

Heineken USA

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As the new marketing director of the Heineken brand for Heineken USA, you are beginning to realize that exchange rates compete with advertising campaigns for your attention. Heineken is the #2 imported beer in the US (after Grupo Modelo's Corona) and an important source of revenue and earnings for your parent company, Heineken NV. You have learned that your margins depend to a large extent on the strength of the euro relative to the dollar and wonder what you might do about it.

You don't know much (yet) about the business or exchange rates, but have been given these numbers to work with:

- One unit: one 6-pack (6 355-ml bottles or the equivalent).
- Monthly volume: 15 million units.
- Exchange rate: one euro is currently worth 1.30 dollars.
- Production costs for US delivery: 1.96 euros.
- US distribution and marketing expenses: 2.25 dollars.
- US wholesale price: 6.75 dollars.
- Elasticity of demand in US market: -3.0 .

You know very little about exchange rates, so you turn to your recently-hired assistant, the proud owner of a Stern MBA. You ask her to write a memo answering these questions:

- How much money are you making per unit?
- What happens to your margin if the euro rises 15%? How likely is that?
- What overall pricing strategy would you recommend to deal with the inevitable movements in the exchange rate?

Acknowledgement. This project is motivated by Rebecca Hellerstein, an economist at the New York Fed who studies pricing strategies of international businesses, including brewers.