

Case Carlsberg

SCENARIO ANALYSIS

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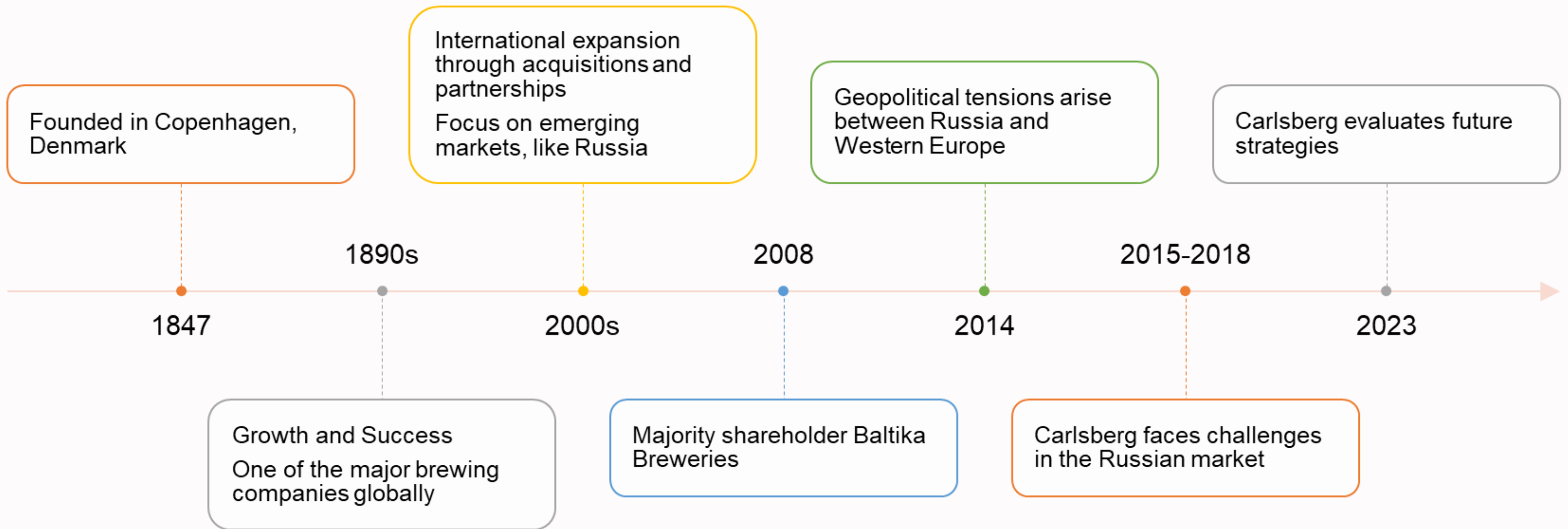


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- 02 Key challenges & PESTEL
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Carlsberg's History



Key challenges

Main forces shaping the landscape

Political risks

Carlsberg is in a high-risk political environment due to Russia's political tensions.

Economic changes

Economic downturn and weak markets poses challenges to make revenue.

Social preference changes

Consumer preferences have shifted unfavorably to Carlsberg.

Legal and regulatory changes

Multiple legal and regulatory changes that have made the markets difficult and costly.



The Carlsberg logo, featuring the brand name in a stylized green font with a crown above the 'g', is centered within a large white circle. This circle is surrounded by a dotted green line and four smaller green circles, each containing a white dot, positioned at the top, bottom, left, and right of the central circle.

Introduction to PES(TE)L



Political

Assessing political risks surrounding Carlsberg.



Economical

Assessing economical risks surrounding Carlsberg.



Social

Assessing social risks surrounding Carlsberg.



Technological

There are no crucial technological risks at the moment surrounding Carlsberg.



Environmental

There are no crucial environmental risks at the moment surrounding Carlsberg.



Legal

Assessing the legal and regulatory changes and risks surrounding Carlsberg.

A 3D-rendered political chamber with a large circular table, a central pillar with the EU flag, and a beer bottle on the table. The scene is dimly lit with a green tint. The pillar in the center has the European Union flag (a circle of twelve gold stars on a blue background). The circular table is also surrounded by a ring of gold stars. A single beer bottle is placed in the center of the table. The room is filled with flags of various countries, and the ceiling is ornate with circular patterns. The overall atmosphere is one of a formal political setting.

POLITICAL

CONTINUED POLITICAL TENSIONS

Carlsberg was facing geopolitical risks in every level



International level: EU-Russia tensions

Ukraine war and the sanctions imposed from that.



National level: Political changes in Russia

Shift toward a more consolidated authoritarian regime.



Industry level: Nationalization concerns

Nationalizing foreign-owned assets.



Firm level: Public and stakeholder pressure

Brand image damage from various choices.

