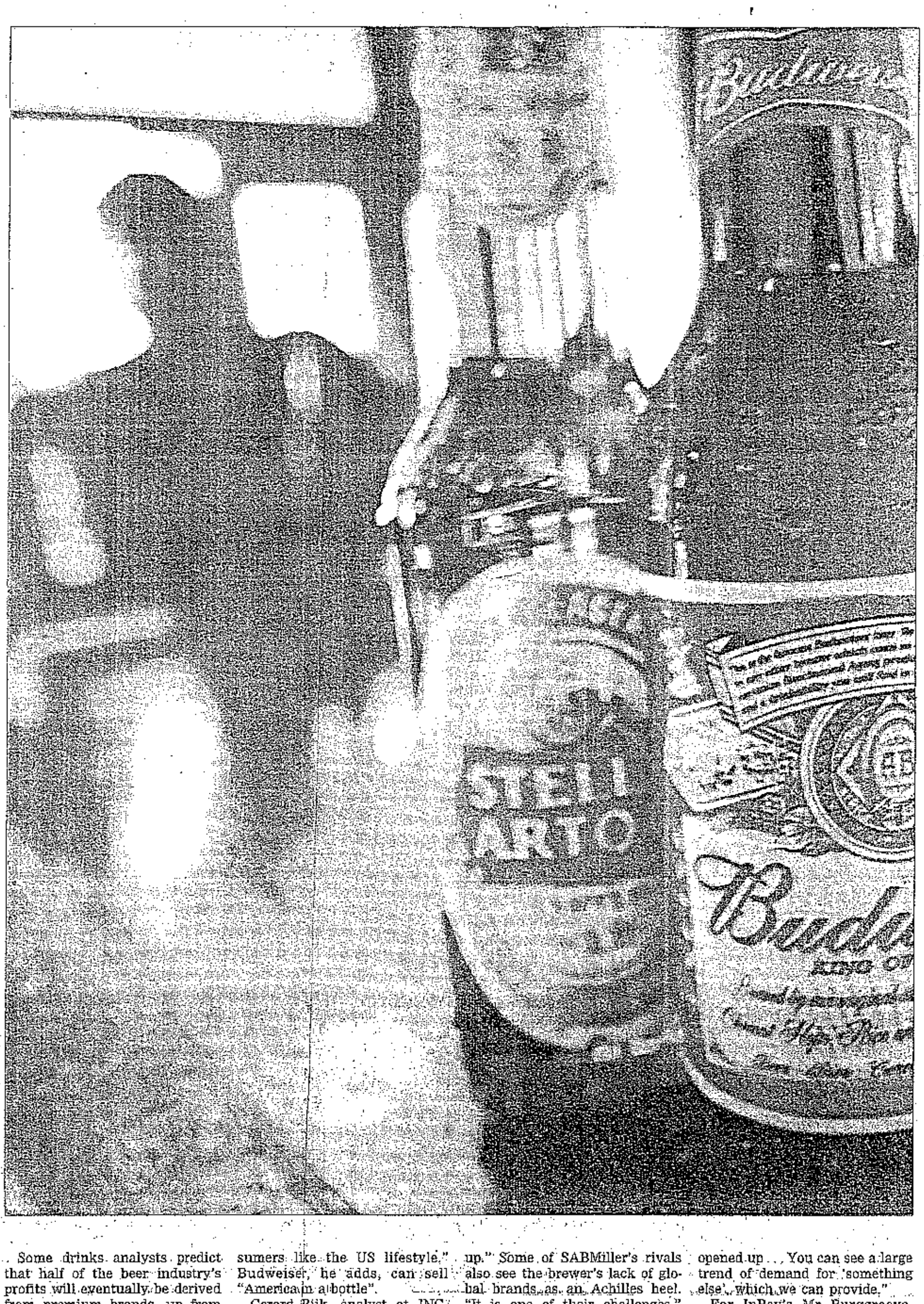
Thirst to be first

The race is on for an unassailable global lead in beer



Rival brands on a New York bar counter: soon the two will be under one corporate roof. InBev, which stumbled with Stella in the UK, sees the biggest potential not only in Budweiser and Bud Light but also in Skol, which it brews in Brazil

Bloomberg

The InBev takeover of Anheuser-Busch shows how brewing groups are trying to offset higher costs by maximising value from their brands, writes **Jenny Wiggins**. Right, the newer contenders and, below, where the industry may go next

Chris Burggraeve, chief marketing officer of InBev, leans on a bar in front of a Stella Artois tap as he delivers the Belgo-Brazilian brewer's somewhat tautological corporate spiel. Brands, he says, are "the lifeblood of any branded goods business – and that's what we are".

