



# Beert

December 2011

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# BEER IN VENEZUELA - CATEGORY ANALYSIS

## HEADLINES

- In 2011, beer sales fall 8% in total volume terms and grow by 34% in total current value terms
- Polar Pilsen commemorates its 70th anniversary in 2011, boosting sales of Empresas Polar above the rest of its competitors
- Beer unit price increases 46% in current terms to reach BsF 20 per litre in 2011
- Empresas Polar CA leads beer in Venezuela with a 79% total volume share
- During the forecast period, beer is predicted to post a total volume CAGR of 3% while total value in constant terms is expected to post a CAGR of 6%

## TRENDS

- In 2011, beer continued to show contraction that began in 2009 as a result of the economic downturn which led to the deterioration in consumers' purchasing power. In addition, high price increases recorded in 2010 and 2011 adversely affected the amount and frequency of beer consumption, especially in lower-income segments, where beer enjoys high penetration. Although the country's GDP began to show signs of recovery in 2011, this wellbeing is yet to be felt by the lower-income segments, resulting in a large number of alcoholic drinks, including beer, having not reversed the downward trend started in 2009.
- Beer recorded an 8% decline in total volume terms in 2011 while total value sales increased 34% in current terms in the same year, boosted by price increments surpassing the country's inflation rate. This performance easily exceeded the review period volume CAGR, which was negative, and heavily influenced by 2007, a record year for beer sales. This slowing trend in consumption is attributed to the fact that in times when Venezuelans face restricted budgets, they sacrifice spending on non-essential goods in order to meet basic housing needs and services.
- According to one industry source, Pilsen is the only type of beer that exhibited positive performance during a year of contraction. This behaviour is attributed to the fact that on the one hand, Empresas Polar developed significant marketing activities to commemorate the 70th anniversary of Polar Pilsen in the country, contributing to increased brand awareness and boosting consumption of Pilsen-type beer. On the other hand, given the current economic crisis, Venezuelan consumers appear to be looking for a beer offering higher alcohol content, allowing them to drink less and save money at the same time. Nevertheless, the net effect on the change of consumer preferences has not affected sales of domestic standard lager as consumers are switching from light to Pilsen-type beer within the same category.
- In 2011, overall unit price for beer increased 46% in current terms, moving from BsF13.80 per litre to BsF20.10. In January 2011, the Venezuelan government announced the devaluation of the local currency from BsF2.6 per US\$ to BsF4.3 per US\$, causing the price of malted barley, a key imported raw material, to increase more than 60% in current terms, a fact that considerably affected beer production costs. In addition, electricity rationing as a consequence of an energy crisis that started in 2010 has also impacted manufacturing costs

as companies have invested in installing their own power generators. This added production cost has been compensated through upward price adjustments.

- In Venezuela, standard lager is the leading category, accounting for 97% of total volume sales against the remaining 3% held by premium lager. Thus far, beer consumers do not seem to be switching between segments given their weakened purchasing power and the main reason for this is that Venezuelans are particularly loyal to their favourite brand of beer.
- According to one industry source, in Venezuela beer is consumed by both men and women of all social classes. More popular in the lower socioeconomic strata (D and E groups), amount and frequency of consumption are much higher compared with upper socioeconomic segments, in which alcoholic beverages such as whiskies, vodka and wine also enjoy significant penetration.
- In Venezuela, the off-trade is the largest channel, accounting for 87% of total volume sales in 2011. This proportion has been slightly increasing over the review period as weaker consumer purchasing power is changing consumers' preferences towards home consumption. A trend that has been observed is that alcoholic drinks purchases are becoming more planned as on the one hand, the current economic crisis drives consumers to compare prices and look for deals, and on the other, laws that restrict when stores are permitted to sell alcoholic beverages force consumers to make purchases in advance. In this context, supermarkets/hypermarkets are benefiting from this situation since Venezuelans are including alcoholic drinks in their regular purchases of groceries.



### Production, Imports and Exports

- In Venezuela, domestic beer production is highly consolidated. Empresas Polar has more than 70 years of tradition operating in the country. Consumer preferences for domestic products are apparent and it is very unlikely that there will be a shift towards imported beer.

### COMPETITIVE LANDSCAPE

- Empresas Polar CA continues leading beer, with a 79% share of total volume sales in 2011. Although beer has been suffering a contraction since 2009, Polar has maintained and even increased its participation in 2011 due to the performance of its Polar Pilsen brand, which commemorated its 70th anniversary, underpinned by strong marketing support and advertising activity. Within the flagship brands of this company, Polar Light and Polar Ice lead the standard lager segment with 44% and 27% shares of total volume sales, respectively. Empresas Polar has kept focusing on a strategy of category segmentation for which it has developed innovative communication campaigns which are renewed every year.



### PROSPECTS

- Although the beer industry has the capacity to repeat the record volume achieved in 2007 as the companies competing in the industry have the ability to respond to an increase in demand, the macroeconomic variables for Venezuela are more likely to constrain any recovery. The expectation is that from 2012, beer will begin to reverse the negative growth trend that started in 2009 but at a slow rate of around 2%. According to one industry source, it



will take some years to reach the record volumes of 2007 and forecasts suggest that this is unlikely to occur before 2016.



## CATEGORY BACKGROUND

### Lager Price Band Methodology

~ Standard lager accounts for 97% of beer sales in terms of volume. The most representative brands in the segment are Polar Ughtwith a 44% total volume share and Polar Ice with a 27% share in 2011. Polar Pilsen from Empresas Polar used to be the most popular brand, but its leadership fell in 2004 when light beers gained consumer preference. Polar Pilsen is also considered part of the standard lager segment. In domestic premium lager, Solera and Solera Ught hold 90% of total volume sales; the remaining 10% is taken by Zulia from Cervecera Nacional.

#### Summary 1 Lager by Price Band 2011

Category	Price range per litre (BsF)
Premium	Data removed from sample
Standard	

Source: EuromonitorInternational estimates, store checks, trade interview

Note: Pricebands for lager are based primarily on price, but positioning and packKaging are other factors that are considered in classification

## CATEGORY DATA

Table 1 Sales of Beer by Category: Total Volume 2006-2011

million litres	2006	2007	2008	2009	2010	2011
Dark Beer						
Lager						
- Premium Lager						
- Domestic Premium Lager						
- Imported Premium Lager						
- Standard Lager						
- Domestic Standard Lager						
- Imported Standard Lager						
- Economy Lager						
- Domestic Economy Lager						
- Imported Economy Lager						
Low/Non- Alcohol Beer						
- Low Alcohol Beer						
- Non-Alcoholic Beer						
Stout						
Beer						

Source: EuromonitorInternational from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 2 Sales of Beer by Category: Total Value 2006-2011

BsF million	2006	2007	2008	2009	2010	2011
Dark Beer						
Lager						
- Premium Lager						
-- Domestic Premium Lager						
-- Imported Premium Lager						
- Standard Lager						
-- Domestic Standard Lager						
-- Imported Standard Lager						
- Economy Lager						
-- Domestic Economy Lager						
-- Imported Economy Lager						
Low/Non- Alcohol Beer						
- Low Alcohol Beer						
- Non-Alcoholic Beer						
Stout						
Beer						

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 3 Sales of Beer by Category: % Total Volume Growth 2006-2011

% total volume growth	2010/11	2006-11 CAGR	2006/11 Total
Dark Beer			
Lager			
- Premium Lager			
-- Domestic Premium Lager			
-- Imported Premium Lager			
- Standard Lager			
-- Domestic Standard Lager			
-- Imported Standard Lager			
- Economy Lager			
-- Domestic Economy Lager			
-- Imported Economy Lager			
Low/Non- Alcohol Beer			
- Low Alcohol Beer			
- Non-Alcoholic Beer			
Stout			
Beer			

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 4 Sales of Beer by Category: % Total Value Growth 2006-2011

% local currency, current value growth	2010/11	2006-11 CAGR	2006/11 Total
Dark Beer			
Lager			
- Premium Lager			
-- Domestic Premium Lager			

- Imported Premium Lager
- Standard Lager
- Domestic Standard Lager
- Imported Standard Lager
- Economy Lager
- Domestic Economy Lager
- Imported Economy Lager
- Low/Non- Alcohol Beer
- Low Alcohol Beer
- Non-Alcoholic Beer
- Stout
- Beer



Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

**Table 5** Sales of Beer by On-trade vs Off-trade Split: Volume 2006-2011

million litres	2006	2007	2008	2009	2010	2011
Off-trade						
On-trade						
Total						