Scenarios

Escalation of Geopolitical Tensions



- *Stricter sanctions*
- *Changes in regulations*
- *Heightened political and economic risks*

Nationalization or Expropriation



- *Heavy financial losses in losing ownership of their operations*

Continued Economic and Regulatory Changes in Russia



- *Changes in taxation, trade policies, and legal frameworks that might impact its operations.*

Global Repercussions on Brand Image



- *Impact consumer trust and brand loyalty globally*

Strategic responses

Escalation of Geopolitical Tensions



- Diversify market presence
- Scenario planning

Nationalization or Expropriation



- Regular regulatory monitoring
- Engagement with local authorities

Continued Economic and Regulatory Changes in Russia



- Legal preparedness
- Diversification of investments

Global Repercussions on Brand Image



- Transparent communication
- Reinforce corporate values

ADDITIONAL RESPONSES



**Diversification
Strategies**



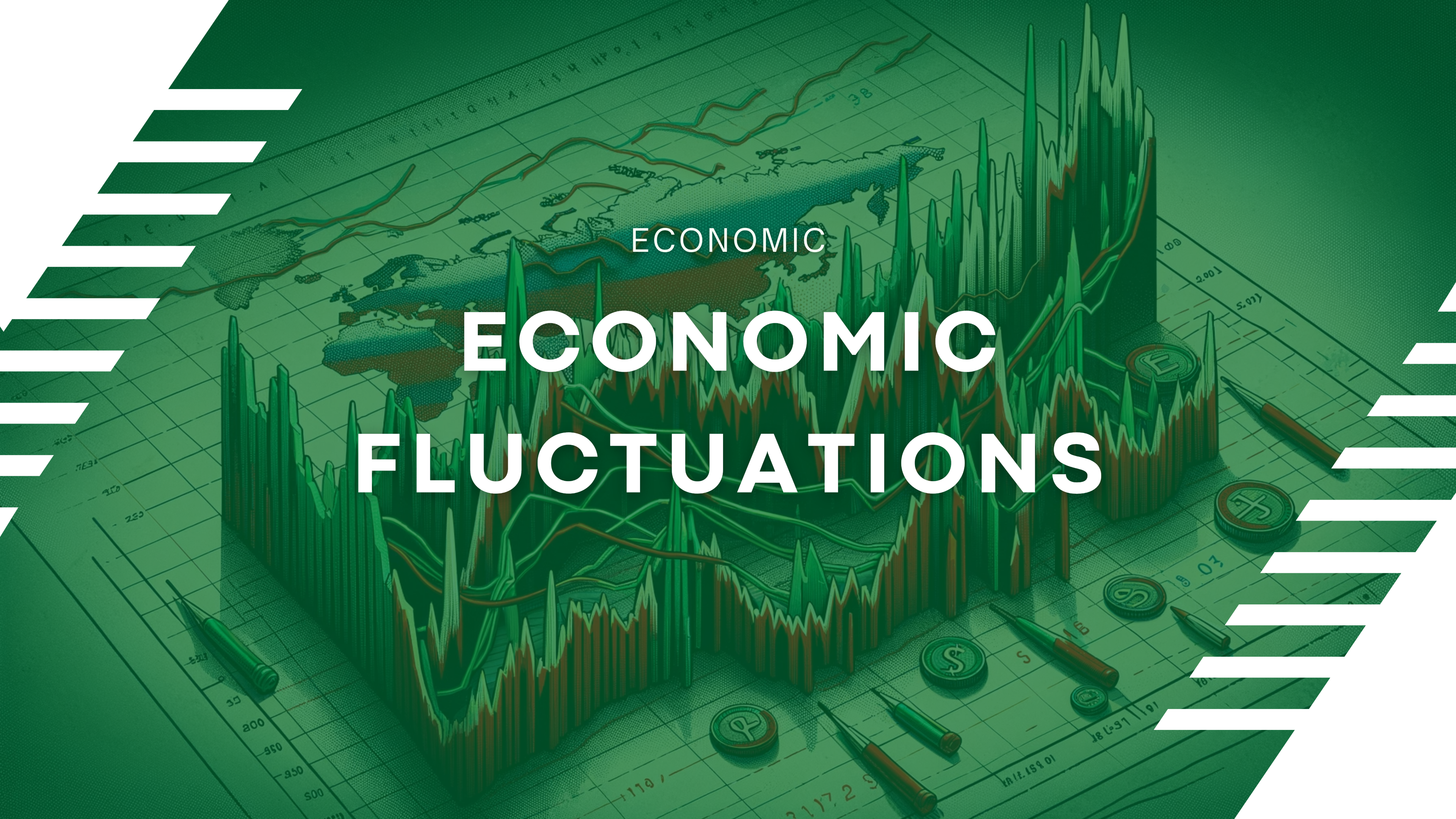
**Strategic
Partnerships &
Collaborations**



**Social
Responsibility &
Stakeholder
Engagement**

ECONOMIC

ECONOMIC FLUCTUATIONS



Economic downturn poses difficulties to the whole alcohol market



Weak economy in Russia

Have not reached growth targets due to slow economy.

Trade sanctions increased costs and decreased FDI in Russia

Significant losses in exports and imports and no FDIs.



Declining market leadership and intense competition

Competition in the market has been intense leading to worse economic situation for Carlsberg.

Exchange rate impacts

Weakening currency may lead to higher costs.



Scenarios

Prolonged Economic Recession

- *Reduction in consumer spending power*
- *Reduced demand for premium products*

Intensification of Trade Sanctions

- *Increased costs in imposed sanctions*
- *Expensive FDIs*

Escalating Competition in a Shrinking Market

- *Decreased market share and revenue*
- *Less competitive advantage*

Continued Currency Devaluation

- *Cost of imported goods and materials increase*
- *Supply chain issues*

Strategic responses

Prolonged Economic Recession

- *Cost management*
- *Product diversification*
- *Market expansion*

Intensification of Trade Sanctions

- *Fair trade conditions*
- *Localizing supply chain*
- *Diversifying markets*

Escalating Competition in a Shrinking Market

- *Brand loyalty through aggressive marketing and customer engagement*
- *Explore mergers and acquisitions*

Continued Currency Devaluation

- *Focus on local sourcing to minimize dependence on imports*
- *Expand to other markets with same currency*



SOCIAL

SHIFT IN CONSUMER PREFERENCES

Consumer preferences were shifting away from what Carlsberg's was offering



Decrease in beer sales

Increases in prices and laws making selling and marketing the products more difficult.



