

BUS 450

Integrative Term Project

John Hillips Brewery in Kazakhstan

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Background

The John Hillips brewery is a Victoria based business that first opened its doors in 2001. We specialise in craft beers made from local ingredients. The company has grown to be the 6th largest brewery in British Columbia. We have seen progressive growth every year, with an 18.5% growth in business between 2013 and 2014 (C, 2014). Our total revenue for 2014 was \$4.63 million dollars. Our revenue is approximately 10 times higher than the average craft brewery in BC which is \$441,405. (Find, 2016)

We currently employ 42 employees, which is 4 to 10 times higher than the average craft brewery in BC. Each employee represents \$110, 276 dollars of our total revenue which is in line with the national average of all businesses across Canada. (Find, 2016)

John Hillips currently produces 13 full time beers. There are numerous seasonal beers produced through out the year. We are currently expanding our business in to craft made sodas and liquors. This current plan for expansion will be focusing on the craft beer business with the options to introduce other product lines at a later date. (The Beers, 2016)

Decision -

The John Hillips brewery first went international in 2012 with the exporting of 2 of our product lines to Japan. We are placed in high end liquor stores and restaurants and have positioned ourselves as a premium craft beer at a premium price. We have had great success with this expansion. (Shore, 2013)

We are now looking to expand to Kazakhstan. The process will be different from what we have done in Japan, but we do feel that there is a market for our craft products.

Kazakhstan is seeing a rise in demand for craft beers and we feel that now is a great time to enter the market. There is only one craft beer currently being produced on a large scale and being distributed across the country. Other craft beers are being produced in small micro brewery's and brew pubs, they do not have the distribution networks or volume of production of the one brand being sold nation wide. (Witte, 2014)

Kazakhstan's agriculture sector is seeing a revitalization in growing what is indigenous to the country. There is an increased awareness in sustainable crops and organic/ natural farming practices. Hops is a plant that grows in a lot of places and can be seen on the sides of the streets, and considered a weed in some areas. Our company values include using naturally sourced ingredients and supporting local agriculture. There is a definite opportunity to partner with local agriculture and produce ingredients key to our craft beers. (Witte, 2015)

The current beer market and agriculture trends in Kazakhstan provide us with the perfect opportunity to bring our craft products to the country. Our strategy and plan will allow us to enter the market successfully and benefit all stakeholders involved.

Macro Environment

Business Risks and Challenges

Bribery is illegal in Kazakhstan. The Agency for Civil Service Affairs and Fight Against Corruption is responsible for prevention, detection, and investigation of corruption, economic and financial crimes. It is accountable directly to the President of the state. However, the country is ranked 126 on Transparency International's 2014 Corruption Perception index, compared to 10th for

Canada. President Nazabayev and the State have been actively fighting corruption through legislation and institutional reforms since 2001.

All Kazakh airlines with the exception of Air Astana are refused permission to operate in the EU because they do not comply with internationally accepted safety requirements.

Intellectual Property rights in Kazakhstan operate under a “first to file” and not “first to use” jurisdiction so foreign businesses should be careful to ensure they file their intellectual property when planning to operate in Kazakhstan.

Kazakhstan has passed legislation to increase the local content of projects, contracts, goods, services, and personnel. Local content is determined by the ratio of costs of goods verified as being Kazakh and the number of Kazakh nationals employed. There is also very heavy regulation with regard to filing tax, obtaining credit, and registering property.

Economy of Kazakhstan

Kazakhstan is the 48th largest export economy in the world. Their largest exports are Petroleum, Copper, and Radioactive chemicals. Their largest imports are also Petroleum, cars, Large Iron Pipes, and Packaged Medicaments. Their top export destinations are China, the Netherlands, Italy, Russia, and France. Top import origins are Russia, China, Germany, Ukraine, and the United States (Kazakhstan). Since the country is a member of the Eurasian Economic Union, doing business in Kazakhstan gives us access to a market of 182.5 million people across member states.

Kazakhstan’s economy depends on the oil sector which accounts for an estimated 20% of GDP, 50% of fiscal revenues, and 60% of exports (Karimova, 2016). With the falling oil prices and oil

exports from the country, their GDP growth is expected to decline to 1% in 2017 from 1.2 percent in 2015 (Kosolapova, 2016).

Kazakhstan and Russia are the largest trade partners in the Eurasian Economic Union launched in January 2015. Because of falling price of the Ruble, Kazakhstan's market has been swamped with cheap Russian goods sometimes costing 30% less than Kazakh goods making it difficult for domestic producers to compete (Putz, 2015).

Political Landscape

The current President of Kazakhstan Nursultan Nazabayev has been in office for 25 years and was recently re-elected in April 2015 with 97.7% of the vote. He is very popular as a "strongman" leader and he is exempt from the constitutional bar on Presidents running for office more than twice in a row as well as being a member of a political party. In June 2010 legislation was passed naming President Nazabayev the lifelong "Leader of the Nation" meaning he can veto legislation and address Parliament at will even when he is no longer president.

