

## IMPACT OF THE ALCOHOLIC DRINKS CONTROL ACT, 2010 ON MARKETING STRATEGIES IN EAST AFRICAN BREWERIES LIMITED

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### ABSTRACT

All companies attempt to increase their business profitability and sustainability through innovative brand marketing strategies. This study sought to address the impact of the ADCA, 2010 on marketing strategies which included all promotional activities, market penetration strategies, corporate social responsibility activities and the quality of alcoholic drinks with reference to EABL. The statement of the problem in this study is that there have been reduced sales for both alcohol manufactures and the retailers in the industry since the enactment of the ADCA, 2010. The increased licensing fees imposed on operating outlets for selling alcoholic drinks which has seen most outlets close down. EABL has also stopped sponsorships of sports events that would enable the company to sell alcoholic drinks in these events. This has forced EABL to reduce their production of alcoholic drinks in the factory. The findings of the study concluded that the ADCA, 2010 affected the marketing activities of EABL and the company should innovate new brands that are affordable, establish a solid market for the canned beer in the take home trade, educate the public on the importance of consuming quality alcoholic drinks from reputable companies and vigorously market their brands beyond the borders. The beneficiary of this project is to all the stakeholders in the alcoholic drinks industry from the manufactures, producers and retail customers of alcoholic drinks who need to embrace new and innovative approaches to marketing and promoting the products in order to stay profitable, to sustain their businesses. This project will benefit the stakeholders to be able to understand the ADCA, 2010 abide by the law and protect the consumers from the harmful effects of excessive consumption of alcohol and educate them on the dangers of illicit brews.

**Key Words:** *impact of the alcoholic drinks control act, marketing strategies in East African Breweries Limited, EABL, ADCA*

## Introduction

Different countries apply different policies concerning alcohol. Advertising attracts and influences people. It is through advertising that producers, distributors and retail dealers reach people with information, making us aware of new products.

The beer industry in the world has been affected by various regulations when it comes to alcohol advertising. The regulation has three components: legislation (defining appropriate rules); enforcement (initiating actions against violators); and adjudication (deciding whether a violation has taken place and imposing an appropriate sanction). For a company to penetrate into new markets it needs to arm itself with specific marketing strategies that will ensure growth in the target market. This becomes even more important if the target market is already filled up with competitors offering the same products or services (Kay, 2003). The beer industry in Kenya faces the challenges of stiff competition and regulation by the government. EABL has to come up with very competitive promotional and advertising activities in order to make their brands sustainable and also ensure that the consumers prefer their brands at the moment they make the decision to purchase.

All marketing activities that relate to the consumer have to be in line with the ADCA (2010). Promotional activities for the consumer should not encourage them to drink more or promote irresponsible drinking. This has limited the promotions the company can do for their brands. Most promotional activities are for brand equity and not so much as increasing high sales, such as sponsorships to sports activities such as the National football club and corporate social responsibility activities such as digging of bore holes in arid and semi areas in Kenya in the water for Kenya campaigns as well as planting of trees in the “green movement” to tap in water catchment areas. Hence there is a decline in sales activities that promote incremental sales and high profit margins. Market penetration of product and opening up of new markets has also been affected by the ADCA (2010). There are less retail outlets being given licenses to operate the alcohol beverages businesses due to the high cost of license fees as well as the strict vetting of retail outlets that has to be done before any licence is issued. For instance, retail outlets should not be near learning institutions should have good hygienic conditions and have all the amenities such as water and clean sanitation facilities. The ADCA (2010) regulates the way in which beer companies market their products through various promotional activities. The general objective of the study was to assess the influence of the ADCA (2010), on marketing strategies with reference to East African Breweries Limited.

## Specific objectives

- i. To determine the effects of the ADCA (2010), on promotional activities by East African Breweries Limited.
- ii. To establish the effects of the ADCA (2010), on corporate social responsibility activities by East African Breweries Limited.
- iii. To assess the effects of the ADCA (2010), on the quality of alcoholic drinks

- iv. To determine the effects of the ADCA (2010), on market expansion for East African Breweries Limited.

### **Positive outcomes of the ADCA, 2010 in Kenya**

The law popularly known as the “Mututho law” was proposed by the former Naivasha member of parliament, John Mututho and he was the chief architect of the law which was introduced with the aim of stopping the manufacturing of illicit brews and instilling sanity in the alcohol industry through a host of regulations of manufacturing, marketing and consumption of alcoholic drinks.

The ADCA, 2010 has had very positive outcomes that have addressed the entire spectrum of the alcoholic industry. The objective of the Act is to provide a law for the control of the production, manufacture, sale, labeling, promotion, sponsorships and consumption of alcoholic drinks.