Health trend shifting consumer preferences

Consumers are more health-conscious.



Premium drinks are more popular

Increase in prices may lead to demand for premium beers.



Social context on drinking changes

More willing to pay in certain social context.



Scenarios

Non-alcoholic drinks get more popular

Customers want more premium beers

Customers do not want to drink beer anymore

Preferences change from the drinks to social interactions



- *Decrease in the sales of alcoholic drinks*

- *Offering of standard beers is not seen as enough*

- *Sales of beers stop and new offering is needed*

- *Drinks are not seen as valuable without the chance to be social*



Strategic responses

Non-alcoholic drinks get more popular

Customers want more premium beers

Customers do not want to drink beer anymore

Preferences change from the drinks to social interactions

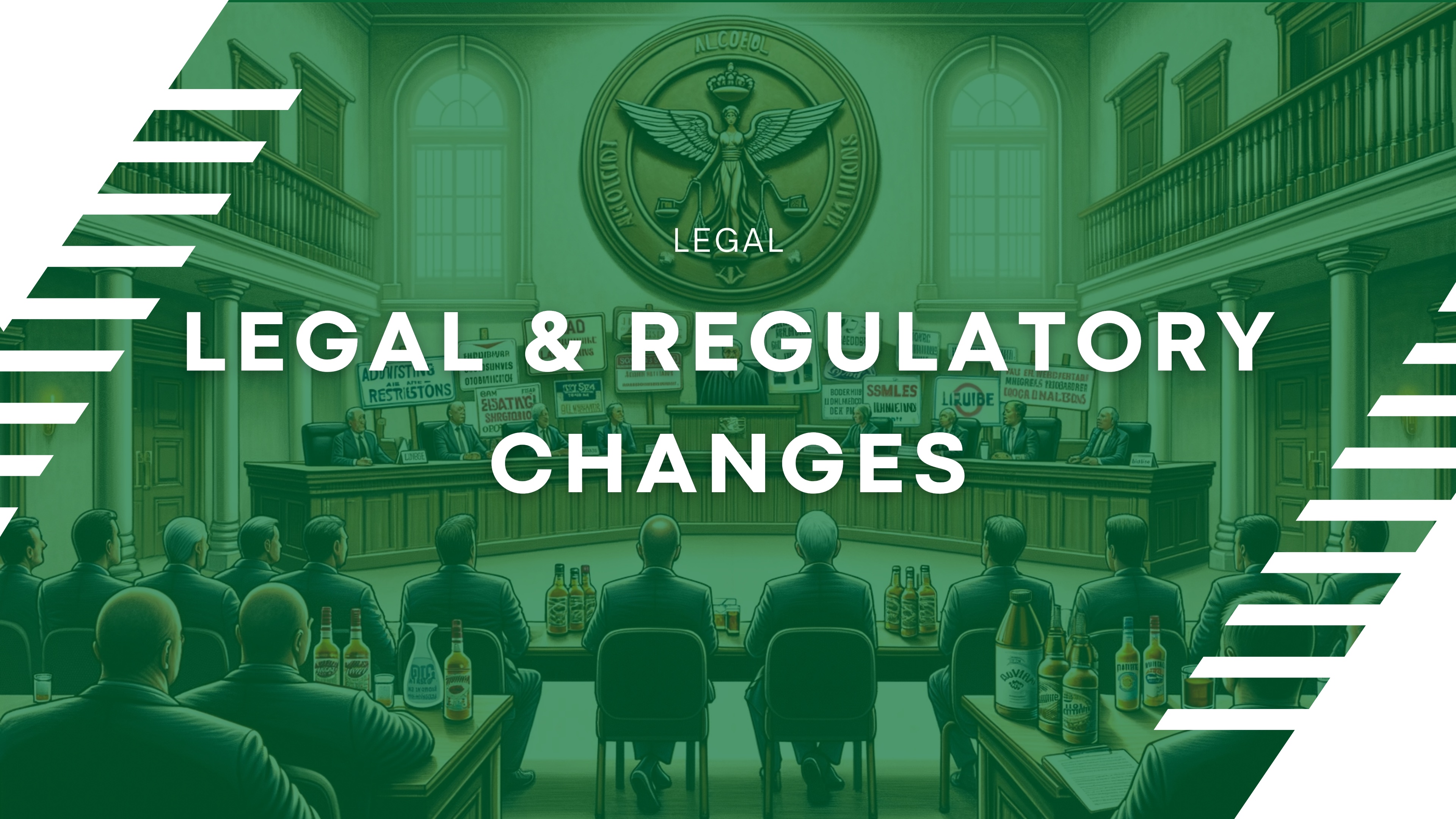


- *Premium catalogue*
- *Collaborate with actors in different industries*
- *Benefits of non-alcoholic drinks*

- *Experiment with different tastes*
- *Possible higher profit margins*
- *Learn from feedback*

- *Look for opportunities*
- *Prepare to sell resources*
- *Possibility to rent assets*

- *Expand the business*
- *Collaborate with different markets*



LEGAL

LEGAL & REGULATORY CHANGES

EU regulations on Russia had heavy impact on Carlsberg



Sanctions prevented cash transfers

Carlsberg couldn't pay salaries.