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

**Table 6** Sales of Beer by On-trade vs Off-trade Split: Value 2006-2011

BsF million	2006	2007	2008	2009	2010	2011
Off-trade						
On-trade						
Total						

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

**Table 7** Sales of Beer by On-trade vs Off-trade Split: % Volume Growth 2006-2011

% volume growth	2010/11	2006-11 CAGR	2006/11 TOTAL
Off-trade			
On-trade			
Total			

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

**Table 8** Sales of Beer by On-trade vs Off-trade Split: % Value Growth 2006-2011

% current value growth	2010/11	2006-11 CAGR	2006/11 TOTAL

Off-trade  
On-trade  
Total

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

**Table 9 Beer: Production, Imports and Exports: Total Volume 2005-2010**

million litres

	2005	2006	2007	2008	2009	2010
Beer – Exports						
Beer – Imports						
Beer – Production						
Beer – Apparent consumption						

Source: GTIS, Euromonitor International

Note: '-' indicates data not available

**Table 10 Beer Imports by Country of Origin: Total Volume 2005-2010**

million litres

	2005	2006	2007	2008	2009	2010
Beer – Netherlands						
Beer – Germany						
Beer – Argentina						
Beer – France						
Beer – United Kingdom						
Beer – Turkey						
Beer – Hong Kong						
Beer – Vietnam						
Beer – US						
Beer – Peru						
Beer – Panama						
Beer – China						
Beer – Brazil						
Beer – Belgium						
Beer – Barbados						
Beer – Mexico						
Beer – Lebanon						
Beer – Total						

Source: GTIS, Euromonitor International

Note: '-' indicates data not available

**Table 11 Beer Imports by Country of Origin: Total Value 2005-2010**

BsF million

	2005	2006	2007	2008	2009	2010
Beer – Netherlands						
Beer – Germany						
Beer – Argentina						
Beer – France						
Beer – United Kingdom						

Beer – Turkey  
 Beer – Hong Kong  
 Beer – US  
 Beer – Vietnam  
 Beer – Belgium  
 Beer – Barbados  
 Beer – Mexico  
 Beer – Lebanon  
 Beer – Peru  
 Beer – Panama  
 Beer – China  
 Beer – Brazil  
 Beer – Total



Source: GTIS, Euromonitor International  
 Note: '-' indicates data not available

Table 12 Beer Exports by Country of Destination: Total Volume 2005-2010

million litres

	2005	2006	2007	2008	2009	2010
--	------	------	------	------	------	------

Beer – NL Antilles (Curacao)  
 Beer – Aruba  
 Beer – Colombia  
 Beer – Guyana  
 Beer – US  
 Beer – Seychelles  
 Beer – Panama  
 Beer – French Guiana  
 Beer – NL Antilles (Bonaire)  
 Beer – Puerto Rico (U.S.)  
 Beer – Portugal  
 Beer – Netherlands Antilles  
 Beer – Netherlands  
 Beer – Martinique  
 Beer – Malta  
 Beer – Honduras  
 Beer – Haiti  
 Beer – Costa Rica  
 Beer – Dominica  
 Beer – Brazil  
 Beer – Canada  
 Beer – Argentina  
 Beer – Venezuela  
 Beer – Total



Source: GTIS, Euromonitor International  
 Note: '-' indicates data not available

Table 13 Beer Exports by Country of Destination: Total Value 2005-2010

BsF million

	2005	2006	2007	2008	2009	2010
--	------	------	------	------	------	------

Beer – NL Antilles



- (Curacao)
- Beer – Colombia
- Beer – Guyana
- Beer – Aruba
- Beer – US
- Beer – Seychelles
- Beer – Panama
- Beer – NL Antilles (Bonaire)
- Beer – Netherlands Antilles
- Beer – Netherlands
- Beer – Martinique
- Beer – Malta
- Beer – Honduras
- Beer – Haiti
- Beer – Argentina
- Beer – Dominica
- Beer – Costa Rica
- Beer – Canada
- Beer – Brazil
- Beer – Venezuela
- Beer – Portugal
- Beer – French Guiana
- Beer – Puerto Rico (U.S.)
- Beer – Total



Source: GTIS, Euromonitor International  
 Note: '-' indicates data not available

**Table 14** Company Shares of Beer by National Brand Owner 2007-2011

% total volume Company	2007	2008	2009	2010	2011
Total	100.0	100.0	100.0	100.0	100.0

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

**Table 15** Company Shares of Beer by Global Brand Owner 2007-2011

% total volume Company	2007	2008	2009	2010	2011
Total	100.0	100.0	100.0	100.0	100.0

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 16 Brand Shares of Beer 2008-2011

% total volume Brand (Global Brand Owner)	Company	2008	2009	2010	2011
Total	Total	100.0	100.0	100.0	100.0

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 17 Forecast Sales of Beer by Category: Total Volume 2011-2016

million litres	2011	2012	2013	2014	2015	2016
Dark Beer						
Lager						
- Premium Lager						
-- Domestic Premium Lager						
-- Imported Premium Lager						
- Standard Lager						
-- Domestic Standard Lager						
-- Imported Standard Lager						
- Economy Lager						
-- Domestic Economy Lager						
-- Imported Economy Lager						
Low/Non- Alcohol Beer						
- Low Alcohol Beer						
- Non-Alcoholic Beer						
Stout						
Beer						

Source: Euromonitor International from trade associations, trade press, company research, trade interviews, trade sources

Table 18 Forecast Sales of Beer by Category: Total Value 2011-2016

BsF million	2011	2012	2013	2014	2015	2016
-------------	------	------	------	------	------	------



- Dark Beer
- Lager
  - Premium Lager
  - Domestic Premium Lager
  - Imported Premium Lager
  - Standard Lager
  - Domestic Standard Lager
  - Imported Standard Lager
  - Economy Lager
  - Domestic Economy Lager
  - Imported Economy Lager
- Low/Non- Alcohol Beer
  - Low Alcohol Beer
  - Non-Alcoholic Beer
- Stout
- Beer



Source: Euromonitor International from trade associations, trade press, company research, trade interviews, trade sources

**Table 19 Forecast Sales of Beer by Category: % Total Volume Growth 2011-2016**

% total volume growth

2015/16      2011-16 CAGR      2011/16 Total

- Dark Beer
- Lager
  - Premium Lager
  - Domestic Premium Lager
  - Imported Premium Lager
  - Standard Lager
  - Domestic Standard Lager
  - Imported Standard Lager
  - Economy Lager
  - Domestic Economy Lager
  - Imported Economy Lager
- Low/Non- Alcohol Beer
  - Low Alcohol Beer
  - Non-Alcoholic Beer
- Stout
- Beer



Source: Euromonitor International from trade associations, trade press, company research, trade interviews, trade sources

**Table 20 Forecast Sales of Beer by Category: % Total Value Growth 2011-2016**

% local currency, constant value growth

2011-16 CAGR

2011/16 TOTAL

- Dark Beer
- Lager
  - Premium Lager
  - Domestic Premium Lager
  - Imported Premium Lager
  - Standard Lager



- Domestic Standard Lager
- Imported Standard Lager
- Economy Lager
- Domestic Economy Lager
- Imported Economy Lager
- Low/Non- Alcohol Beer
- Low Alcohol Beer
- Non-Alcoholic Beer
- Stout
- Beer

Source: Euromonitor International from trade associations, trade press, company research, trade interviews, trade sources



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# BEER IN VENEZUELA - COMPANY PROFILES

## CERVECERIA REGIONAL CA IN ALCOHOLIC DRINKS (VENEZUELA)

### Strategic Direction

~ Cerveceria Regional will concentrate on gaining share in beer following the alliance made with Cerveceria Nacional CA in 2010. This company will continue focusing on maintaining its leading position in the western region of Venezuela and increasing its presence in the central zone and capital district, where Cerveceria Nacional CA has a stronger presence.

### Key Facts

#### Summary 2 Cerveceria Regional CA: Key Facts

Full name of company:	Cerveceria Regional CA
Address:	Avenida 17, Los Haticos No 112-113, Maracaibo, Venezuela
Tel:	+58 (251) 760 2427
Fax:	+58 (251) 760 2440
www:	www.regionallight.com
Activities:	Production of beer and carbonates
Source:	Company research ( <a href="http://paginasamarillas.infoguia.net">http://paginasamarillas.infoguia.net</a> )

### Company Background

- ~ Cerveceria Regional was founded as an independent company in 1929 in the Zulia state, located in western Venezuela. In 1992, it was acquired by the Cisneros Group, a large holding that includes mainly companies in the media, entertainment and technology industries.
- ~ The company not only produces beer, but also participates in carbonated non-alcoholic drinks, specifically in the production of malta, a very popular type of drink in Venezuela whose ingredients are very similar to those used to produce beer.
- ~ The products of Cerveceria Regional are available nationwide; however, its strongest position is in western Venezuela, where the company originates.
- ~ In 2010, Cerveceria Regional (Cisneros Group) and Cerveceria Nacional CA (the Venezuelan arm of Anheuser-Busch InBev NV) announced the formation of a company with 85% of the capital from Cerveceria Regional and the remaining 15% from Cerveceria Nacional. For the Cisneros Group this alliance represents an association with one of the most important beer groups in the world (owner of Budweiser, Stella Artois, Beck's and Quilmes). The new company has a portfolio composed of seven brands: Brahma, Brahma Light, Zulia and the relaunched Cardenal from Cerveceria Nacional CA and Regional Draft, Regional Light and Regional Pilsen from Cerveceria Regional.