All the alcoholic drinks selling outlet which were near schools were not given licenses and this reduced the number of incidents that school going children were buying alcohol from these outlets due to the proximity to the schools. Since its enactment of the ADCA, 2010 to law, there has notable reduced the number of alcohol related deaths and injuries through the consumption of excessive alcohol or poisonous illicit brews. There has been control of the purchase of alcohol from supermarkets and convenience stores where store owner have moved to comply with the regulations by establishing a separate shop within the supermarket where alcoholic drinks can be purchased from and also a establish a software on all the tills to bar any sales of products listed within the alcohol products category outside the legally mandated hours of between 10:00 a.m. to 8:30 p.m. and this has also lock out underage customers from purchasing alcohol.

Aggressive marketing, promotion of alcoholic drinks especially with messages targeting young people and sponsoring of events for persons below the age of 18 years by the alcoholic drinks industry as stopped due to the regulations of the ADCA, 2010 and this has reduced easy access of alcoholic drinks by young people. But more so, the legislation has mitigated the negative health, social and economic impact resulting from excessive consumption of alcoholic drinks and to reduce the trends that fuel alcohol abuse in Kenya.

### **Alcohol Drinks Control Act, 2010**

The Act spells that no person shall promote any alcoholic drink in such a manner as to encourage consumption of an alcoholic drink in order to win an award or prize. (ADCA (2010), Section 47). Before the enactment of the Act, EABL marketing department undertook various promotional activities where consumers were offered” buy one get one free” in terms of the amount of alcoholic drinks that they buy. Other activities would include consumers having to buy alcoholic drinks and they get raffle tickets which would declare them winners of merchandise such as t-shirts, pens, and free drinks, and in the event that they do not win they would get a raffle ticket that would require them to try again. Both of these promotion mechanics encouraged consumers to drink more as they won free beer or as they continued to try to buy more alcoholic drinks to win a prize. But since the new law, marketing has changed the way they do promotions, for example, all raffles have to have winnings such that there is no raffle that offers a customer to try again. In addition all promotions that encouraged more consumption of

alcoholic drinks were stopped and this means that sales dropped as a result, (EABL, Annual Report, 2011).

With the new regulation, the challenge for the marketing department is to ensure that all the promotional activities do not increase sales at the expense of encouraging the consumer to buy more, but to recommend to the consumers who are not buying their brands in terms of consumer conversion. Since alcohol promotions are expensive, they are therefore specifically and selectively targeted at potential consumers of the given product, mostly, target group that does not know about the brand and those already consuming a certain type of a product in an effort to persuade them to switch brands. In this way EABL, encourage potential consumers other than encouraging the already existing ones to buy more, (EABL, Annual Report, 2011).

The British Code of Advertising, Sales Promotion and Direct Marketing 46.2, states that “the drinks industry business accept responsibility for ensuring that marketing communications contain nothing likely to lead people to adopt styles of drinking that are unwise. Companies should be socially responsible and should neither encourage excessive drinking nor suggest that drinking can overcome boredom, loneliness or other problem. The acts indicates that any person intending to manufacture or otherwise produce any alcoholic drink in Kenya or to operate any alcoholic establishment shall make an application in a prescribed form to the district committee in the district where the premise is located and pay a prescribed fee. Section 12 of the Act states that, the district commissioner shall not grant a new license for the sale of an alcoholic drink unless he/she is satisfied that it would be in the public interest (ADCA, 2010).

Since the enactment of the act the EABL saw many of their retail outlets close down because they could not get licenses due to the hygienic condition of the outlet’s premises, the proximity of the outlet to learning institutions, the high increase in the cost of licences from 7000/- to between 24,000/- to 100,000/-.In addition, retail outlets opening and closing hours were also cut short from operating the whole day and night to operating a fewer hours from 5pm to 10pm,unless on special conditions where the outlet was operating under the license of a hotel or a restaurant and consumers have a meal with a drink, (EABL, Annual Report, 2011).

On drinking in the premises, the Act indicates that selling alcohol for consumption on the premise is an offence unless otherwise stipulated in the license. The sale of alcohol outside the hours stipulated in the license is prohibited. The incremental cost on packaging from plastic bottles to glass bottles as required by law has increased hence increasing the cost of alcoholic drinks. This has made the value for money brands such as Kane extra, expensive for the target consumer due to the incremental cost in packaging, hence a drop in the consumption of the brands and those consumers switching to cheaper competitive brands or illicit brews. On the information required on packages section 32(4) of the Act states that, all the warnings labels specified in the second schedule shall be randomly displayed in the twelve-month period on rotational basis and in as equal a number of times as possible. The change of labels to bear the health warning is a costly affair especially for the new brands that need to be known with 30% of the label containing the statement. Hence there is less room for the marketing team to advertise the product on the label to enable new consumers to know more about the brand and the matter is still in court (ADCA, 2010).