The appearance by the fresh-faced Belgian comes on a video clip at globalbeerleader.com, a website set up by InBev – producer of Stella and brands including Beck's – as part of its successful campaign to take over Anheuser-Busch of the US.

The $52bn (£26bn, €33bn) deal agreed last week gives InBev prime position in the world's most profitable beer market: Anheuser-Busch has a near 50 per cent share in the US, which by volume is also the second-biggest beer market in the world after China. At least as important, the acquisition helps position the brewer for the future by giving it Budweiser, the world's best-known beer brand.

Brewing still has few truly international brands. Of the world's top 10 best-selling brands (a list topped by Bud Light, China's Snow beer and Budweiser), only for Heineken of the Netherlands do international markets account for the vast proportion of sales. But the ownership of strong international brands is becoming increasingly important to brewers, for two main reasons.

First, they are prized by consumers in fast-growing markets such as Russia (see right) and China, who did not have access to foreign brands until recently. Second, even in mature western markets, the premium on prominent brands is high and growing. Heineken, for example, says profits on the Heineken brand are twice those on the regional brands such as Amstel that still form about 80 per cent of sales.

Those better profit margins become all the more important to brewers in the current environment of high commodity and energy prices and slowing world economic growth. Big rises in raw material costs, including hops and malted barley as well as oil for transport and aluminium for cans, have been forcing them to put up beer prices. Jørgen Buhl Rasmussen, chief executive of Carlsberg, the Danish brewer whose brand is in the top 20 global best sellers, says: "When you don't have strong brands, it's very hard to offset price increases."

Some drinks analysts predict that half of the beer industry's profits will eventually be derived from premium brands, up from about 10 per cent now. This would strengthen the position of groups such as InBev, Heineken and Carlsberg, they add. The Dutch group sees itself as having a head start – it began moving into US and Asian markets more than 70 years ago. "It takes you decades to build an internationally recognised premium brand," says Jean-François van Boxmeer, Heineken chief executive.

But although Budweiser is one of the world's most most widely recognised consumer brands of any kind – ranking in league tables close to Nike and Dell – it is drunk mostly in the US. By volume, barely 5 per cent of Anheuser-Busch's beer (which also includes brands such as Michelob and Rolling Rock) is sold internationally. That offers InBev a vast opportunity. "Budweiser has always been much better known than drunk around the world," says an investment banker who advised InBev's executives on the Anheuser takeover. "Bud could easily become their big global brand."

That is also how Carlos Brito, InBev's Brazilian chief executive, sees it. The success of companies such as PepsiCo and McDonald's shows people still want American brands, Mr Brito says. "Consumers like the US lifestyle." Budweiser, he adds, can sell "America in a bottle".

Gerard Rijk, analyst at ING, sees the trend towards a few big brands as weakening the position of others such as SABMiller, the brewer that emerged from South Africa and began adding northern hemisphere brands in the late 1990s, when it bought the Czech Republic's Pilsner Urquell.

'A large part of the world has opened up. You see big demand for "something else"'

Jean-François van Boxmeer
Heineken chief executive

It subsequently absorbed Miller Brewing of the US in 2002, which gave it the Miller Genuine Draft brand, as well as Italy's Peroni Nastro Azzurro and Grolsch of the Netherlands. But these four (excluding Miller Lite, sold mainly in the US) account for less than 2 per cent of the group's total sales volumes.

Mr Rijk argues that SABMiller's lack of a "dominant overwhelming brand" makes it vulnerable despite being a well-run company. "When there is not yet a global brand, you can break it up." Some of SABMiller's rivals also see the brewer's lack of global brands as an Achilles heel. "It is one of their challenges," says the chief executive at another big brewer.

Graham Mackay, SABMiller's chief executive, acknowledges that global brands are increasingly important, noting that beers such as Peroni are growing faster than other brands at the group. But he adds: "The idea that we're going to be broken up any time soon is quite fanciful . . . We'll continue to be a consolidator."

Other beer analysts back him up, saying there is no reason for SABMiller to be a loser in any further acquisition round. Andrew Holland, analyst at Dresdner Kleinwort, expects two main blocs to be created – one led by InBev and the other by a combined SABMiller/Molson Coors, which recently merged their US brewing businesses. "The next logical thing is for SAB to do a full merger with Molson Coors," says Mr Holland.