- ~ In April 2011, the company renewed the image of its flagship brand Regional Light in order to commemorate its 10th anniversary in Venezuela. As part of this celebration, Cerveceria Regional carried out marketing activities in press and social media, including a nightlife party in key cities of the country as a strategy to connect with its target audience.

## Production

- ~ All of the brands from Cerveceria Regional are produced locally at its facilities in Maracaibo and Cagua. By 2010, the Maracaibo plant had an annual production capacity of 100 million litres and the Cagua plant a capacity of 600 million litres.
- ~ Thus far, this company does not manufacture brands for third parties either under licence or private label for large-scale retail groups. The products of Cerveceria Regional in beer include the brands Regional Pilsen, Regional Draft and Regional Light.
- ~ Cerveceria Regional does not export beer to neighbouring markets or further afield since Brahma is a very strong competitor in Latin American countries such as Brazil and Peru.

### Summary 3 Cerveceria Regional CA: Production Statistics 2011

Location	Brand	Annual production (million litres)
Maracaibo	Regional	100
Cagua	Regional	600

Source: Tradeinterviews

## Competitive Positioning

- ~ Cerveceria Regional is the second leading player within the alcoholic drinks industry, holding a total volume share of 15% in 2011. In beer, the company holds a 16% total volume share, surpassed only by Empresas Polar.
- ~ The company's share decreased in 2011, amid the economic crisis that affected beer. Empresas Polar has maintained its competitive position due to the strong support directed to commemorate the 70th anniversary of Polar Pilsen in the country. The alliance between Cerveceria Regional and Cerveceria Nacional has not yet had a positive impact on the share of the brands owned by each of these companies as such merger processes are usually long term as they often involve structural changes.
- ~ Cerveceria Regional participates in a mature category where consumers show a great deal of traditionalism and preference for lager beer, evidenced by the failure of new product launches such as in dark beer.
- ~ The company holds a narrow portfolio in terms of brands. The brands produced by Cerveceria Regional are Regional Pilsen, Regional Light and Regional Draft, covering regular and light beer tastes. The company follows category standards in offering products in cans and bottles (returnable and non-returnable).
- ~ The company targets the middle and low-end markets. Cerveceria Regional does not have a brand in the premium lager segment, which is led by Empresas Polar. This illustrates the company's strategy, which focuses on volume rather than value.

~ Cerveceria Regional typically follows the trends established by other leading companies such as Empresas Polar. Marketing campaigns are intended to transmit to the audience the message that beer is a refreshing drink.

Summary 4	Cerveceria Regional CA: Competitive	Position 2011
Product type	% total volume share	Rank
Alcoholic drinks	14.9	2
Beer	16.0	2

Source: Euromonitor International estimates, trade interviews

## EMPRESAS POLAR CA IN ALCOHOLIC DRINKS (VENEZUELA)

### Strategic Direction

### Key Facts

#### Summary 5 Empresas Polar CA: Key Facts

Full name of company:	Empresas Polar CA
Address:	2da Avenida de los Cortijos de Lourdes, Edificio Centro Empresarial Polar, Caracas, Venezuela
Tel:	+58 0800 765 2700
Fax:	+58 (2'12) 202 7960
www:	www.empresas-polar.com
Activities:	Beer, wine, RTDs, soft drinks, packaged food, home care products

Source: Company research (www.empresas-polar.com)

### Company Background

~ Empresas Polar is a conglomerate that now includes approximately 40 companies from different sectors of the economy. The company was founded by Lorenzo Mendoza Fleury in 1939 in Caracas, and is now run by his grandson, Lorenzo Mendoza. Empresas Polar is the largest company in the food and beverage industry in Venezuela.



### Production

- Empresas Polar supplies domestic beer with products manufactured locally. In wine, its subsidiary, Bodegas Pomar, is responsible for domestic wine production.



### Competitive Positioning

- Empresas Polar holds first place in beer with a 79% total volume share in 2011. In wine, Empresas Polar, through its subsidiary Bodegas Pomar, ranks in second place, holding a total volume share of 7%, surpassed only by Tamayo & Cía. The company also competes in RTDs, through its wine-based beverage Sangría Caroreña from the subsidiary Bodegas Pomar, which accounted for 19% of total volume sales of RTDs/high-strength premixes in 2011.



Summary6	EmpresasPolarCA: CompetitivePosition2011	
Producttype	% total volumeshare	Rank
Alcoholicdrinks	Removed	Removed
Beer	Removed	Removed
Wine	Removed	Removed
RTDs/hi_gh-strengthremixes	Removed	Removed

Source: Euromonitor International estimates, trade interviews

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# ALCOHOLIC DRINKS IN VENEZUELA - INDUSTRY OVERVIEW

## EXECUTIVE SUMMARY

### Weak Purchasing Power Continues Affecting Alcoholic Drinks in 2011

In 2011, overall alcoholic drinks recorded a negative performance, mostly influenced by the behaviour of beer which was significantly affected by weakened consumer purchasing power. High price increases recorded in 2011 negatively affected the quantity and frequency of beer consumption, especially in lower-income segments, where beer registers high penetration. Although the country's macroeconomic variables began to show signs of recovery in 2011, the purchasing power of Venezuelans continued falling in constant terms; a fact that had an impact on a large number of alcoholic drinks.

### Domestic Spirits Strengthen Presence As A Result of the Economic Downturn

Only a small number of alcoholic drinks in Venezuela recorded positive volume growth in 2011. Within domestic options, rum, vodka and other whiskies continued gaining importance among consumers' preferences as average Venezuelans are migrating to less expensive categories as their purchasing power contracts. Despite domestic whisky being considered a low-quality drink, consumers of 3YO whisky, mostly from social stratus C+, are downtrading to local options as they believe that whisky is a non-replaceable drink when it comes to commemorating special events.

### Empresas Polar Maintains Its Competitive Position Due To the Performance of Pilsen-type Beer

In 2011, Pilsen was the only type of beer that exhibited positive performance in terms of total volume sales. The 70th anniversary of Polar Pilsen in the country was heavily supported by Empresas Polar, a fact that contributed to increased brand awareness and boosted consumption of Pilsen-type beer. On the other hand, volume share of Cervecería Regional continued falling in 2011, in spite of the alliance made with Cervecería Nacional in mid-2010.

### On-trade Sales Affected by the Prohibition of Smoking in Public Places

One of the most significant factors affecting consumption of alcoholic drinks, and especially spirits, in on-trade establishments is the implementation and enforcement of a new regulation that prohibits smoking in public places. The measure imposed by the Health Ministry became effective from March 2011 and obliges proprietors and administrators of all public indoor spaces, including nightclubs and restaurants, as well as offices and other workplaces to provide informative publicity in which it is stated that smoking is prohibited. According to the Pan American Health Association, this is one of the most significant policies to reduce the smoking habit in the world. Since a large number of smokers are in the habit of smoking when consuming alcoholic drinks, this measure is likely to have a significant impact on consumption in the on-trade as people would prefer to stay at home rather than go outside to smoke.



## Slow Recovery of Alcoholic Drinks Industry Is Projected Over Forecast Period

From 2012, the overall alcoholic drinks industry will begin to reverse the negative growth trend that started in 2009 but at a very slow rate, which will be in line with the improvement in personal disposable income and the recovery of the country's macroeconomic variables. By 2015, acceleration in the rate of total volume growth is anticipated; however, it is unlikely that sales will recover the record levels achieved in 2008 when oil prices registered record rises.

### KEY TRENDS AND DEVELOPMENTS

#### Domestic Spirits Strengthen As A Result of Falling Consumer Purchasing Power

According to the Central Bank of Venezuela (Banco Central de Venezuela), the overall purchasing power of Venezuelans (which is calculated based on salary increases of workers in both public and private sectors) declined in constant terms by 5.8% in 2009 and 5.4% in 2010 and expectations point to a continued decrease as salary rises have been lagging behind 2011 inflation. Although in 2011, the country's GDP began to exhibit signs of a recovery after two years of negative performance, average Venezuelans have yet to perceive any improvement in their purchasing power, prompting many to limit their spending on non-essential goods and at the same time downtrade from their usual categories of spirits. The net effect of this situation is that domestic spirits are strengthening their presence as consumers are looking for more affordable products at a time when their budgets are limited.

