

ATTRACTING FUNDS WITH ALCOHOL PRODUCTION IN EMERGING ECONOMIES

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ABSTRACT

A new movement in the financial world is led by the ongoing search for justice and sustainability. The new investors consciously add ethical guidelines to their money that lie beyond the pure figures of ROI and interest rates. They have observed how traditional donations constantly fail and believe that honest business can achieve more than free supplies. They do not want to give money away but rather want to plant it and watch it grow. The new cliché line “Doing well by doing good” probably describes it best. To achieve this goal lenders offer their money to far cheaper concerns than usually found in the banking world. Whoever wishes to access these funds should run a business plan through a sustainability filter covering socio-economic and environmental criteria. Conscientious investors demand caution in the exploitation of human and natural resources. To guarantee long term survival and profitability the project is preferably located in an enabling and politically stable environment. The new development is extremely interesting to the brewing industry because a large portion of the available funds flow into high tech branches. Alcohol production by its nature is interdisciplinary and involves a complex cluster of technologies.

Keywords: *alcohol production, emerging markets, finance, funding, investment criteria, business plan, sustainability, consciousness, awareness, philanthropy*

INTRODUCTION

Over the last decades several countries around the world have managed to overcome the problems of the post colonial era and have now found their own identity. Their recent strong self-awareness is backed by new middle class, growing national consumer markets. These also open up opportunities for the production and marketing of alcoholic beverages. When analysing the challenges for business entities in emerging countries three major inhibiting factors can be identified.

1. New projects finding the right financing model often represent a huge challenge. In these markets access to loan or equity money is often very difficult, extremely expensive or insecure. Quick loans are available anywhere but finding a long term partner is crucial for any manufacturing business.
2. The hunt for governments of solid currencies has built a spiral of cheap exports of raw materials against the subsidised imports of manufactured goods. The European Union, in particular, is regulating its domestic price structure by dumping surplus agricultural goods into third world markets. On the one hand this has reduced the availability of raw materials and on the other it poses a strong competition to local added value business.

3. Dwarfed by the marketing power of multinational beverage companies the credibility of fresh ideas may appear highly questionable. Brands like Carlsberg beer, Bacardi rum or the Coca-Cola soft drink range dominate the global industry and each individual beverage category. This paper and presentation therefore aims to describe a strategy of raising funds by targeting a different source of finance and more importantly, by promoting a particular project correctly to potential donors²⁴.

Finding and selecting financiers

Since the beginning of this century a new movement can be observed in the financial world. It has proven to be very consistent and is constantly growing. It was even almost immune against the challenges of the global financial crisis of 2008. It is based on the desire for an ideal world and is led by the ongoing search for justice and sustainability. Observations showing how traditional donations constantly fail have led to the belief that honest and fair business can achieve more. Conscientious investors are therefore looking beyond the pure figures of return on equity and maximum interest rates and add ethical guidelines to their money. It has shown to be a profitable approach and has therefore led to the new cliché “Doing well by doing good”^{20,10,7}.

The drivers behind this new development are the Worldbank, various national banks trying new routes, fund managers trying to make a difference, non-government organisations and silent philanthropists who wish to remain unnamed. These lenders help in the designing and controlling of the business plan and may offer their money under cheaper conditions than is usually found in the banking world. They have also found ambassadors for their new approach in celebrities who also personally have revised their own financial planning in this regard^{2,3,8,9,15,22,23}.

Key areas of interest are sustainable added value entities associated with agriculture such as food production and distribution, animal husbandry, bioenergy and forestry²⁰. Projects showing an interdisciplinary character and involving a broad range of skills are highly acceptable. This can benefit the alcoholic beverage industry in particular.

Anyone wishing to access these funds should design their business plan in a way that it may withstand a cascade of questions covering not only financial but also socio-economic, political and environmental criteria (**Table I**).

