

managing director's review



“GAB still managed to do well despite the odds as we had the right fortitude, the right ingredients, the right formula and the strong belief in our brands and ourselves.”

Theo A F de Rond

1. Picture perfect. Heineken filled to the brim
2. Premium. Tiger FC huggables
3. Greatness. Guinness sustained lead



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OUTPERFORMING THE MARKET

The tough times of financial year 2004 did not abate but instead escalated. It was just tough and tougher in 2005.

The duty-paid malt liquor market (MLM) came under heavy pressure from all fronts, with the most drastic being the unabated increase in excise duties. After three years of successive excise duties hikes to bring it to a cumulative total of about 50 per cent, the MLM submitted to the pressure of the full impact.

A 10 per cent increase in excise duties in calendar year 2003 saw MLM growth curtailed but it was the subsequently unprecedented high increase of 26.7 per cent in 2004 that dealt the first heavy blow that saw the market contracting. The unexpected 9 per cent increase that followed last year saw the MLM slide further, this time by a wider margin of nearly 8 per cent.

The three-in-a-row imposition of excise duties added up to give Malaysia the dubious honour of being second only to Norway as the country with the highest duties on beer and stout in the world. This is despite Malaysia's per-capita annual income being at only US\$5,000 per annum, a far cry from Norway's US\$40,000.

The series of three price increases in beer and stout that followed the excise duties hikes was hard on the pockets of consumers. Just

as consumers were feeling the pinch, petrol prices and power tariffs went up. Disposable incomes shrank and the consumer became very guarded with their purse strings.

Exercising prudence in spending, consumers switched to hard liquor for purportedly better value for money in view of the smaller price difference with beer and stout or went for the cheaper smuggled beer and low price imports or simply, bought and consumed less beer and stout.

The prevalence of smuggling was even more apparent in the year under review. It is the norm for smuggling activities to pick up each time excise duties increase as the wider disparity between the duty-paid and duty-not-paid price makes it all the more worthwhile for more to be engaged in the contraband business. Even heightened anti-smuggling crackdowns did not serve as deterrents for the duty-not-paid beer to make its way into the market.

While pressure was mounting from smuggling, the duty-paid MLM had also to contend with a newly introduced Government measure that had an impact on the cost of doing business. The Government has made it mandatory for brewers to implement security ink coding on all bottles and cans of locally manufactured beer and stout as a new initiative to curb counterfeiting.



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The nett effect of all these is lower consumption. Amidst this picture of gloom for the industry, GAB fared well under the circumstances.

Good Results, Better Market Share

Our financial results attest to that. We outperformed the market, grew our market share and brand equity. Tiger continued its run to be the fastest growing lager brand and Heineken held steadfastly to its top spot as No 1 international premium brand. Anchor, the local brew, grew its volume while Guinness further consolidated its position as the top selling stout in the country.

On the overall, we managed to grow our market share for beer and sustained our lead in stout.

GAB still managed to do well despite the odds as we had the right fortitude, the right ingredients, the right formula and the strong belief in our brands and ourselves.

The diversity of our pedigree portfolio of brands gave us the distinction of having brands that consumers can relate with and brands that satisfy every drinking moment. We have brands for everyone and every occasion, thus fulfilling the needs of the many market segments.

Our time-tested and proven strategy to focus on organisational effectiveness and operational efficiencies and implement appropriate initiatives well ahead of time are now bearing fruit.

Organisational effectiveness further improved with a productive and positive work culture in place and a continuous focus on cost savings. The ViVA or Vision and Values campaign has evolved to foster ViVA work habits of taking self-responsibility to deliver results, taking action to drive results, ensuring quality of work, and being innovative and creative.

Complementing ViVA work habits is the TPM or Total Productive Management programme that has chalked up successes in the focus on processes to maximise efficiency and effectiveness. While ViVA focuses on people to encourage and adopt good work habits, TPM zeros in on processes to improve work and achieve operational excellence.

Better customer insights – an on-going process which was one of the top priorities identified a few years ago in our drive for organisational effectiveness – has enabled GAB to be more effective in spending our marketing ringgit. Promotions are more focused and brands are positioned more clearly to consumers thus making us more successful in reaching our key target audience.



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1. Training. Excellent people and good work habits
2. Chic. Avant-garde designed bottle of Heineken
3. Sealed. Harmonious industrial relationship
4. Passion. Away or Home, Tiger FC rules

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Operational efficiency in GAB has also been greatly enhanced with the brewery now fully automated. The five-year exercise involving an investment of over RM50 million has been completed and now the silo, brew houses, cellar and filtration plant are not just automated but fully integrated. This has resulted in enhanced freshness and greater consistency in quality of beer and stout produced, lower manning level in the various production areas and reduction in wastage. It simply means that we are getting more out of our installations.

Product innovations were also significant contributory factors. In the last financial year, we introduced the 5-litre keg of Heineken draught which was just right for parties during the year-end festivities. Each keg with a CO₂ system and tap built-in serves 20 glasses of chilled fresh draught beer.

The limited edition 1.5 litre Magnum bottle of Heineken was successfully introduced specially for Christmas.

Quality continued to be our top-line focus and evident of our attention to details on quality was the continued renewal of the Ministry of Health's Hazard Analysis Critical Control Point and ISO 9001:2000 certifications. This is the fifth successive year that GAB earned the renewal of the certifications since 2002 when we became

the first brewery in the country to be awarded the certifications for maintaining and continually improving the integrity and quality of our products.

All the initiatives, innovations and processes would not have been possible without the commitment of our people, to the Company and to the vision and values. Our people have been truly the pulse of our business. As I have said many a time and I say it again, we have so rightly invested in our people. Our employees have been strong proponents of our success.

We value our employees who have been one with the Company to rise above the competition in the highly competitive and challenging environment. Reflective of the harmonious industrial relations we have with our employees is the landmark conclusion of the negotiations after two sittings for the 12th Collective Agreement with the Union of Beverage Industry Works that was signed. We made history with what we believe to be one of the fastest agreements to be concluded between a company and its union in the country. *Syabas!*

We have excellent people and we have fantastic brands too! Let us hope, that the market environment will improve for us to perform even better in the year ahead.