#### Current impact

In 2011, only a small number of alcoholic drinks in Venezuela recorded a positive growth rate as consumers are migrating to less expensive categories as well as distancing consumption occasions. Indeed, those registering an increase in volume sales were primarily domestic spirits. In the case of rum, which is composed mainly of local brands, total volume sales are expected to register strong growth of 14% in 2011.

Vodka was another category favoured by the change in consumption patterns following the weakening of Venezuelans' purchasing power. Despite the fact that leading brands of vodka are imported, its performance has been highly influenced by the emergence of domestic brands competing within the economy segment, which are expected to boost the category's total volume sales by 9% in 2011.

In addition, other whiskies, which comprise mainly domestic brands, are also expected to record a positive total volume growth rate of 6% in 2011. Consumers of 3YO whisky, mostly from social stratus C+, are migrating to domestic options as they still have the perception that whisky is a non-replaceable drink when it comes to commemorative events and parties (weddings, graduations, baptisms, first communions, births, anniversaries and birthdays).

#### Outlook

Over the forecast period, domestic spirits are likely to continue strengthening their presence within the alcoholic drinks industry since the country's macroeconomic variables are not projected to recover to a large extent to produce a significant improvement in the population's purchasing power. From 2012 to 2016, Venezuelan GDP is projected to increase 1-2% per annum.

Even though 2012 will be an electoral year and the government of President Hugo Chávez is likely to increase public spending as a mechanism to favour its re-election, only a relative

improvement is expected for those categories which were severely hit in 2009 and 2010. Moreover, when taking into account that a devaluation of the local currency is predicted to take place by 2013 and prices are likely to significantly increase, those categories which are mainly composed of imported products are likely to record a slowing trend. The final effect of this situation will be that domestic spirits will continue to grow ahead of imported products over 2012-2016.

As a result of the stated above, rum is projected to post a total volume CAGR of 6% followed by vodka with 5% and other whiskies with 4%. In contrast, other blended Scotch whisky is predicted to post a 2% CAGR in total volume terms over the forecast period.

#### Future impact

Since the perception of domestic alcoholic drinks has positively changed over the review period, manufacturers competing within rum, domestic vodka and other whiskies are likely to increase their marketing support taking advantage of the boom in consumption of local products. What is more important is that the alcoholic drinks industry in Venezuela is evolving as a result of the changes in consumption patterns which implies that domestic drinks are no longer perceived as low-status options.

Over 2012-2016, it is expected that domestic spirits manufacturers will make significant investments in promotional activities as a strategy to continue capturing consumers from other alcoholic drinks categories. The use of social networks to capture young audiences will continue being a key marketing strategy whereas promotional activities attached to the national soccer team "La Vinotinto" are likely to have a greater presence over the forecast period.

#### New Legislation Prohibiting Smoking in Public Threatens Performance of Spirits in On-trade

One of the key factors likely to affect consumption of spirits in on-trade channels is enforcement of a new resolution that prohibits smoking in public places. The measure imposed by the Health Ministry, effective from March 2011, obliges proprietors and administrators of all public indoor spaces, including nightclubs and restaurants, as well as offices and other workplaces to provide informative publicity in which it is stated that smoking is prohibited. According to the Pan American Health Association, this is one of the most significant policies worldwide to reduce the smoking habit. In 2010, male smokers surpassed 1.9 million people, while female smokers accounted for 1.2 million in Venezuela.

Since a great number of smokers are in the habit of smoking when consuming alcoholic drinks, this measure is expected to have a significant impact on consumption in on-trade channels as people may prefer to remain at home rather than be forced to stand outside on-trade outlets to smoke.

#### Current impact

Despite the prohibition of smoking in public places already having an impact on spirits sales in on-trade channels, it is uncertain what proportion of Venezuelan smokers are reducing their frequency of consumption at bars and restaurants. It is important to remember that the economic downturn is another factor boosting consumers' preference for home consumption. The combined effect of the smoking ban and falling consumer purchasing power has led to the on-trade channel performing below the off-trade channel. In terms of spirits, volume sales in the off-trade are expected to increase by 4% in 2011 while the on-trade is expected to see growth of less than 1% in the same year.

Although the exact percentage of Venezuelans who are reducing their frequency of visits to bars and restaurants due to the smoking ban is not known with any accuracy, industry sources have expressed their concerns as they are aware that a significant number of smokers of

tobacco products are not likely to go outside to smoke due to issues of personal safety, and will therefore remain at home. Moreover, given that in Venezuela smoking prevalence in adult males is 20% and in adult females it is 13%, concern among companies competing within spirits is perhaps warranted, in terms of the fall in consumption in on-trade channels.

#### Outlook

The reduction in consumption in on-trade channels is expected to continue, at least in a medium-term scenario, as bars and restaurants will take some time to adapt their facilities to smoking areas. Moreover, given that the personal safety situation in Venezuela is unlikely to significantly change during the forecast period, consumers are likely to prefer to stay at home rather than spend time outside where they might be exposed to potential risk.

#### Future impact

The future impact of the smoking ban in public places will result in the growth of off-trade sales ahead of on-trade sales. Indeed, over 2012-2013, volume sales of spirits at on-trade establishments are expected to grow at an annual rate of 2% while those at off-trade outlets will see growth of 3%. However, it is important to note that the economic situation is another important factor that will have a significant effect on the performance of on-trade channels. The recovery of consumer purchasing power is not expected to produce a significant switch in consumers' preferences in terms of locations for the consumption of alcoholic drinks.

### Unit Prices Rebound Following Devaluation of Local Currency

In January 2011, the national government announced a devaluation of the official exchange rate to import priority consumption goods and raw materials from BsF2.3 per US dollar to BsF 4.3. As a consequence, companies with a strong reliance on imported supplies were forced to apply sharp price increases as product costs drastically increased above the annual rate of inflation. Within alcoholic drinks, the beer industry was one of the most affected by this situation as the price of malted barley, a key imported raw material, increased more than 60% in current terms.

#### Current impact

In 2011, overall unit price for beer recorded 46% growth in current terms, moving from BsF13.8 per litre to BsF20.1. Given that the purchasing power of Venezuelans has been shrinking since 2009 as a consequence of the economic downturn, the situation for beer has deteriorated. Since beer enjoys wide penetration among low-income groups, which account for over 80% of the country's population, its sales are severely impacted in times when Venezuelans are faced with restricted budgets and prices follow an increasing trend above the inflation rate. In 2011, beer is expected to record a decline of 8% in total volume terms.

In spite of most alcoholic drinks categories, such as spirits and wine, also having an important component of imported products, they did not register price increases as severe as beer as the official rate already established by the Venezuelan government for importing non-essential consumption goods was fixed at BsF 4.3 per US dollar in January 2010.

#### Outlook

Over the review period, price increases within the alcoholic drinks industry have been highly influenced by two historical devaluations of the local currency, in January 2010 and in January 2011. As expected, neither of these events took place on the eve of presidential elections as such measures would likely undermine the chances of re-election for the incumbents.

As presidential elections are due to take place in December 2012, no further devaluation of the local currency is expected prior to this event. The government of President Hugo Chávez is

expected to inject liquidity into the market by increasing public spending so the population will perceive a relative improvement in their purchasing power as a strategy to favour its re-election. The consequence of higher public spending will be reflected in an increase in the weight of public debt in the national budget, likely required a further devaluation of the local currency in 2013.

#### Future impact

The future impact of a devaluation of the local currency in 2013 will result in severe price increases across the entire alcoholic drinks industry. In this context, the overall unit price for alcoholic drinks is predicted to grow at an annual average rate of 2%, with the exception of 2013 when the price increment is expected to reach 5% in constant terms. Any devaluation is expected to equally impact categories that mainly comprise imported products, such as spirits and wine, as well as beer, which have a strong reliance on imported raw materials.

After such price increases, it is likely that the alcoholic drinks industry would exhibit a slowdown in consumption, after a year of recovery supported by the growth in liquidity prior to the presidential elections. Given this scenario, total volume sales of alcoholic drinks are expected to grow by just over 2% in 2012 while in 2013, this rate is expected to fall below 2%.

#### Key New Product Launches

Within alcoholic drinks, the trend towards new product launches points to primary packaging design rather than product innovation itself. As companies importing and manufacturing alcoholic drinks have to deal with restrictive access to foreign currency, they are allocating their resources to high rotation presentations instead of launching new varieties. In fact, most of the importers of alcoholic drinks are rationalising their portfolios as the foreign currency granted by the Venezuelan government is not even enough to cover domestic demand. In this context, most of the innovations seen in 2011 came from domestic producers at a primary packaging level.