The people of Kazakhstan are traditionally Nomad, and are very concerned with spill-over effects of global crises. They have a saying "when a neighbour lives by the heart, everyone's yard is bigger" meaning that in their culture, working for mutual benefit is emphasized over personal gain. The country is very conservative and uses a multi-vector foreign policy, focusing on relationships with trade partners, and strategic partners (Sholk, 2015).

Iran has positive trade relationships with Iran and Turkey. The Deputy Minister of Kazakh industry has recently signed 9 Memorandums of Understanding with Iran to boost the trade volume between the two countries by \$1Bn (Iran, Kazakhstan sign 9 MoUs, 2016). In Istanbul

during the 13th Summit of the Organization of Islamic Cooperation, Kazakh president Nursultan Nazabayev met with his Turkish Counterpart Recep Tayyip Erdogan where they discussed joint projects involving small and medium business representatives from both countries.

Additional information can be found in Appendix C.

Cultural Profile and Communication Issues

Culture, language, religion, what is the average home life for a person in the country?

Russian is acknowledged as the official business language; however there is a big push to increase the use of Kazakh language and culture so knowing a few words or phrases in Kazakh will be greatly appreciated by locals.

The biggest cultural shock for expatriates is Kazakhstan's bureaucratic requirements. Since most authorities do not deal with expatriates often, it is important to research what will be required of you and be prepared to provide all necessary documents proactively.

Kazakhstani culture is very similar to Russian, people may appear rude, but they are in fact extremely friendly and very hospitable. Family values are very important; elders are respected as wise and knowledgeable, and children are cosseted and adored. Large family dinners, gatherings, are very common and events excluding children are rare.

Dress is always very formal, even at night clubs. Since the weather can also range from -40* celcius to 35* celcius across the country, people often dress in very warm clothing.

The majority of the population is Muslim (70%) while most of the rest are Orthodox-Christian, because the country is home to many different ethnicities, Kazakhs are proud of the diversity

and they strive to promote peace between religions. But do be careful about making sure the food you serve when inviting others for dinner can be eaten by the religions of those invited.

Specifics of business relations

Kazakhstanis' roles in an organization are very clearly defined with a clear chain of responsibility. However, people tend to table difficult issues hoping they will be resolved by someone else, while trying to avoid giving a negative response. They want to be perceived as helpful and will avoid letting people down.

Entry Strategy

Partnership is key to John Hillips entering the Kazakhstan craft beer market and we know that an International Joint Venture entry strategy is what we will need to do to be successful. The biggest barrier to entry has been finding the right business partner. We needed an existing brewer in Kazakhstan that aligns with our company values and is interested in expanding in to the craft beer market. We bring the knowledge of brewing and marketing craft beers to the table and a strategic partner with established brewing facilities and distribution channels will be the perfect partner. Line Brew bottling is a brewery based in Almaty, Khazakstan and is our ideal partner for this venture. This established brewery with state of the art facilities and access to nationwide distribution channels. They currently focus on beers made in the German tradition with ingredients sourced from Germany and the Czech Republic (Line Brew, 2014). They also share our company values of sustainability and environmentally conscious practices.

Our brew master will show them how to brew beers that incorporate ingredients from within Kazakhstan. He will work with them to build relationships with different farmers throughout the

country and source local ingredients to make different brews that really represent the country and its different regions. Our senior marketing manager will work with their marketing and sales team to introduce the craft beer product line to the country. They will work together to properly brand the new brews as they come out and carefully analyze how they are being received throughout the country. This partnership will allow us to mirror the success we have had in Canada and introduce great craft beers to Kazakhstan.

Staffing Policy

We will have two of our most qualified staff from Victoria BC on the ground to make this venture work. Vassili Angelblazer will be the brew master we are sending over. He is 22 years old and single. He has been trained by our head brew master Hank Johnson, Hank has full confidence in his abilities in creating and brewing recipes that represent the Hillips brand. Chris Duffell has been working with our marketing and sales team for the past 5 years. He was responsible for the roll out some of our most successful products and he has proven himself over and over again when taking on new projects. He is 35 years old and single. We have approached them both about this opportunity and they are both excited about taking on this challenge.

Our partner will be responsible to have at least one of their staff on hand to help with language translation and orientation to living in Almaty, Kazakhstan.

Leadership and Motivation

We will be working with our partners at Line Brew Bottling to ensure that our parent country nationals have the resources necessary to make the adjustment to living in Almaty. They have assured us that their staff will be available to help them with everything they need.

They have assured us that the proper paperwork for getting our staff the appropriate work Visa's will be in order. We understand this process can be confusing to people outside of Kazakhstan but they have assured us they will walk with our staff through the whole process and the subsequent updating of the paper work over the course of the year.

Arrangements have been made to have our staff start learning Russian before they leave. Our goal will be for them to have a basic conversational understanding of the language. Our partner in Kazakhstan has advised this will make the integration in to life in Kazakhstan a lot faster and easier on everyone. We have made agreements with both of our staff to pay for them to travel home, or anywhere in the world, 4 times over the course of the year. Our senior leadership has also scheduled 4 visits to Almaty to get face to face progress updates on the joint venture.