### **Statement of the Problem**

For a company to penetrate into new markets it needs to arm itself with specific marketing strategies that will ensure growth in the target market. This becomes even more important if the target market is already filled up with competitors offering the same products or services (Kay, 2003). The beer industry in Kenya faces the challenges of stiff competition and regulation by the government. EABL has to come up with very competitive promotional and advertising activities in order to make their brands sustainable and also ensure that the consumers prefer their brands at the moment they make the decision to purchase.

All marketing activities that relate to the consumer have to be in line with the ADCA (2010). Promotional activities for the consumer should not encourage them to drink more or promote irresponsible drinking. All promotions should not encourage consumers to buy more than two alcoholic drinks at the same time in the hope of winning more drinks and it is wrong to entice consumers in having to drink more in order to increase the sales of the outlet. This has limited the promotions the company can do for their brands that ensured that more volumes were consumed in the outlets hence bar owners cannot realize high incremental sales as they used to before the Act.

The high license fees and reduced operating hours for bars, restaurants and hotels selling alcoholic drinks have reduced the number of these establishments because most of them cannot afford to pay these license costs and opt to close down. These have reduced the amount of sales EABL makes from selling to these outlets and the company needs come up with strategies to increase sales through the existing or increase its product portfolio to innovated more brands that have a high net sales value so that to maintain its market share and continue to be relevant and sustainable in the industry through the company's brands.

All of promotional activities are for brand equity and not so much as increasing high sales, such as sponsorships to sports activities such as the National football club and Kenya rugby association. These events would pull in a huge crowd and EABL would sell their brands and yield millions of shilling in such events. But since the enactment of the ADCA, 2010 these kind of sponsorships where prohibited and would only be acceptable were there would be not sales of alcoholic drinks as such events would attract underage persons would were below the drinking age limit of 18 years who would drink irresponsibly and even cause harm to themselves through reckless driving and irresponsible behavior. These activities would realize huge sales for EABL, the retail outlets and beer distributors who were appointment to cater in these events.

Market penetration of product and opening up of new markets has also been affected by the ADCA (2010). There are less retail outlets being given licenses to operate the alcohol beverages businesses due to the high cost of license fees as well as the strict vetting of retail outlets that has to be done before any license is issued. For instance, retail outlets should not be near learning institutions should have good hygienic conditions and have all the amenities such as water and clean sanitation facilities. The ADCA (2010) regulates the way in which beer companies market their products through various promotional activities.

The marketing team at EABL has realised the need to establish new marketing strategies in order to maintain the current market share for the alcoholic brands and ensure that the consumers will make the decision to prefer their alcoholic drinks over the competitor brands. EABL brands have to be sustainable and profitable for the company to remain in business as well as for all their

stakeholders to operate successful businesses and for their consumers to continue enjoying the brands.

