Case with questions  Cobra Beer

Cobra was set up in 1990 by Karen Bilimoria, the son of an Indian army general and a former accountant, to sell a different type of beer to Indian restaurants.

‘I entered the most competitive beer market in the world against long established brands. The product itself was innovative – an extra smooth, less gassy lager that compliments all cuisine and appeals to ale drinkers and lager drinkers alike ... Deciding to import the beer in a 650ml bottle was important in positioning the product within the market and raising the profile among restaurant owners. It also promoted a new, shared way of drinking ... The brand’s point-of-sale items, such as unique and different glasses, were another effective way of establishing brand awareness ... Also [the packaging] is embossed with six icons telling the story of Cobra beer, from concept and production to growth and development, and this is the first time in the world that, to our knowledge, the brand has incorporated its story directly into its packaging.’

The Times 23 May 2004

By 2009 the company had sales of £177 million, but there was one problem. It had yet to make a profit. Indeed in the year to July 2007, the last year for which accounts are publicly available, Cobra lost £13 million. Instead of tracking profits, Cobra had focused on sales growth, spending £40 million on marketing since its launch, and had been spectacularly successful showing 20 per cent year-on-year growth in a falling market.

Unfortunately the recession that started in 2008 took its toll. Whilst growth stalled, the banking crisis made it impossible to secure fresh funding. In the autumn of 2008 Bilimoria tried to find a buyer for the business but the big brewers were not interested and the credit squeeze prevented a sale to a private-equity firm. He cut costs. Four directors stood down, including Adrian McKeown, the chief executive, and staff numbers were cut from 150 to 50.

Bilimoria called in the accountants Price Waterhouse Coopers in the spring of 2009 to work on a company voluntary arrangement (CVA). This would have given all creditors some money back but one creditor, Wells & Young’s, which brews Cobra under licence, vetoed the proposal.

In May 2009 Cobra was restructured in what is called ‘pre-packaged sale’. The business was immediately acquired by a joint venture between Molson Coors, the US brewer of Carling lager, and the former owner, Karen Bilimoria. Molson paid £14 million for its 50.1% share. Karen Bilimoria kept 49.9% and remained as Director.
Unfortunately the nature of this form of administration in the UK means that, whilst the secured creditors, largely banks, who were owed some £20 million were paid back in full, unsecured creditors, who were owed almost £70 million, got nothing. These debts included £57.3 million to investors, and £6 million in government taxes. The balance was owed to 330 small unsecured trade creditors. These included many small businesses such as Spark Promotions UK, owed £62,018 for developing a beer pump for Cobra, Pop Displays, owed £31,129 for producing printing and packaging for Cobra promotions and MicroMatic, another pump maker, which was owed £60,143. They were not happy:

’[Bilimoria] has risen from the ashes like a phoenix while people like us, the creditors, have been burnt alive.’

Brian Flanagan, MD Spark Promotions UK, *Sunday Times* 2 August 2009

’How can someone dump all their debts on creditors and then the next day walk into what is, effectively, the same business with a 49% stake?’

Chris Hall, MD Pop Displays, *Sunday Times* 2 August 2009

Karen Bilimoria, who was made a Lord in 2007, said he lost the £20 million he invested in the firm and insisted he is committed to repaying as many debts as possible:

’We had no choice but to go down this route. I feel terrible about that. I feel gutted that the unsecured creditors aren’t going to be paid.’

*Sunday Times* 31 May 2009

Whilst the unsecured creditors may have lost out, observers suggest Molson Coors have landed a ’fantastic’ deal.

To find out the full story of Cobra’s start-up and growth go to: www.cobrabeer.com

**QUESTIONS**

1. Up to 2009, was Cobra successful? Was their strategy prudent?
2. Who has paid for the growth of Cobra?
3. Is this fair? If not, what are the alternatives?