TABLE I Sustainability Filter		
Step 1	Country filter	Investors will target emerging market countries where they find safe fundamentals of an enabling environment.
Step 2	Industry filter	Investors seek industries that derive some advantage from a complex and not easily imitated cluster of related and supporting firms.
Step 3	Entrepreneur Filter	Entrepreneurs must not only be capable of executing and managing a business themselves but must also be respected in the business community
Step 4	Strategy filter	Target firms must produce a differentiated product for which an attractive customer segment is willing to pay a premium.
Step 5	Sustainability filter	Firms must be founded on a basis of continued innovation.

The right environment

Corporate entities in emerging markets often operate in very challenging business environments. On the one hand, being where there is comparably little competition, they face tremendous growth opportunities. On the other hand, they operate in places where both resources and information are limited, which make it difficult to pursue those opportunities. Leaders and managers in emerging markets are full of good ideas on how to grow their businesses but have to constantly struggle with an unyielding business environment. At the same time emerging market entrepreneurs are highly confident operating in uncertain markets. This makes it very exciting to investors from abroad.

Conscientious investors are not always politically active but they are well informed about world economics and the political situation in various regions. They are willing to take the financial risks of lending to a new project but feel irritated by the erratic risks of international money transfer, inflation and corruption. Lenders therefore must thoroughly evaluate the legal, administrative and political environment of the proposed project and should be able to demonstrate the benefits of choosing a particular country or region. In addition, it may be important to place a business in an environment that welcomes, rather than just accepts, new entities. The most desirable projects are those that are away from the usual places, such as Brazil, Russia or China but focus on the 'second row' emerging economies such as Vietnam, Tanzania or the smaller countries of Eastern Europe¹⁸.

The right strategy

In the past many investments in emerging markets dealt with rather 'flat' industries that promised fast returns but showed very little integration with other businesses. Typical examples were tourism, mobile phone networks, TV stations, agricultural commodities, and mining. Investors today seek industries that derive some advantage from a more complex and not easily imitated cluster of related and supporting firms. This is a characteristic of the brewing and distilling industry making it extremely attractive. Alcohol production is, by its nature, interdisciplinary. It involves engineering, biotechnology, marketing and communication. It is related to food sciences and agriculture and also touches a broad range of cultural and socio-economic aspects. This will be important to many emerging countries where the population generally is of a younger average age than in the industrialised nations. The beverage markets in emerging countries are also far from saturation. The consumption per capita still rises^{4,5,6,17}. In addition, the brewing and distilling industry also educates and promotes highly skilled personnel and provides many job opportunities. This not only creates stability to entrepreneurial beginners but also gives investors various opportunities to identify themselves with a particular project.

The advantage of working with local people who share a high level of experience in their own local business environment has already been mentioned. However in addition, entrepreneurs who wish to attract funds must not only be capable of executing and managing a business themselves, they must also be respected in the business community. A good public image, business testimonials and personal references make an impact. Investors like to look forward and prefer to work with partners who can

possibly act as originators for additional trade flow. At the same time target firms must produce a differentiated product range, for which an attractive customer segment is willing to pay a premium. Pure commodity business or the simple exploitation of the comparative advantages of low-cost labour or low-cost inputs, are rejected. Competitiveness should be based on advanced skills, high-tech, strategic differentiation and continued innovation^{11,12,13,16,19,21,25}.

CONCLUSION

The production of alcoholic beverages truly matches the criteria that motivates investors to fund projects in emerging markets today. Despite the ongoing discussion in the industrialised countries about health risks, the moderate consumption of alcoholic beverages generally expresses a positive image as it stands for public wealth, leisure time and a sociable and independent citizenship. With all agglomerated professions around it, from farming to bar tending, alcoholic beverages always have significantly contributed to the cultural identity of a society whether in Bavaria or India. This emotional momentum should not be underestimated as a business plan is presented to a potential lender, whether it is for a bank loan or for private equity.

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