**Theoretical Review**

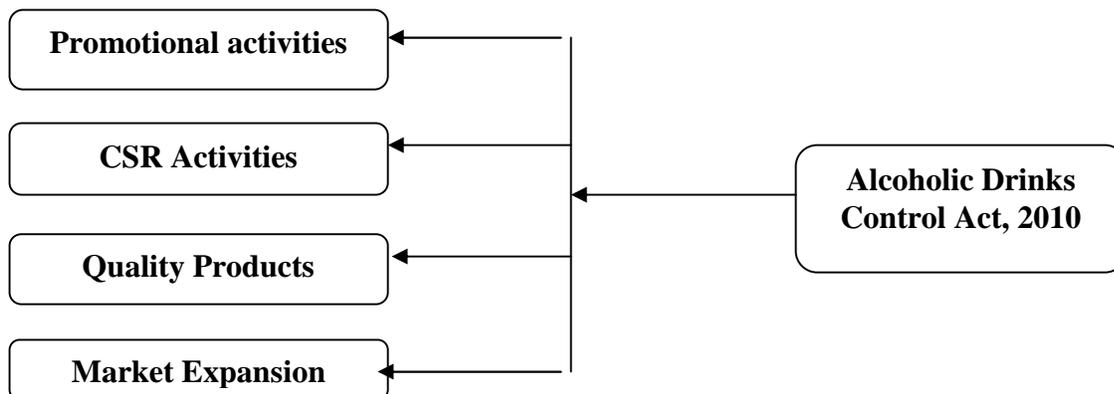
**Theory of Exchange Relation**

Bagozzi, (2004) formulated the theorem of the exchange relation stating that market transactions happen as soon as both customer and company expect to gain value by engaging in exchange. One stream of conceptual work focused on the question of how such win-win exchanges are explored, configured and realized. Social exchange theory was interested in the social context of customer relationships. Researchers like Arndt, (2009) and MacNeil, (2008) conceived customer relationships as the fertile ground for the cultivation of economic exchanges providing value for the customer, as well as the company. As a consequence, one stream of relationship marketing theory became interested in the study of relationships as the decisive antecedent for the creation of value.

**Social Exchange Theory**

Social exchange theory is a social psychological and sociological perspective that explains social change and stability as a process of negotiated exchanges between parties. Social exchange theory posits that all human relationships are formed by the use of a subjective cost-benefit analysis and the comparison of alternatives. The theory has roots in economics, psychology and sociology according to (Miller, 2005). Social exchange theory is tied to rational choice theory and on the other hand to structuralism, and features many of their main assumptions. American sociologist George Caspar Homans is usually credited with the consolidation of the foundations of Social Exchange Theory. Homans’s article entitled “Social Behavior as Exchange” (Homan’s, 2006) is viewed as the seminal work on this theory.

**Conceptual Framework**



## **Results of the findings and Discussions**

### **Effects of the ADCA (2010), on the quality of alcoholic drinks**

ADCA, 2010 has affected quality of alcoholic drinks to a greater extent as represented by 35% of the respondent was also established from the study. The respondents were of the opinion that since the introduction of the Act, more illegal alcoholic drinks have been introduced to the market and more businesses of these illicit brews have been established. The high license fees imposed of bars have been not been affordable to many people and they have opted to operate illegal premises. This shows that after the introduction of the ADCA, 2010, alcohol consumers have appreciated the quality of alcoholic drinks by buying products from reputable companies and avoiding products that are not packaged in accordance to the Act.

The study further investigated the respondent's opinion in regard to the quality of alcoholic drinks and found out that increased quality of alcoholic drinks leads to behavioral outcomes such as customer satisfaction, intent to stay, and increased customer tolerance for service failures and positive word-of-mouth advertising about the organization as shown by 46%.The study further revealed that for a company to be appreciated by customers, product and services received have to attain a certain standard of quality as set by the customers as shown by 34%

It also established that EABL needs to undertake massive campaigns to its customers on the drinking hours and enlighten them on the legal penalties that they may be subjected to incase they contravene the ADCA, 2010.EABL should also encourage its customers to take their drinks in restaurants whereby it's a rule to have a meal before enjoying a drinks at any hour of the day.

### **Effects of the ADCA (2010), on Corporate Social Responsibility Activities**

Majority of the respondents were in agreement to a greater extent that the ADCA, 2010 affects CSR Activities at EABL as represented by 41%.Businesses proactively undertake CSR in order to promote public interest by encouraging community growth and development. The success of EABL is reliant on sustainable growth and development of our local communities. Businesses embrace social responsibility in order to impact their activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere. From the findings of this study EABL should work in conjunction with other organizations to sensitize people on responsible drinking and should play an active role in social responsibility especially on activities that empower and educate the young people such as provide treatment and rehabilitation programmes, educate the community on health effects of Alcohol abuse.

### **Effects of the ADCA (2010), on Market Expansion at EABL**

Finally the study wanted to establish the extent to which ADCA, 2010 affects EABL's strategy on market expansion, the study revealed out that majority of the respondents were in agreement to a very greater extent that alcoholic drinks control act affected EABL market expansion as represented by 56%.This shows majority of the respondents were of the opinion that this act had a significant effect on the EABL market expansion. If a company responds appropriately to the preferences and requests of customers then success is guaranteed. As marketing managers consider the standardization of marketing strategy, they need to ensure similar access to cross-

national target markets .Marketers develop market expansion strategies to ensure that their products are available in proper quantities at the right time and place. From the findings of the study, majority of the respondents were of the opinion that EABL should venture in new markets especially in Central and North African countries just as the company has also make headway in terms of venturing in Southern Sudan, Ethiopia, Rwanda and Burundi and also acquire stake in other alcohol manufacturing companies such as SAB Miller breweries, Nile Breweries and Heineken so the EABL can expand its investment portfolio in the region. This would improve its overall selling capacity and rejuvenate its growth strategies in the region.