Bans on import of crude oil and petroleum products

Supply of energy was a concern.



Economic sanctions impacted investments

Russia's imports, exports and foreign direct investment into Russia declined.

Trade restrictions and bans on goods

Supply of aluminum and supply chain impacts were severe.



Russia's national regulations changes the operational environment



Nationalist policies and less-transparent regulatory processes

Created pressures for foreign investors.



Restrictions on the marketing and selling of alcoholic beverages

Reduced alcohol consumption overall in a key market.

Restrictions on sales of 1.5-litre bottles

Beer market shrank.



Beer tax increase

Logistical changes and the pattern of demand changed.





Scenarios

Stricter EU regulations & National regulations



- *Restrictions on the sale of Russian products*
- *Alcohol content regulation*
- *Stricter guidelines on how breweries can promote their products to the public*
- *More labelling requirements*

Loosen EU regulations but stricter National regulations



- *Money can flow in and out of Russia freely*
- *Less trade controls*
- *Less restrictions on the sale of Russian products*
- *Increase beer tax*
- *Consumer protection*

Stricter EU regulations but loosen National regulations



- *No new regulations related to alcohol content*
- *Breweries can advertise their products through a variety of channels*
- *Beer tax remain the same or fall*
- *Labelling requirements stay the same*

Strategic responses

Stricter EU regulations & National regulations



- *Diversification of Supply Chain*
- *Market Diversification*
- *Legal Review and Risk Management*

Loosen EU regulations but stricter National regulations



- *Stay in the market*
- *Investment in Responsible Drinking Initiatives*
- *Collaborate with NGOs and public health organizations*
- *Regulatory Compliance and Adaptation*
- *Diversification of Product Portfolio*

Stricter EU regulations but loosen National regulations



- *Diversification of Supply Chain*
- *Market Diversification*
- *Legal Review and Risk Management: Should Carlsberg stay in Russia?*



CONCLUSIONS

PESTEL Analysis



Political

- EU-Russia tensions
- Political changes in Russia
- Nationalization concerns
- Public and stakeholder pressure

→ Prolonged political tensions

→ Consideration of exit strategies



Economical

- Weak economy in Russia
- Trade sanctions increased costs and decreased FDI in Russia
- Declining market leadership and intense competition
- Exchange rate impacts

→ Weakening economic climate on many fronts

→ Market diversification and cost management strategies in place



Social

- Decrease in beer sales
- Health trend shifting consumer preferences
- Premium drinks are more popular
- Social context on drinking changes