Our two staff on the ground are the face of Hillips in Kazakhstan and we want to make sure they know they have our full support behind them. We will work with them closely and monitor their experience to make sure they are doing well and address any issues that arise.

[Break Even Analysis](#)

We will cover the costs of living for our managers. In addition to salary and market entry costs, our total fixed costs for 2017 will be approximately \$279,600.

At a price of \$3.81 for a 5L bottle of beer, (700 Tenge), we will have to sell 120,000 bottles per month to achieve a break-even point of 482,069 bottles in 4 months from the production start date. This is a reasonable number because our partner has an established distribution network spanning the Eurasian Economic Union, a market of approximately 183 Million people.

Additional information can be found in Appendix A.

Appendix A – Break Even Costs and Tables

Units Required for Break-Even:	482,069
Dollar Sales Required for Break-Even:	\$1,836,682.76
Variable Costs Per Unit:	\$3.23
Total Variable Costs:	\$1,557,082.87
Total Fixed Costs:	\$279,600.00
Months to Break-Even:	4.0

Fixed Costs: \$279,600.00

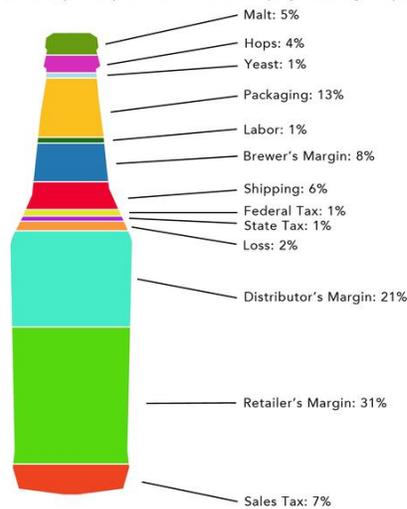
Var. Costs/Unit: \$3.23

Unit Price:	\$3.81
Unit Contribution Margin:	\$0.58

Break-Even Volume:	482,069
Expected Sales Per Month:	120,000

Why Craft Beer Costs So Much

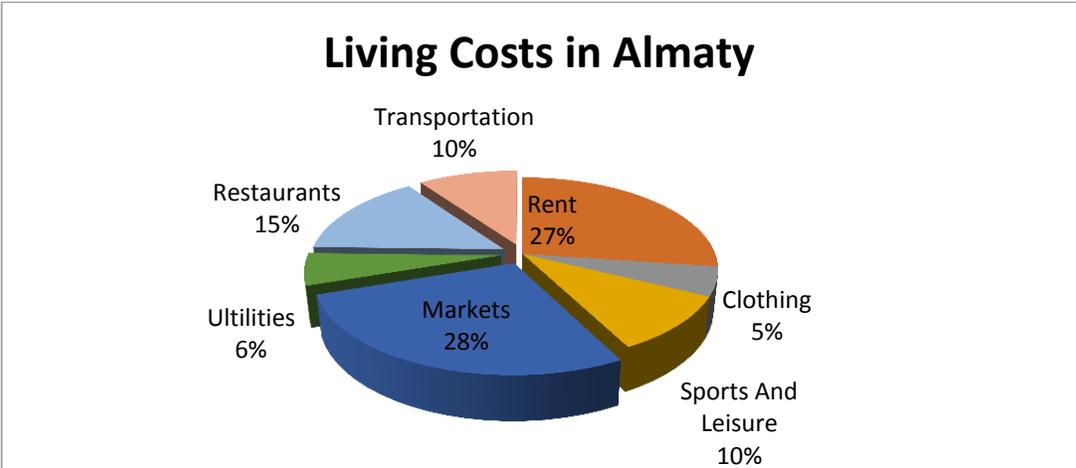
Good craft beer regularly costs as much as \$12 a six-pack -- twice as much as beers from brands like Bud or Coors. But a HuffPost Taste investigation of the economics of craft beer revealed that a lot of work and materials go into each bottle. On the chart below, you can see just how much of the final cost of a six-pack goes to each stage of the process.



Appendix B – Cost of living in Almaty, Kazakhstan

Costs of Living In Kazakhstan

Rent	27.2%	\$	766.43
Clothing	5.1%	\$	143.71
Sports And Leisure	10.0%	\$	281.78
Markets	27.5%	\$	774.88
Utilities	5.6%	\$	157.79
Restaurants	14.8%	\$	417.03
Transportation	9.8%	\$	276.14
Total:		\$	2,817.76



Appendix C – Additional Information on Kazakhstan’s Political Economics

International Role

In December 2015, Kazakhstan became a member of the World Trade Organization and announced plans to privatise 700 state owned enterprises by 2020. They also amended the land code to provide the ability to privatise land.

Kazakhstan is part of the Eurasian Economic Union which currently includes Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russian. The EEU was conceived in 1994 and established on January 1, 2015. Member states have yet to agree on a single currency and Kazakhstan has been the greatest opponent to that idea suggesting that Kazakhstan should put its own interests first.

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