#### Current impact

In terms of new product launches at primary packaging level, in May 2011 Empresas Polar released a less stylised oval bottle for its Polar Pilsen beer. The launch of a special edition of this type of beer was to commemorate the 70th anniversary of one of the oldest brands of beer in the country. Each of these three collectable bottles had the logo of Polar Pilsen printed in a different colour of the Venezuelan flag. In 2011, Polar Pilsen was expected to record the biggest increase in total volume share, rising almost two percentage points.

Another trend that has been identified within the alcoholic drinks industry and included in packaging design is sponsorship of the national soccer team "La Vinotinto". In this context, the leading brand of rum, Cacique, marketed by Diageo Venezuela, released a special edition bottle in July 2011 with two designs associated with soccer. The considerable advances made by the national team have raised soccer to new heights of influence within Venezuelan culture. There are two different designs: one is a burgundy bottle, which is the colour of the national soccer team and the other is tricolour, representing the Venezuelan flag. However, this release has not had a significant effect on brand sales, with its volume share expected to remain largely unchanged in 2011.

#### Outlook

Due to import issues and limited access to foreign currency, no major releases are expected in terms of new product launches. Most of the manufacturers competing within alcoholic drinks are likely to continue focusing on improving packaging design as this is a less expensive and low-risk alternative when compared to the development and launch of an entirely new brand.

Over the forecast period, consumer purchasing power is not expected to recover to a significant extent with price continuing to be one of the most important factors in consumers' purchasing decisions.

Due to the increasing importance of the national soccer team within Venezuelan culture, domestic manufacturers are likely to replicate the strategy of Diageo as a way to connect through an emotional bond with its target audience.

#### Future impact

Over 2011-2016, domestic brands of rum are predicted to continue strengthening their presence within the alcoholic drinks industry. In this context, domestic manufacturers are likely to continue focusing on launching special editions at primary packaging levels as rum is a category in which innovation is not easy since consumers are quite loyal to the traditional flavour of dark rum.

In terms of beer, no major releases are expected in terms of changes in bottle design as returnable glass bottles will continue being the most common presentation in times when Venezuelans are faced with restricted budgets.

Over the forecast period greater support for Pilsen-type beer is likely, but focusing on marketing rather than new product development. Beer consumers are very conservative in the traditional taste of standard lager beer and flavoured beer has not yet been accepted in the Venezuelan market.

#### Summary 7 Key New Product Developments 2010-2011

Brand (NBO)	Product	USP	Launch year
Cacique 500 (Diageo Venezuela CAI)	Dark rum	Packaging innovation: This is a special edition bottle of Cacique 500 featuring designs associated with soccer. This is the first bottle of rum launched in Venezuela which has a shrink-wrap coating with two different designs printed on it: one is burgundy, which is the colour of the national soccer team, and the other is tricolour, representing the Venezuelan flag.	2011
Haig Supreme (Diageo Venezuela CAI)	Other blended Scotch whisky	Premiumisation heritage: Haig Supreme is a blended Scotch whisky with over 20 malts aged in European oak barrels. This blend was created in homage to the Haig family which has nearly 400 years of history in the production of whisky_	20'11

Polar Pilsen (Cerveceria Polar CA)	Domestic standard lager	Targets upper- income consumers.  Packaging innovation: This is a special edition of Polar Pilsen commemorating the 70th anniversary of the brand. This is the only domestic lager available in a curvy and rounded bottle. There are three different collectible presentations celebrating the 70th anniversary.	2011
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Source: Euromonitor International

### Specialist Retailer

Specialist retailers represent the strongest commercialisation channel for alcoholic drinks, accounting for 63% of volumes sold at off-trade channels. In fact, these retailers offer a wide variety of alcoholic drinks, including domestic and imported products. Wine, which is the widest category in terms presentations and brands, is organised at specialist retailers by country of origin, grape and varietal type. Specialist retailers are very sophisticated in terms of consumer services, including wine tasting, orientation about the type of wine to choose depending on the consumption occasion, and seminars on topics related to alcoholic drinks trends and product tasting. More specialised services such as free home delivery are also offered to customers.

#### Current impact

In spite of specialist retailers representing the most important channel for alcoholic drinks sales, supermarkets have been gaining importance as purchases of alcoholic beverages are becoming more planned since Venezuelans are including such beverages as part of their regular home consumption. Limitations in the hours of sale of alcoholic drinks are influencing this behaviour. From 2009 to 2011, supermarkets gained almost two percentage points of volume share of alcoholic drinks sold at off-trade channels.

Special areas within supermarkets are being dedicated to exhibit a wide variety of domestic and imported brands, trying to recreate the purchasing experience at specialist retailers. Indeed, wine tastings are being carried out in supermarkets and some of them are also conducting workshops and seminars for consumers, such as the regional chain Excelsior Gama presented in the capital city, Caracas.

#### Outlook

The number of specialist retailers is not predicted to grow over the forecast period because new regulations in terms of alcoholic drinks expenditure and serving hours are being imposed on the Venezuelan market. Since 2008, the national government has tried to slowdown alcoholic drinks consumption through mechanisms related to opening hours, selling licences and retailer location.

In addition, given that the recovery of the overall alcoholic drinks market is expected to occur at a very slow rate over the forecast period as consumer purchasing power is not expected to recover to a large extent, it is not likely that the number of specialist retailers will increase either.

#### Future impact

Specialist retailers will remain the leading channel in alcoholic drinks as they offer the widest variety of products ranging from economy to premium brands. Differentiation through new service offerings and customised attention will be key factors maintaining the channel's leading position among off-trade channels. However, supermarket chains will gain importance over 2011-2016 as alcoholic drinks purchases are being planned in a more cautious way and consumers are including the purchase of alcoholic beverages during their visits to supermarkets.

Restrictions of the trading hours of alcoholic beverages will continue being a factor that threatens the performance of specialist retailers. In this context, a greater degree of promotional activity is expected to be seen within this commercialisation channel as a strategy to retain customers.

#### Summary 8 Leading Specialist Retailers 2011

Retailer	Fascia(s)	Outlets	Sales (BsF million)
Prolicor	Various	93	n/a
Celicor	Various	40	n/a
Licores Mundiales	Various	2	n/a

Source: Company websites (www.pronicor.com.ve; www.celicor.net; http://licoresmundiales.com)

#### Market Mergers and Acquisitions Activity

In 2011, there was no mergers and acquisitions activity within the alcoholic drinks industry in Venezuela. The low level of activity in this area is attributed to the fact that currently, in Venezuela, legal uncertainty is very high and companies have lost confidence and are avoiding such activities in order not to draw the attention of President Hugo Chavez. Private companies with presence in Venezuela are operating in a low-profile manner, as a strategy to remain out of the government's sights as much as possible.

The most recent mergers and acquisitions activity occurred in mid-2010 when Cerveceria Regional (Grupo Cisneros), the second most important player in the domestic beer industry, and Cerveceria Nacional CA (NBO of the multinational Anheuser-Busch InBev NV) announced the formation of a company with 85% of the capital from Cerveceria Regional and the remaining 15% from Cerveceria Nacional.

#### Current impact

Cerveceria Regional, with its strong position in the western region of Venezuela, and Cerveceria Nacional CA, with its dominant position in the capital city and the centre of the country, make the perfect alliance to place their brands around the nation and to create a more powerful position against leading company Empresas Polar. However, this alliance has not yet had a positive impact on the share of the brands owned by each of these companies as such merger processes are usually long term as they typically involve structural changes.

#### Outlook

The economic downturn caused sales of beer to drop 13% in total volume terms from 2008 to 2010. During this crisis, Empresas Polar made strong marketing efforts not only to maintain its competitive position but also to gain share at a time when Venezuelans were reducing their spending on alcoholic drinks. In 2010, this company increased its volume share five percentage points at the expense of Cerveceria Regional. After analysing movements in share among these



companies it remains clear that Cervecería Regional is looking to strengthen its presence in the domestic beer industry through the alliance with the multinational Anheuser-Busch InBev.

Despite this merger activity, Empresas Polar was the only company expected to show an increase in volume share in 2011. This is attributed to the fact that it was the only company to continue a focus on the Pilsen-type category which was largely abandoned by Cervecería Regional and Cervecera Nacional after the boom that light beer enjoyed in the country. The 70th anniversary of Polar Pilsen in Venezuela contributed to an increase in brand awareness and boosted consumption of Pilsen-type beer.