→ Multiple social changes around alcohol

→ Product diversification to meet new consumer demands



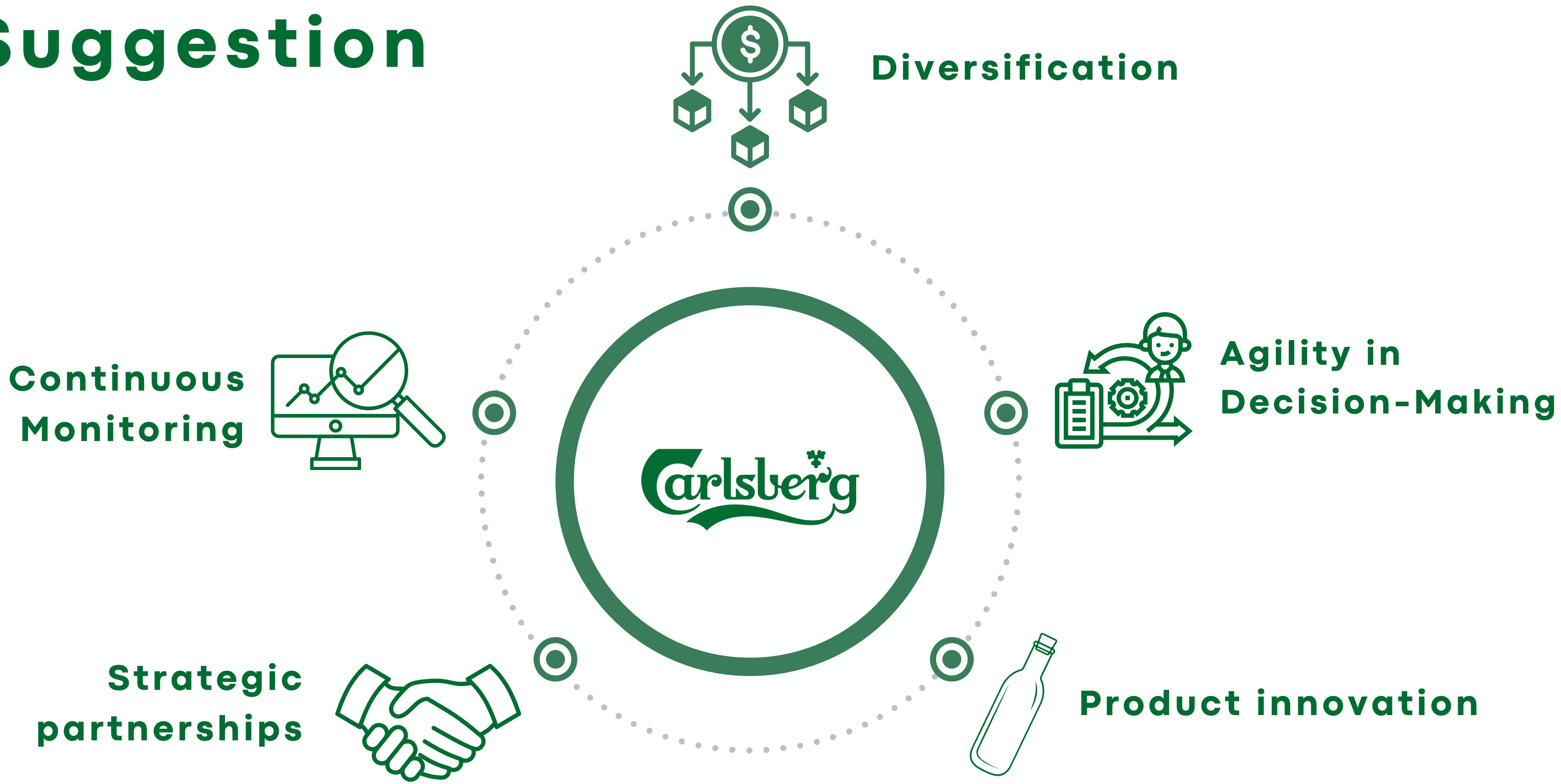
Legal

- Sanctions prevented cash transfers
- Bans on import of crude oil and petroleum products
- Trade restrictions and bans on goods
- Nationalist policies and less-transparent regulatory processes
- Beer tax increase
- Restrictions on the marketing and selling of alcoholic beverages

→ Many unfavorable regulations

→ Legal review and social responsibility

Suggestion



References

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- Meyer, K. E., & Estrin, S. (2023). It's Hard to Say Goodbye: Managing Disengagement during Political Disruptions. *AIB Insights*, 23(2). <https://doi.org/10.46697/001c.72023>

Appendices

Appendix 1: Detailed analysis of geopolitical scenarios and response plans

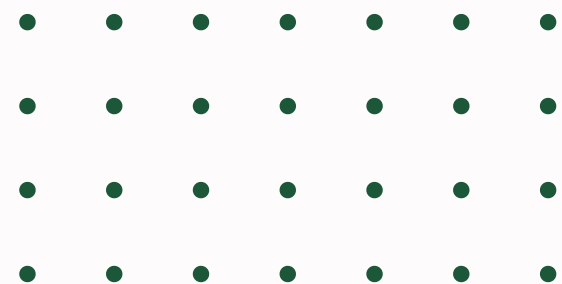
Appendix 2: Assessment Sheet Carlsberg Geopolitical Risk

Appendix 3: Exit strategy analysis

Appendix 4: Detailed analysis of economic scenarios and response plans

Appendix 5: Detailed analysis of legal scenarios and response plans

Appendix 6: SWOT Analysis Carlsberg



Appendix 1: Detailed analysis of geopolitical scenarios and response plans

Given the dynamic nature of geopolitical situations, predicting future scenarios involves a degree of uncertainty. However, we can build on the past scenarios to predict what might happen in the future. Considering De Villa's article, it looks like Carlsberg especially has to focus and approach risk on an international level. Possible international uncertainties regarding the geopolitical environment are:

