**Data response 1**

**SABMilier targets the craft segment of the UK beer market**

The market for beer in the USA is huge: £85 billion in 2014. One of the fastest growing segments of this market is craft beer. Craft brewers now produce one in *every* ten beers sold in America. This type of beer is typically made by smaller independent breweries using aromatic ingredients, such as coriander. The intention is to create a differentiated product that will appeal to sophisticated drinkers who are bored of the mass produced corporate lager brands. To gain a foothold in this rapidly growing market segment, multinationals like SABMiller and Anheuser-Busch have tried taking over much smaller, specialist craft brewers.

One company that has used foreign direct investment to grow in this way is Duvel from Belgium. In October 2013, Duvel bought the American Boulevard Brewing Company for $100 million. Boulevard was established in 1989 by John McDonald. Initially Boulevard operated on a very small scale, selling its product direct to customers from the back of a tiny Isuzu truck. Gradually the business grew and by the time of the takeover Boulevard was the twelfth largest producer of craft beer in America. The company's retro-style marketing, incorporating a distinctive green and red diamond logo, is well known.

Duvel could have tried to supply the American market by using its existing plant in Belgium. However, Duvel rejected exporting in favour of foreign direct investment because it valued the Boulevard Brewing Company brand and the company's knowledge of the tastes and preferences of the American drinker. The takeover was not met with universal approval. Many of Boulevard's consumers used social media to articulate their fears that the new owners might interfere with either the product or production process. Duvel reassured Boulevard's consumers that it would keep everything the same. The workforce was also told to expect new employment opportunities and investment, rather than rationalisation and redundancies.

**Questions** (40 marks; 45 minutes)

1 The craft beer segment of the American beer market is still relatively small. Given this fact, assess two possible reasons why companies like SABMilier and Anheuser-Busch want to enter this segment of the market. (8)

2 Duvel has chosen to supply the US market via foreign direct investment rather than by exporting. Assess the possible benefits of foreign direct investment over exporting in this case. (12)

3 Evaluate the importance of specialisation to smaller businesses such as the Boulevard Brewing Company. (20)