#### Future impact

The merged company comprising Cervecería Regional and Cervecera Nacional will intensify its fight against Empresas Polar over the forecast period. The premium segment has been dominated by Polar through its brands Solera and Solera Light. Under this competitive scenario the brands Zulía and Cardenal will compete strongly to gain upper-income consumers since Cervecería Regional does not participate in the premium segment. In addition, Cervecería Regional and Cervecera Nacional may choose to re-enter the Pilsen-type segment as Venezuelan consumers appear to be changing their preferences and paying closer attention to this type of beer, possibly because it has a higher alcohol content.

## MARKET BACKGROUND

### Legislation

#### Legal purchasing age and legal drinking age

Under articles 92 and 93 of the current law (Ley Orgánica Para la Protección Del Niño y el Adolescente), the legal purchasing age and legal drinking age in Venezuela is 18 years for both men and women.

There is concern among the national public health authorities because it is increasingly evident that people under 18 years old are consuming alcohol. A study by an organisation called Cátedra Libre Antidrogas (Anti-Drug Cathedra), conducted in 2007 in the Metropolitan District, found that 92% of high school students had tried alcohol at least once, and 32% of them had tried it before seventh grade, where the average age is 12-13 years old.

In 2010, a study conducted by Sociedad de Alcohólicos Anónimos de Venezuela (Venezuelan Alcoholics Anonymous Society) established that the age when children start drinking has declined. Males begin drinking alcoholic beverages at the age of 11 years and females at 13 years old. According to the study, children often begin drinking alcohol because they copy the behaviour of adults who regularly consume alcoholic drinks, and families are often inadvertently causing children to start consuming such drinks. For example, during holiday seasons, children drink Ponche Crema, a cream-based liqueur, which is a traditional part of Venezuelan Christmas. This enables them to become familiar with alcoholic beverages, and as they grow they try other categories such as beer. Once the children become adolescents, peer group pressure as well as social situations can increase alcohol consumption. In these groups of young people, it is common for one of them to be older which makes it easier for him or her to buy the drinks.

#### Drink driving

Regarding drink driving legislation in Venezuela, there is a Law of Land Transportation (Ley de Transporte Terrestre), which establishes in Article 169, penalties of up to 10 tax units (each tax unit is equivalent to BsF76) for people who are caught driving under the influence of alcohol.



If the driver accumulates more than three penalties, Article 179 calls for the suspension of the driver's licence for 12 months, whereas if an accident occurs causing injury to people, the documents can be held for a period of three years. In the case of the death of a person caused by an accident where a driver under the influence of alcohol is involved, the driver's licence may be suspended by the authorities for a period of 10 years.

In addition, the law states that in a car accident, administrative traffic authorities are empowered to carry out toxicology testing, and if the influence of alcohol on the driver is demonstrated, he or she is presumed to be guilty of the accident (Article 194).

In 2011, no changes were made to the law covering drink driving. However, several prevention programmes were carried out. An operation called Safety Holy Week 2011 was established by the National Anti-Drug Office all over the national territory. An alcohol testing programme was conducted among public transportation drivers and private car drivers to verify that they were not under the influence of alcohol. If the test result was positive for certain kinds of drugs or alcohol, a penalty of 10 tax units was imposed and the citizen was not permitted to continue driving.

#### Advertising

The Law for Social Responsibility on Radio and Television (Ley de Responsabilidad Social en Radio y Televisión) covers among its articles the regulation and sanctions for messages pertaining to alcoholic drinks which are transmitted by mass media. Article 9 of this law prohibits the transmission of advertising campaigns for alcoholic beverages on television or radio at all times. Article 28 sets out penalties for companies failing to comply with this restriction, including the payment of between 1-2% of the gross income that the broadcasting company obtained in the year prior to the time of committing the offence; also seen as part of the penalty is the mandate to assign broadcasting space to the transmission of messages of social responsibility campaigns.

In August 2008, the Law of Land Transportation was amended to include the prohibition of alcoholic drinks advertising being placed on the national road system. The restriction specifically states that no advertising can be placed within 50 metres of the edge of the main national roads, less than 30 metres from any paved highway and less than 15 metres from unpaved roads. It also prohibits the placement of advertising for alcoholic beverages on cargo or personnel transportation, public or private.

The government organisation responsible for approving promotional activities is the Institute for the Protection of Individuals in the Access to Goods and Services (Indepabis). All activities designed to promote sales through retail channels, including value-added and pricing promotions, must be submitted to this institute.

#### Smoking ban

Until March 2011, the only places that were required to comply with a smoking ban were medical centres, administrative health offices (such as the Ministry of Health) and schools, both public and private. In addition, the governors of Nueva Esparta and Monagas states had created regional ordinances regarding the prohibition of smoking in public places.

In March 2011, the Ministry of Health approved a resolution which prohibits smoking in public places (Official Gazette No 39.627). The measure obliges proprietors and administrators of all public indoor spaces, including nightclubs and restaurants, as well as offices and other workplaces to provide informative publicity in which it is stated that smoking is prohibited.

In terms of banning smoking in shopping malls, there were voluntary statements implying that a mall can declare itself as a smoke-free place following its representatives (owners) contacting the Ministry of Health in order to make public the announcement. Once these places are declared as 100% smoke-free, it is mandatory that people breaking the law are punished. At this

time, Venezuela is one of the few countries in which shopping centres are volunteering to be 100% smoke-free.

#### Opening hours

Under the current legislation (Law on Taxation for Alcohol and Alcoholic Products), off-trade channels can only sell alcoholic drinks between 08.00hrs and 21.00hrs.

In January 2008, the Official Gazette No 38.861 published by the National Protection Plan for Prevention and Care in National Holidays and Leisure Periods, established that opening hours for alcohol selling were limited and in some cases prohibited on several public holidays in Venezuela. This measure was made to reduce the number of accidents occurring in the holiday season, when a large number of people travel across the country's road system, and there is a significant increase in the consumption of alcoholic drinks, which is thought to be related to car accidents and crime that occur during such periods.

The absolute prohibition of alcohol (popularly known as the Dry Law) is generally decreed in Venezuela only during electoral events, but from April 2007 the government began to implement the Dry Law during the Easter holidays and other holiday seasons as a recurring action. In addition, since 2010 the government has implemented severe controls in regards to opening hours for both on-trade and off-trade channels. From the Wednesday prior to Easter week across the national territory the sale of alcohol at off-trade channels was restricted from 11.00hrs to 19.00hrs whereas on Sunday, the sale of alcoholic drinks was prohibited at any time since that day was expected to see the return of most vacationers. In terms of on-trade channels, the sale of alcohol was banned between 11.00hrs and 24.00hrs during the Easter holiday season.

#### On-trade establishments

The on-trade channel has been affected by the decline of Venezuelans' purchasing power. Consumers of all income levels and social strata are adopting the home as a place of consumption not only for economic reasons but also because of the lack of safety in the Venezuelan environment and the implementation of the smoking ban which prohibits smoking in public places.

In the on-trade channel, establishments which continue being preferred by consumers for lunch meetings are those specialising in meats. Whisky remains the drink that is mostly consumed at group lunches. A trend that has been observed in Venezuela, which is affecting on-trade performance, is that consumers are spreading out consumption occasions because of the decline in their purchasing power. The industry remained almost static in 2011 in terms of new establishment openings.

## TAXATION AND DUTY LEVIES

Under current legislation, companies importing alcoholic drinks are charged 35% of the value of the cargo for all alcoholic drinks. However, there are countries that have agreements that exempt their companies from import taxes or give them preferential rates. One example is Chile, whose products are completely exempt from import taxes, thanks to agreements signed within the framework of ALADI (Latin American Association for Integration). Argentina, Brazil, Paraguay and Uruguay also have agreements under the framework of Mercosur that give their products preferential tax rates for import into Venezuela.

Countries that belong to the Andean Community of Nations (Colombia, Ecuador, Peru and Bolivia) also enjoy preferential tax rates for exporting to Venezuela; however, Venezuela requested its exit from this community in 2006, leaving these treaties valid only until 2011.

In October 2007, the government increased sales taxes for imported and domestic alcoholic drinks and established a very strict supervision of payments of such duties. The increase was from 8.5% to 15% for beer, wine and cider/perry, and from 10% to 20% for whisky, vodka, rum and gin.

The VAT tax also increased in 2009 from 9% to 12% as part of the economic measures taken by the government to confront the effects of the global economic crisis, which caused a decrease in the demand for crude oil, reducing its trading price and, consequently, the income for the country.