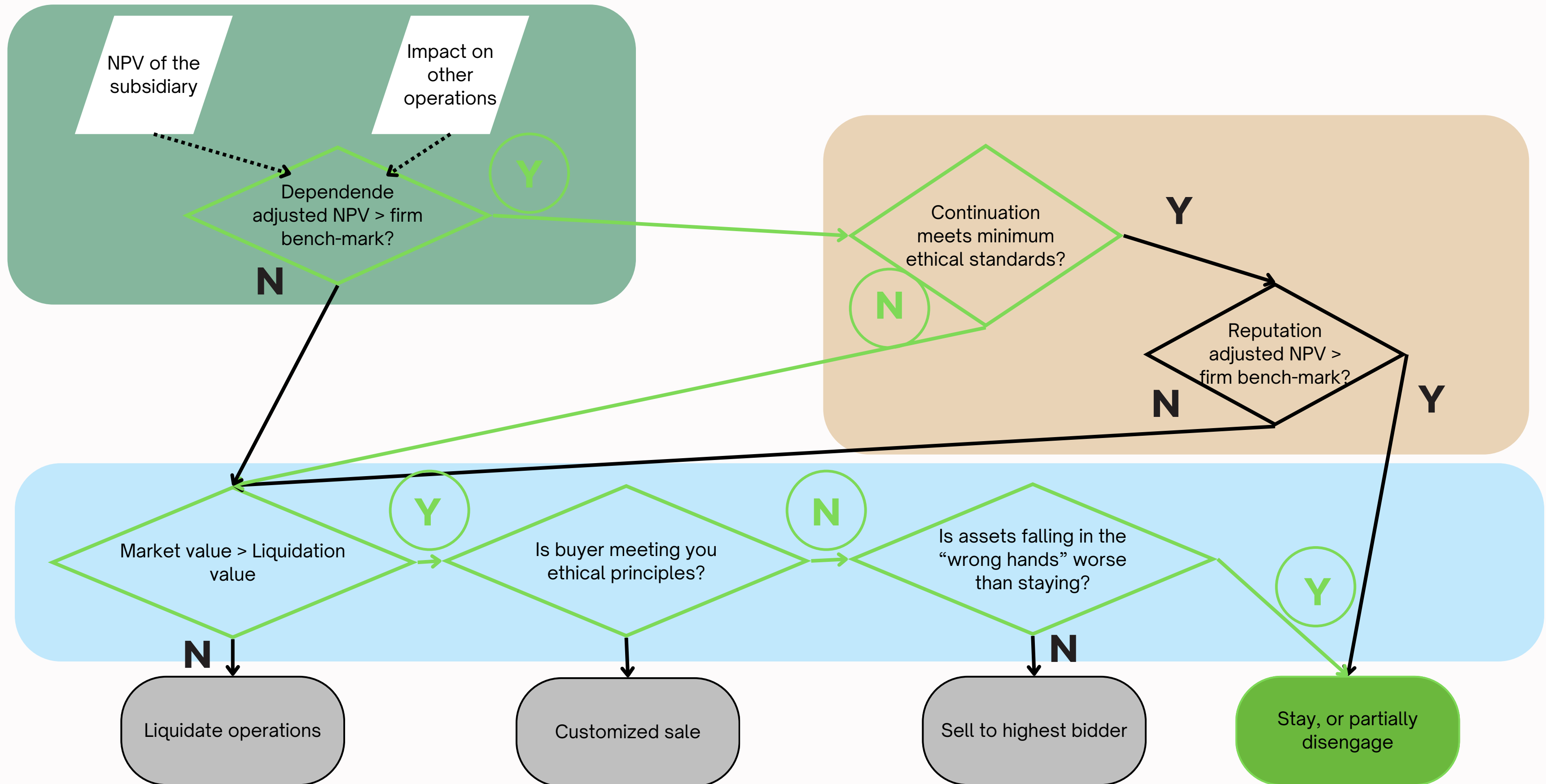
- Escalation of Geopolitical Tensions: If geopolitical tensions between Russia and Western countries continue to escalate, Carlsberg may face increased challenges in its Russian operations. This could involve stricter sanctions, changes in regulations, and heightened political and economic risks. Carlsberg could strategically respond by:
 - Diversifying its Market Presence: Strengthen market presence in regions less affected by geopolitical tensions, diversifying away from heavily impacted areas.
 - Scenario Planning: Develop comprehensive scenario plans to anticipate and respond to various geopolitical escalation scenarios, ensuring agility in decision-making.
- Nationalization or Expropriation: The risk of nationalization or expropriation of assets by the Russian government remains a concern. If geopolitical conditions deteriorate further, there could be increased pressure on foreign companies, including Carlsberg, to cede control or ownership of their operations.
 - Legal Preparedness: Collaborate with legal experts to understand and navigate local regulations. Ensure all agreements and contracts are in compliance with local laws.
 - Diversification of Investments: Diversify investments in regions with more stable geopolitical conditions, reducing reliance on any single market.
- Continued Economic and Regulatory Changes in Russia: Geopolitical uncertainties often contribute to economic and regulatory changes in affected countries. Carlsberg would need to stay vigilant to potential shifts in the business environment, including changes in taxation, trade policies, and legal frameworks that might impact its operations.
 - Regular Regulatory Monitoring: Establish a dedicated team for monitoring and interpreting regulatory changes in Russia to proactively adapt business strategies.
 - Engagement with Local Authorities: Foster positive relationships with local authorities to stay informed about potential changes and influence regulatory decisions.
- Global Repercussions on Brand Image: Carlsberg's global brand image might be affected by its decisions in response to geopolitical uncertainties. If the company is perceived as not aligning with prevailing international norms or faces criticism for its business practices in Russia, it could impact consumer trust and brand loyalty globally.
 - Transparent Communication: Adopt transparent communication strategies to explain business decisions in the context of geopolitical realities.
 - Reinforce Corporate Values: Emphasize corporate values and commitment to responsible business practices, aligning with global expectations.