### **Conclusions**

In conclusion, the research was conducted at EABL as a case study and it established that the ADCA, 2010 has affected all the promotional activities executed by the companies in the alcoholic drinks industry. Promotions should not increase alcohol consumption for the consumer. It further concludes that sales promotion is affected by the ADCA, 2010 and do not necessarily increase the volume sales for the brands but more of enlightening the consumer on the features and benefits for the brands equity and this can increase consumer conversion from competitor brands. The study also concludes that only a vibrant brand campaign by all the players in so as to get more consumers adopt their brands and innovating alcoholic drinks which are affordable and easily accessible to the low end consumer may increase the market niche for these companies and reach more consumers especially those that drink illicit brews because of the price advantage.

The study further concludes that the ADCA, 2010 has really affected the quality of alcoholic drinks being consumed. Most consumers are more aware now that they need to consume safe and clean alcoholic drinks from reputable companies who abide by the Act. The study also concludes that the quality of alcoholic drinks leads to behavioral outcomes such as customer satisfaction, intent to stay and be loyal to the same brand, and increased customer tolerance for service failures and positive word-of-mouth advertising about the organization. It also concludes that the alcoholic drinks industry needs to undertaken massive campaigns to its customers on the drinking hours and enlighten them on the legal penalties that they may be subjected to in cases where the ADCA, 2010 is contravened.

The study also came to the conclusion that the ADCA, 2010 affects CSR Activities in the company which should not be for profit making and it should embrace social responsibility in order to impact their activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere.

On market expansion, the study concludes that ADCA, 2010 affects EABL's market expansion strategy. All companies in the alcoholic drinks industry should consider the standardization of marketing strategy, and ensure similar access to cross-national target markets. The study also concludes that the companies in the alcoholic drinks industry have not fully exploited all the opportunities that are to venture into new markets and to ensure that their products are available in proper quantities at the right time and place because there are distribution gaps even in the existing markets that is a great potential for growth in the alcohol industry.

## Recommendations

The study recommends that all the manufacturers and producers in the alcohol industry should use more ways of communicating their promotional messages by increasing bill board advertising and in bar promotions that educate consumers on their brands and this they will also get a bigger coverage of the advertising campaigns. The message may be communicated directly by sales people or indirectly through advertisement and sales promotion in the media or marketing campaigns. The companies in the alcoholic industry should blend together the various elements of promotion that will communicate most effectively with the target markets. The companies should also incorporate the feedback mechanism which may include marketing research and field reports. In the advertisement campaign EABL should always sensitive its consumers on the drinking hours and where the drinking hours have been extended in hotels and restaurants, to avoid unnecessary harassment by law enforcers.

The organizations in the alcohol industry should embrace more CSR activities in order to impact its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere. This will require the companies to be morally responsible for injuries and harm that could result from business activities, while the altruistic dimension is concerned with genuine, optional and caring personal or organizational sacrifices. The study should also include public interest into corporate decision-making, and the honoring of a triple bottom line that is: People, Planet, and Profit. They aim to address local need by supporting our employees as community volunteers in various capacities. They also actively respond to major disasters in our communities through emergency relief, long-term rehabilitation projects and support for employees' fundraising efforts (EABL foundation. All companies in the alcoholic industry should be involved in CSR especially marathons, safari rally, empowerment programs, music competition, funding rehabilitation centers among others as it sensitize on responsible drinking. This is in the spirit of enriching the community in which the companies operates in.

For alcoholic products to be appreciated by customers, the brands have to attain a certain standard of quality as set by the company and the customers. This will enable the companies in the alcoholic industry to provide its services and products with the kind of flair that excites and stimulates its customers. The industry should continuously re-package their brands in such changing the labels and having embossed bottles and branded closures so as reduce their brands from being counterfeited. Companies should budget for these packaging strategies so as to protect their brand image and help the consumers differentiate the genuine from the fake brands. This will also help the company regain its market share that has been acquired by these unscrupulous businesses.

All companies that manufacture, sell, import or export alcoholic drinks should embrace innovative strategies to increase volume sales by increasing their efforts to sell more beer cans off trade or the take-home trade which will enable consumer enjoy their alcoholic drinks at home without being bothered by the closing hours of the bars. This will enable the bar owners recover some of the lost sales from reduced consumption. The industry operators should keep searching for the emerging markets which may offer growth potential through investment and sourcing opportunities. The East Africa communities, in Rwanda, Burundi, Ethiopia, Southern Sudan, Uganda and Tanzania would be the best market niche that these companies need to

increase its investment strategy and also venture into Central and North African countries. The company's marketing managers should develop market expansion strategies to ensure that their products are available in proper quantities at the right time and place.

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