Table 21 Taxation and Duty Levies on Alcoholic Drinks 2011

	Beer	Rum	Bitter and other spirits	Fortified wines <= 14°G.L.	Wine > 14°G.L.
Import tax	35%	35%	35%	35%	35%
Excise tax:					
Tax units/L (1)	0.0025	0.012	0.0153	0.00045	0.0025
Tax units/L Alcohol 100° G.L.					
Distribution tax:					
Tax units/L (1)	0.00005	0.0001	0.0001	0	0.0001
Sales tax:					
%	15			15	15
% (<50°G.L.)		20	20		
Value-added tax (%):	12	12	12	12	12
		Brandy, , cognac whiskies	Fortified wines	Artisanal fortified wines	Artisanal alcoholic drinks
Import tax		35%	35%	35%	35%
Excise tax:					
Tax units/L (1)					
Tax units/L Alcohol 100° G.L.		0.102	0.0018		0.0054
Distribution tax:					
Tax units/L (1)		0.0001	0.0001	0.0001	0.0001
Sales tax:					
%					
% (<50°G.L.)		20	20	20	20
Value-added tax (%):		12	12	12	12

Source: Decreto N° 5.618 Con Rango, Valor y Fuerza de Ley de Reforma de la Ley de Impuesto Sobre Alcohol y Especies Alcohólicas (www.seniat.gob.ve)

Note: (1) Tax Unit 2011 = BsF76.00

Table 22 Typical Wholesaler and Retailer Mark-Ups by Sector 2011

	Beer	C/p	RTDs	Wine	Wh	BC
Wholesaler	9.5	13.2	15	14.6	17	14

Retailer	15	13	11	14	10	42
		WS	Rum	T	L	OS
Wholesaler		18	14	12.5	16	9.5
Retailer		28	15	34	35	15.5

Source: Trade interviews, store checks

Note: C/p=Cider/perry; Wh=Whiskies; BC=Brandy and cognac; RTDs = RTD + High-strength premixes; WS=White spirits; T=Tequila (and mezcal); L=Liqueurs; OS=Other spirits

Table 23 Selling Margin of a Typical Beer Brand 2011

% retail value rsp

	2011
VAT	10.7
Retailer	11.6
Distributor	6.7
Excise	10.7
Manufacturer	60.2
TOTAL	100.0

Source: Trade interviews, store checks

Table 24 Selling Margin of a Typical Wine Brand 2011

% retail value rsp

VAT	10.7
Retailer	11.0
Distributor	10.0
Excise	10.3
Manufacturer	58.1
TOTAL	100.0

Source: Trade interviews, store checks

Table 25 Selling Margin of a Typical Spirits Brand 2011

% retail value rsp

	2011
VAT	10.7
Retailer	13.6
Distributor	12.1
Excise	11.3
Manufacturer	52.3
TOTAL	100.0

Source: Trade interviews, store checks

**OPERATING ENVIRONMENT**

#### Contraband/parallel trade

The Venezuelan law on the crime of smuggling (Ley Sobre el Delito de Contrabando) states that any person who attempts to bypass whichever type of control at custom authorities in the course of the introduction or transit of goods to Venezuela will be punished with imprisonment from four to eight years.

Because of the restriction of access to foreign currency, which tightened in 2010 when a measure to close all brokerage firms operating in Venezuela was taken by the government, contraband alcoholic drinks were expected to increase.

#### Duty free

Duty-free zones in Venezuela are the island of Margarita, located in the north of the country, and the Paraguaná peninsula, located at the northern end of Falcon state. The importance of duty-free zones in alcoholic drinks is very high. In 2009, Margarita alone accounted for some 35% of alcoholic drinks sales in the country, and boasted prices as low as 40% of the regular price. Many people from the country travel to the duty-free zones to buy liquor not only for major celebrations (weddings) but also as a provision for home consumption.

In the duty-free zones, however, a restriction exists on the quantities allowed to be carried by a customer. SENIAT (internal tax agency) states that the maximum amount per person is nine litres of whisky, eight litres of wine, nine litres of beer and five litres of other alcoholic drinks; and these amounts can only be transported a maximum of six times a year.

#### Cross-border/private imports

Private imports are declining as Venezuelan citizens face more legal restrictions obtaining foreign currency. Before 2009 the state allowed Venezuelan citizens travelling abroad up to US\$5,000 for credit card purchases at a fixed exchange rate of BsF2.15 per dollar. In 2010, the exchange rate was changed to BsF4.30 and the Venezuelan government implemented more limitations regarding foreign currency acquisition. In this context, quotas depending on destination and period of residence abroad were fixed and the maximum amount of foreign currency Venezuelans can legally access was set at US\$3,000 per year. In addition, the Venezuelan government announced the suspension of purchase and sale of securities in foreign currency through brokerage firms in May 2010. This announcement also included the closure of brokerage firms operating in Venezuela.

## MARKET INDICATORS

Table 26 Retail Consumer Expenditure on Alcoholic Drinks 2006-2011

BsF million	2006	2007	2008	2009	2010	2011
Total	4,608.0	6,477.6	8,646.8	10,896.3	15,379.3	15,715.2

Source: Euromonitor International from trade associations, trade press, company research, trade interviews, trade sources

Note: 2011 data is forecast

## MARKET DATA

Table 27 Sales of Alcoholic Drinks by Category: Total Volume 2006-2011

Million litres	2006	2007	2008	2009	2010	2011
Beer	2,352.7	2,568.1	2,436.9	2,242.0	2,123.8	1,953.9
Cider/Perry	0.3	0.3	0.3	0.4	0.4	0.4
RTDs/High-Strength Premixes	3.7	4.2	4.4	4.2	3.8	3.6
Spirits	108.6	113.5	114.3	118.2	121.9	126.0
Wine	13.2	15.0	16.4	15.5	13.4	11.9
Alcoholic Drinks	2,478.5	2,701.1	2,572.3	2,380.3	2,263.3	2,095.9

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 28 Sales of Alcoholic Drinks by Category: Total Value 2006-2011

BsF million	2006	2007	2008	2009	2010	2011
Beer	9,165.1	12,265.6	16,217.0	22,162.0	29,284.8	39,312.5
Cider/Perry	4.7	6.0	7.8	11.7	17.7	23.8
RTDs/High-Strength Premixes	43.9	57.1	78.0	105.2	114.9	140.3
Spirits	3,752.0	4,766.7	6,793.1	9,835.3	14,465.8	19,646.4
Wine	326.3	464.1	699.7	919.8	1,387.0	1,635.3
Alcoholic Drinks	13,292.0	17,559.4	23,795.5	33,034.0	45,270.3	60,758.4

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 29 Sales of Alcoholic Drinks by Category: % Total Volume Growth 2006-2011

% total volume growth	2010/11	2006-11 CAGR	2006/11 Total
Beer	-8.0	-3.6	-16.9
Cider/Perry	5.2	7.5	43.5
RTDs/High-Strength Premixes	-5.0	-0.6	-3.2
Spirits	3.4	3.0	16.0
Wine	-11.2	-2.0	-9.4
Alcoholic Drinks	-7.4	-3.3	-15.4

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 30 Sales of Alcoholic Drinks by Category: % Total Value Growth 2006-2011

% local currency, current value growth	2010/11	2006-11 CAGR	2006/11 Total
Beer	34.2	33.8	328.9
Cider/Perry	34.5	38.1	402.3
RTDs/High-Strength Premixes	22.2	26.2	220.1
Spirits	35.8	39.3	423.6
Wine	17.9	38.0	401.2
Alcoholic Drinks	34.2	35.5	357.1

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

**Table 31 Sales of Alcoholic Drinks by Category by On-trade vs Off-trade Split: Volume 2011**

	Off-trade	On-trade	TOTAL
Beer (million litres)	1,705.6	248.3	1,953.9
Cider/Perry ('000 litres)	402.1	16.2	418.3
RTDs/High-Strength Premixes ('000 litres)	2,952.7	672.2	3,624.9
Spirits ('000 litres)	114,769.1	11,259.1	126,028.2
Wine (million litres)	9.0	3.0	11.9
Alcoholic Drinks (million litres)	1,832.7	263.3	2,095.9

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

**Table 32 Sales of Alcoholic Drinks by Category by On-trade vs Off-trade Split: Value 2011**

BsF million	Off-trade	On-trade	TOTAL
Beer	25,037.0	14,275.5	39,312.5
Cider/Perry	22.2	1.6	23.8
RTDs/High-Strength Premixes	98.5	41.9	140.3
Spirits	12,750.8	6,895.6	19,646.4
Wine	825.9	809.4	1,635.3
Alcoholic Drinks	38,734.4	22,024.0	60,758.4

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

**Table 33 Sales of Alcoholic Drinks by Category by On-trade vs Off-trade Split: % Volume 2011**

% volume analysis	Off-trade	On-trade	Total
Beer	87.3	12.7	100.0
Cider/Perry	96.1	3.9	100.0
RTDs/High-Strength Premixes	81.5	18.5	100.0
Spirits	91.1	8.9	100.0
Wine	75.1	24.9	100.0
Alcoholic Drinks	87.4	12.6	100.0