Appendix 2: Assessment Sheet Carlsberg Geopolitical Risk

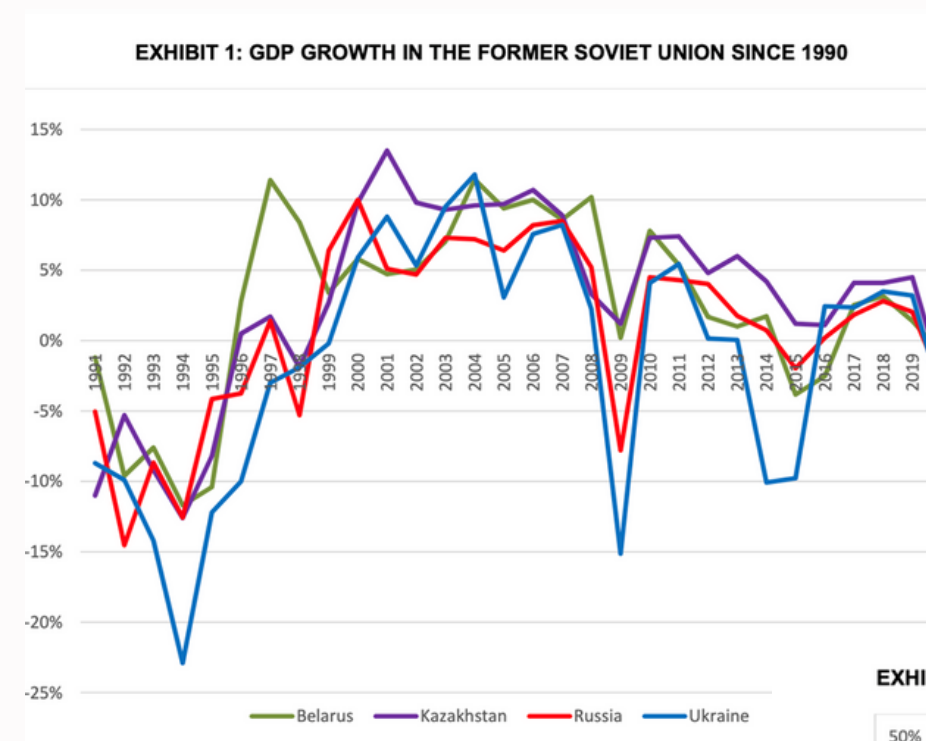
Levels of Analysis	Factors	Levels of Risk					Challenges/ Opportunities	Strategies
		Very Low 0-20	Low 21-40	Moderate 41-60	High 61-80	Very High 81-100		
Supranational level	1. Ability of supranational organizations to mediate and resolve political tensions between countries			45				
International level	2. Political relations between countries					90		
	3. Dependence between countries on natural resources, food supplies, technologies, and others				80			
National level	4. Development by countries of technologies, weapons, or others that can redefine their power and influence		25					
	5. Political orientations and agendas of governments				65			
	6. Business-government relations	20						
Industry level	7. Effects throughout the value chain			55				
	8. Stakeholders		30					
Firm level	9. Types of operations				65			
	10. Political capabilities		25					

1. Carlsberg operates in various countries, and the role of supranational organizations, like the EU, can be crucial. The EU's policies and actions might impact Carlsberg's operations.
2. At the moment, the relation between Russia and the rest of the EU is not favourable, due to the conflict Russia is causing in Ukraine. There is a lot of pressure on Carlsberg to drop Russia and discontinue its operations in the country.
3. Whereas Carlsberg might not be directly dependent on Russia for certain resources and technologies, it does have a large operational dependence, owning a 27% market share and employing 8,400 people.
4. There is currently not a significant development in other countries that might pose as a risk for Carlsberg.
5. Governments can impose regulations regarding alcohol intake and sales that might affect Carlsberg's operations.
6. For as far as we are aware, Carlsberg has neutral relations with governments in the countries it operates.
7. If there will be more disruptions concerning the situation with Russia, Carlsberg might notice a disruption in its supply chain as well.
8. For as far as we are aware, Carlsberg has neutral relations with stakeholders. However, the company needs to be aware of the consequences its actions might have and the pressure it may face to behave a certain way when it comes Russia and its operations in the country.
9. If governments impose certain regulations, like no alcoholic drinks allowed or only small percentages, Carlsberg might have to diversify its portfolio and include new operations.
10. For as far as we are aware, there are no political tensions within the firm.

Appendix 3: Exit strategy path analysis

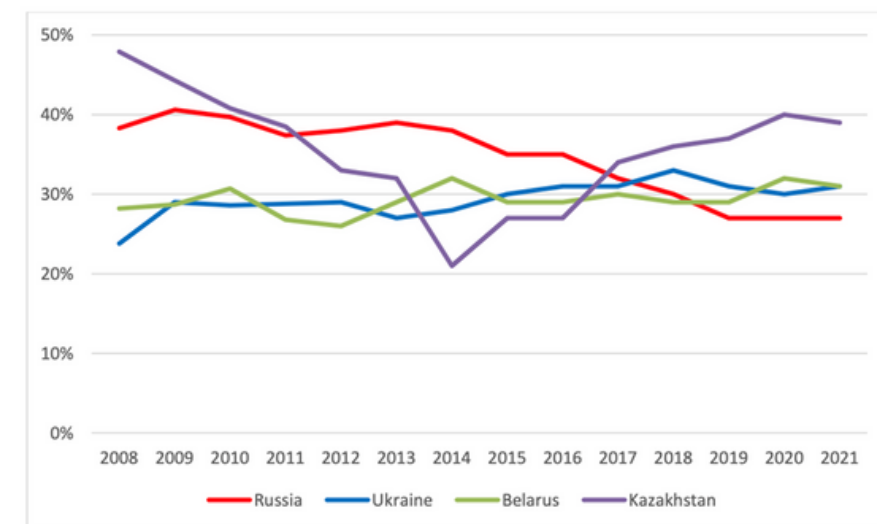


Appendix 4: Detailed analysis of economic scenarios and response plans



Source: GDP = gross domestic product.
 Source: Case authors' calculations using data from "GDP Growth (Annual %) – Russian Federation, Kazakhstan," The World Bank, accessed April 24, 2022, <https://data.worldbank.org/indicator/NY.GD.ZS.RU-UA-BY-KZ>.

EXHIBIT 5: CARLSBERG BREWERIES MARKET SHARE IN SELECTED COUNTRIES



Source: Case authors' calculation using data from Carlsberg Group, Annual Report, 2008–2021, available at "Report Listing," Carlsberg Group, <https://www.carlsberggroup.com/reports-downloads/>.