All the while, each of the big brewers will have to spend big sums burnishing the image of its best brand and further extending its international reach. As Heineken's Mr van Boxmeer puts it: "A large part of the world which was closed 20 years ago has opened up . . . You can see a large trend of demand for 'something else', which we can provide."

For InBev's Mr Burggraeve, who joined the group only last November after a dozen years at Coca-Cola (see below), that marketing task began right then, and in all urgency, rather than by making videos for the Anheuser bid. InBev has been regarded as one of the industry's poorer brand managers, having failed to protect the premium image of Stella Artois in the UK.

British demand for Stella, once marketed as "reassuringly expensive", dived after InBev cut prices and the brand became associated with the country's binge drinking culture. The poor UK performance dragged down global Stella Artois volumes in 2007, before improving this year amid a new advertising campaign that emphasises its quality and purity.

Many in the industry consider InBev's management to have been tough and efficient rather than brilliant marketeers. As chief executive, Mr Brito reflects the culture of the company when he describes his lifestyle: "I have no hobbies. I work all the time."

Now, he is to become custodian of what has long been promoted as the "king of beers". With so valuable a brand as Bud to protect, Mr Brito might need to consider getting out more.

Emerging tipples rise up the value rankings

When brewers talk of their "global" brands, they no longer just mean those from western Europe or the US. Some of the emerging global names began life far from there.

Baltika, the Russian brand owned by Carlsberg, and Brazil's Brahma, owned by InBev, beat brands including Miller Genuine Draft, Foster's and Molson in the 2008 market value ranking of beer brands by Millward Brown, a research group.

Millward Brown says Baltika, at number 15 on the list, is valued at just over $1bn (£501m, €636m) while Brahma, which pulls in at number 17, is worth $944m. Carlsberg says Baltika, of which it recently gained full ownership after buying Scottish & Newcastle, its former joint venture partner in Russia, is now one of its top four international brands along with the Carlsberg brand itself, Tuborg and Kronenbourg 1664.

Baltika was the reason that Carlsberg, with the help of Heineken, launched a surprise bid for S&N last year in a deal that split up the British brewer. Carlsberg wanted a bigger stake in the Russian beer market, where annual sales volumes have been rising some 10 per cent on average in the past four years, but it also saw the global potential of the Baltika brand.

"It's becoming international," Jørgen Buhl Rasmussen, Carlsberg's chief executive, told the Financial Times as he opened Baltika's 11th Russian brewery in May.

Baltika, which was developed only in the early 1990s but is now Russia's biggest beer brand, was first exported in 2000. Since then it has been shipped to some 47 countries including Australia, Japan and Greece and is also brewed under licence in the UK and Ukraine. About 10 per cent of its total sales come from outside Russia.

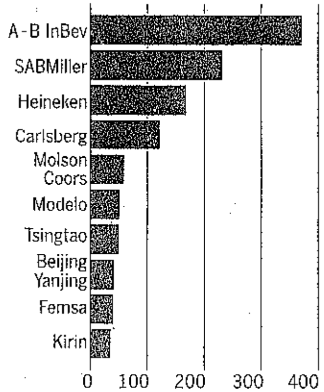
InBev's Brahma brand is much older, having been created in 1888. But InBev began creating a global image for Brahma when it started exporting it in 2005. It is now available in more than 30 national markets, including 20 outside Latin America.

The brewer redesigned Brahma's packaging, creating a curved bottle with embossed lettering in what it says was an attempt to form a link between the Brazilian culture ("optimistic and creative") and the beer. The redesign was also the brewer's first attempt at creating a global brand after InBev was created by the merger of Brazil's AmBev and Belgium's Interbrew in 2004.

But although InBev describes Brahma as one of its "global flagship" brands, along with Stella Artois and Beck's, it does not appear to have won over the palates of American and European drinkers. The group is also looking to Skol, a brand without firm national roots that is shared between InBev, which brews it in Brazil, and Carlsberg, which has most of the rights beyond Latin America. (At eighth in the list, Skol is valued at $1.9bn.)

Asked which will be the brands of the combined Anheuser-Busch InBev with most potential, Carlos Brito, chief executive, says: "Bud Light, Bud and Skol."

World's leading brewers
By sales, hectolitres, m (2007)*



* Pro forma, latest estimates

Top 10 beer brands
Ranked by sales volume (2007)

	Origin
Bud Light	US
Snow	China
Budweiser	US
Skol	International
Corona	Mexico
Heineken	Netherlands
Brahma	Brazil
Coors Light	US
Miller Lite	US
Tsingtao	China

Source: Plato Logic

Bottling gives brewers a taste for the soft stuff

Branding has become so important to brewers that some industry specialists believe they may one day consider merging with some of the biggest brand names in the drinks business: Coca-Cola or Pepsi. Carlos Laboy, a beverages analyst at Credit Suisse, says that as brewers become bigger, they are starting to think of expanding beyond beer. "InBev is not thinking in terms of being a brewer . . . they want to become the most dominant consumer packaged company in the world," he says.