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

**Table 34 Sales of Alcoholic Drinks by Category by On-trade vs Off-trade Split: % Value 2011**

% value analysis	Off-trade	On-trade	Total
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Beer	63.7	36.3	100.0
Cider/Perry	93.3	6.7	100.0
RTDs/High-Strength Premixes	70.2	29.8	100.0
Spirits	64.9	35.1	100.0
Wine	50.5	49.5	100.0
Alcoholic Drinks	63.8	36.2	100.0

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

**Table 35** Company Shares of Alcoholic Drinks by Global Brand Owner 2007-2011

% total volume Company	2007	2008	2009	2010	2011
Empresas Polar CA	66.2	67.9	68.7	72.7	73.7
Cisneros, Grupo	22.3	21.1	20.1	16.0	14.9
Anheuser-Busch InBev NV	-	5.7	4.9	4.8	4.3
Diageo Plc	0.9	1.0	1.1	1.2	1.4
Pernod Ricard Groupe	0.5	0.5	0.6	0.6	0.6
Grupo Osborne SA	0.2	0.3	0.5	0.5	0.6
Industrias Monterrey CA	0.4	0.4	0.4	0.5	0.5
Ron Santa Teresa CA	0.2	0.2	0.2	0.3	0.4
Consorcio Licorero Nacional CA	0.2	0.2	0.2	0.2	0.3
Complejo Licorero Ponche Crema	0.1	0.1	0.1	0.2	0.2
Others	9.1	2.7	3.1	3.1	3.2
Total	100.0	100.0	100.0	100.0	100.0

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

**Table 36** Off-trade Sales of Alcoholic Drinks by Distribution Format: % Value Analysis 2006-2011

% off-trade	2006	2007	2008	2009	2010	2011
Store-Based Retailing	100.0	100.0	100.0	100.0	100.0	100.0
- Grocery Retailers	100.0	100.0	100.0	100.0	100.0	100.0
-- Discounters	-	-	-	-	-	-
-- Food/drink/tobacco specialists	61.1	61.1	61.3	62.0	64.0	65.1
-- Hypermarkets	1.6	1.7	1.6	1.7	1.2	1.2
-- Small Grocery Retailers	21.3	20.5	20.4	20.1	20.5	20.1
--- Convenience Stores	0.1	0.2	0.3	0.4	0.4	0.4
--- Forecourt Retailers	-	-	-	-	-	-
--- Independent Small Grocers	21.2	20.3	20.1	19.8	20.1	19.8
-- Supermarkets	16.0	16.6	16.6	16.2	14.3	13.5
-- Other Grocery Retailers	-	-	-	-	-	-
- Non-Grocery Retailers	-	-	-	-	-	-
Non-Store Retailing	-	-	-	-	-	-
- Direct Selling	-	-	-	-	-	-
- Homeshopping	-	-	-	-	-	-
- Internet Retailing	-	-	-	-	-	-



- Vending	-	-	-	-	-	-
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

**Table 37** Off-trade Sales of Alcoholic Drinks by Category and Distribution Format: % Volume Analysis 2011

% off-trade	B	C/P	RTDs/HSPs	S	W
Store-Based Retailing	100.0	100.0	100.0	100.0	100.0
Grocery Retailers	100.0	100.0	100.0	100.0	100.0
Discounters	0.0	0.0	0.0	0.0	0.0
Food/drink/tobacco specialists	64.3	75.2	53.9	54.0	23.7
Hypermarkets	1.3	2.0	3.5	3.0	6.2
Small Grocery Retailers	20.7	1.0	1.6	10.6	1.0
Convenience Stores	0.5	0.0	1.6	3.8	0.3
Forecourt Retailers	0.0	0.0	0.0	0.0	0.0
Independent Small Grocers	20.2	1.0	0.0	6.8	0.7
Supermarkets	13.8	21.8	41.0	32.4	69.1
Other Grocery Retailers	0.0	0.0	0.0	0.0	0.0
Non-Grocery Retailers	0.0	0.0	0.0	0.0	0.0
Non-Store Retailing	0.0	0.0	0.0	0.0	0.0
Direct Selling	0.0	0.0	0.0	0.0	0.0
Homeshopping	0.0	0.0	0.0	0.0	0.0
Internet Retailing	0.0	0.0	0.0	0.0	0.0
Vending	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Key: B = beer; C/P = cider/perry; RTDs/HSPs = flavoured alcoholic beverages; S = spirits; W = wine

**Table 38** Forecast Sales of Alcoholic Drinks by Category: Total Volume 2011-2016

Million litres	2011	2012	2013	2014	2015	2016
Beer	1,953.9	1,992.9	2,022.8	2,071.3	2,170.6	2,305.1
Cider/Perry	0.4	0.4	0.5	0.5	0.5	0.5
RTDs/High-Strength Premixes	3.6	3.6	3.7	3.8	3.9	4.1
Spirits	126.0	130.9	135.0	138.4	141.8	145.5
Wine	11.9	12.1	12.3	12.6	13.1	13.9
Alcoholic Drinks	2,095.9	2,140.0	2,174.2	2,226.5	2,329.9	2,469.0

Source: Euromonitor International from trade associations, trade press, company research, trade interviews, trade sources

**Table 39** Forecast Sales of Alcoholic Drinks by Category: Total Value 2011-2016

BsF million	2011	2012	2013	2014	2015	2016
Beer	39,312.5	40,639.8	43,084.0	44,822.3	47,878.0	51,932.5

Cider/Perry	23.8	25.6	27.8	29.3	30.9	32.0
RTDs/High-Strength Premixes	140.3	143.7	150.2	155.6	164.5	174.7
Spirits	19,646.4	20,476.8	21,916.2	22,774.3	23,757.2	25,023.4
Wine	1,635.3	1,715.1	1,830.8	1,937.1	2,108.2	2,323.5
Alcoholic Drinks	60,758.4	63,001.0	67,008.9	69,718.5	73,938.7	79,486.1

Source: Euromonitor International from trade associations, trade press, company research, trade interviews, trade sources

**Table 40** Forecast Sales of Alcoholic Drinks by Category: % Total Volume Growth 2011-2016

% total volume growth	2015/16	2011-16 CAGR	2011/16 Total
Beer	6.2	3.4	18.0
Cider/Perry	1.8	3.4	18.0
RTDs/High-Strength Premixes	4.3	2.3	12.2
Spirits	2.6	2.9	15.4
Wine	5.4	3.1	16.2
Alcoholic Drinks	6.0	3.3	17.8

Source: Euromonitor International from trade associations, trade press, company research, trade interviews, trade sources

**Table 41** Forecast Sales of Alcoholic Drinks by Category: % Total Value Growth 2011-2016

% local currency, constant value growth	2011-16 CAGR	2011/16 TOTAL
Beer	5.7	32.1
Cider/Perry	6.1	34.3
RTDs/High-Strength Premixes	4.5	24.5
Spirits	5.0	27.4
Wine	7.3	42.1
Alcoholic Drinks	5.5	30.8

Source: Euromonitor International from trade associations, trade press, company research, trade interviews, trade sources

## DEFINITIONS

Explanations of words and/or terminology used in this report are as follows:

- GBO refers to Global Brand Owner, which is the ultimate owner of a brand.
- NBO refers to National Brand Owner, which is the company licensed to distribute a brand on behalf of a GBO. The NBO may be a subsidiary of a GBO or it may be a completely separate company. Share tables at both GBO and at NBO level are provided in the report. Reference to shares in the report analysis is at NBO level.

## Published Data Comparisons

### National consumer expenditure

~ Size data reported in this alcoholic drinks report for Venezuela are not consistent with consumer expenditure data reported by Venezuela's National Institute of Statistics (INE). Euromonitor International's data include distributor and retailer mark-ups as well as all taxes, which are not captured in the official consumer expenditure data.

### Sources

Sources used during research include the following:

#### Summary 9 Research Sources

##### Official Sources

Agenda Bolivariana de Noticias

Instituto Nacional de Estadística (INE)

##### Trade Associations

Asociación de Importadores de Licores

Asociación Latinoamericana de Fabricantes de Cerveza (ALAFACE)

Bureau National Interprofessionnel du Cognac (BNIC)

Camara de la Industria Venezolana de Especies Alcohólicas (CIVEA)

Camara Nacional de la Industria Tequilera

Camara Venezolana de Fabricantes de Cerveza (CAVEFACE)

Cornite Interprofessionnel du Vin de Champagne (CIVC)

Gin & Vodka Association

Office International de la Vigne et du Vin

Scotch Whisky Association

SENIAT

##### Trade Press

Beverage World

Drinks International

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Gerente 500

Globovision

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Producto

Publicidad & Mercadeo

Punto de Venta

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