- **Economic Collapse in Russia (1989-1998):** The Russian economy experienced a significant collapse, declining by 40% from 1989 to 1998. This period of economic downturn was characterized by a transition from planned economy to market economy, which created attractive business opportunities for Western companies, including those in the brewing industry.
- **Weak Economy Impacting Business in Russia:** Carlsberg's business in Russia became difficult to manage due to the weak economy. This challenge was a significant factor for Carlsberg, which had established itself as a leading global player in the brewing industry by focusing on emerging markets in Europe and Asia.
- **Global Financial Crisis Impact in 2008:** The Russian economy, which had seen a significant recovery in the 2000s supported by high oil prices, was strongly affected by the global financial crisis in 2008. This crisis halted the rapid economic growth that Russia had been experiencing, adding to the challenges faced by foreign investors like Carlsberg.
- **High-Risk Market by 2018:** By mid-2018, Russia had become a high-risk proposition for multinational enterprises like Carlsberg. This risk was attributed to the fundamental erosion in the country's formal institutions, contentious relationships with Western governments, and the imposition of severe economic sanctions. These factors led to declining demand for consumer goods, affecting companies like Carlsberg.
- **Market Share Decline:** Carlsberg experienced a decline in market share in Russia due to pressure from local competitors and a decision to protect its margin rather than engage in a price war. The declining market led to Carlsberg's competitors merging their operations, which further impacted Carlsberg's market position.

Appendix 5: Detailed analysis of legal scenarios and response plans

Scenario 1: Stricter EU regulations & National regulations

EU: More regulations and sanctions against Russia

- Restrictions on the flow of money into Russia
- Trade sanction
- Restrictions on the sale of Russian products
- Stricter cybersecurity standards
- Further diversify energy sources

National: More restrictions against brewing industry

- Alcohol content regulation
- Stricter guidelines on how breweries can promote their products to the public
- Increase beer tax
- Consumer protection
- More labelling requirements

Strategic response

Diversification of Supply Chain:

Evaluate and diversify the supply chain to reduce dependency on sources that may be directly affected by the sanctions.

Identify alternative suppliers and establish contingency plans to ensure a consistent supply of raw materials.

Market Diversification:

Explore opportunities to diversify market presence by expanding into regions with less restrictive regulations.

Consider adapting product offerings or marketing strategies to suit the preferences and regulatory environments of different markets.

Legal Review and Risk Management:

Conduct a comprehensive legal review to identify potential risks and liabilities associated with the new regulations.

Develop risk management strategies to mitigate potential challenges arising from regulatory changes.

If the situation is pretty severe, most likely to withdraw from the Russian market.

Scenario 2: Loosen EU regulations but stricter National regulations

EU: Less regulations and sanctions against Russia

- Money can flow in and out of Russia freely
- Less trade controls
- Less restrictions on the sale of Russian products

National: More restrictions against brewing industry

Strategic response

Investment in Responsible Drinking Initiatives: Increase investments in responsible drinking campaigns and initiatives to promote a positive image and reinforce the company's commitment to social responsibility.

Collaborate with NGOs and public health organizations to support and amplify responsible drinking messages.

Regulatory Compliance and Adaptation: Develop a compliance strategy to ensure that Carlsberg's products, marketing, and operations align with the updated regulations. Adjustment.

Diversification of Product Portfolio: Diversify the product portfolio to cater Russia's regulations. This might include introducing new beer varieties, non-alcoholic beverages, or other products that align with consumer trends in the region.

Scenario 3: Stricter EU regulations but loosen National regulations

EU: More regulations and sanctions against Russia

National: Less restrictions against brewing industry

- No new regulations related to alcohol content
- Breweries can advertise their products through a variety of channels
- Beer tax remain the same or fall
- No new regulations related to consumer protection
- Labelling requirements stay the same

Appendix 6: SWOT Analysis Carlsberg

Strengths

- **Global Presence:** the company's significant global presence provides diversification in markets and reduces dependence on any single region.
- **Brand recognition:** strong brand with a rich history, contributing to consumer loyalty and trust.
- **Market leadership:** a leading position in various markets, giving it a competitive edge.

Weaknesses

- **Dependency on Russia:** significant operations in Russia expose it to geopolitical tensions and risks.
- **Vulnerability to Political Changes:** the company's operations in different countries make it susceptible to changes in political landscapes, affecting regulations and market conditions.
- **Impact of Sanctions:** imposition of sanctions on Russia could directly affect Carlsberg's business in the region.

Opportunities

- **Diversification of Markets:** exploring and expanding into new markets could mitigate risks associated with dependencies on specific regions.
- **Innovation in Products:** Carlsberg can capitalize on consumer trends by innovating its products, aligning them with changing preferences and sustainability demands.
- **Strategic Alliances:** forming strategic alliances with local governments to help navigate geopolitical challenges.

Threats

- **Geopolitical Tensions:** ongoing and potential future geopolitical tensions might pose a threat to Carlsberg's operations, currently in particular Russia.
- **Regulatory Challenges:** changing regulations and policies in various countries can impact production, distribution, and sales.
- **Economic Uncertainties:** economic downturns or uncertainties in key markets can affect consumer spending on discretionary products like alcoholic beverages.