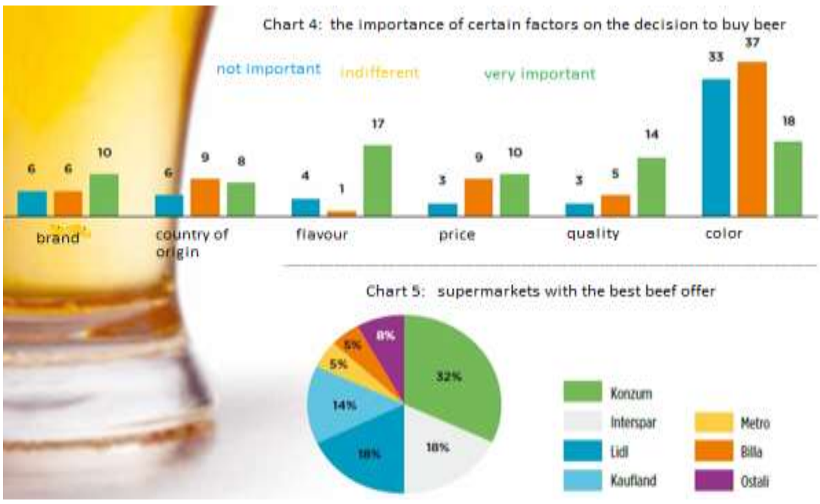
9 respondents said that they do not care about the origin of beer. Factors like colour of beer, beer packaging, the percentage of free beer and recommendations of friends were grouped into one common factor and 37 respondents stated that they do not care about that. This is followed by 33 respondents to whom none of the factors mentioned above matter when purchasing a beer. The remaining 18 respondents said that to them the colour of beer, packaging, and the percentage of free beer as well as the recommendation of friends are important.

When asked about how they would react if the store does not have their favourite beer, 66% of respondents stated that they would buy some other alcoholic drink, while other respondents would go to a different store or would buy another brand of beer. In the opinion of 32% of respondents, Konzum has the best selection of beer, followed by Interspar and Lidl (18% of respondents). 14% of respondents think that Kaufland has the best offer, and among others, 5% of respondents said Metro and Billa.

Of the 163 respondents who consume beer in bars/restaurants, 64% preferred a beer in a bottle, and 36% of respondents orders tap beer.

When it comes to tap beer, respondents said that to them it's important the brand of the beer and also the fact in what kind of glass will they be served. If they can't get their favourite beer in a bottle, respondents said they would change the brand.

Source: Progressive Magazine, May 2016



Source: Express Magazine, http://www.express.hr/