Pepsi and Coke already have substantial bottling and distribution agreements with brewers around the world. When it completes its acquisition of Anheuser-Busch, InBev will be the biggest company outside the US in the business of turning PepsiCo's proprietary concentrate into the finished product on supermarket shelves. SABMiller, meanwhile, is one of Coca-Cola's biggest bottlers outside Latin America; in Australia the two have a joint venture, Pacific Beverages, which is building a brewery on the country's east coast.

It has long been the soft drinks companies' strategy to franchise bottling operations. Carlsberg bottles Coca-Cola drinks in Denmark and Finland, and Pepsi in Sweden, Norway and Laos. Heineken owns a stake in Compañía Cervecerías Unidas, the Chilean brewer and soft drinks bottler.

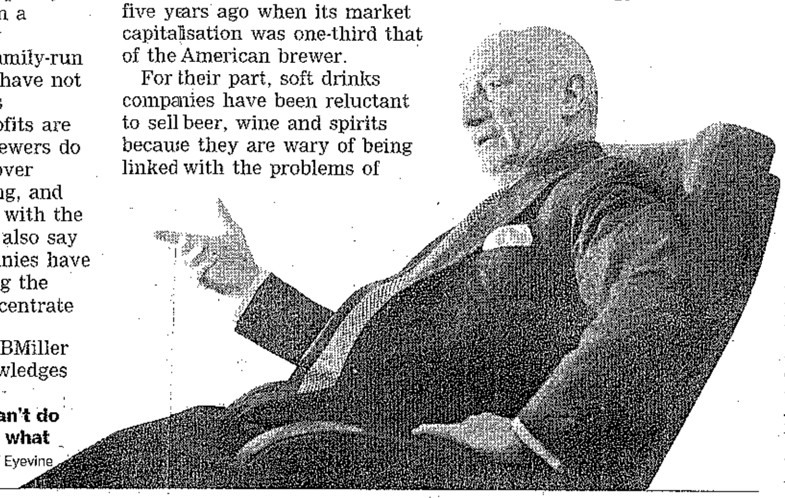
For the brewers, bottling is a convenient sideline that makes use of their existing capacity. But the low margins in a business until recently dominated by small, family-run companies mean they have not pursued it as a serious long-term strategy. Profits are limited because the brewers do not have any control over marketing and branding, and have to split revenues with the brand owner. Brewers also say that soft drinks companies have been sharply increasing the price of soft drink concentrate over the past decade.

Graham Mackay, SABMiller chief executive, acknowledges that owning a big soft drink brand - assuming SABMiller could ever afford to buy one - would be far more profitable than bottling one. "We can't do with soft drinks brands what we might like to do with them."

Some suggest that SABMiller could strike some sort of deal with Coca-Cola. That might sound implausible, points out Mr Laboy, but so did the idea of InBev buying Anheuser-Busch five years ago when its market capitalisation was one-third that of the American brewer.

For their part, soft drinks companies have been reluctant to sell beer, wine and spirits because they are wary of being linked with the problems of underage or binge drinking. "They've considered [getting into alcohol] many times," says the chief executive of one brewer. "But they want to stay squeaky clean."

Coca-Cola had a brief flirtation with alcohol, owning the US's Taylor Wine Company for seven years before selling it to Canada's Seagram in 1983. But it has since pursued a pure soft drinks strategy.



Graham Mackay: 'We can't do with soft drinks brands what we might like' Eyevine

Muhtar Kent, Coca-Cola's chief executive, insists that soft drinks have a strong future. "I believe that there is no better consumer business in the world today or in the future than the non-alcoholic ready-to-drink business," he said in February at a conference in New York.

However, with soft drinks companies now battling declining markets for fizzy drinks, some analysts say they should reconsider the logic of owning alcoholic brands.
Mr Laboy argues that one way Coca-Cola could cut costs and improve profits, as sales of its core Coke brand slow, would be to buy either SABMiller or Fomento Económico Mexicano (Femsa), the family-controlled Mexican brewer.

He also says brewers should consider making a move on the soft drinks groups – in particular, that InBev should take a close look at PepsiCo. Anheuser-Busch InBev will have close to 40 per cent of the volumes in the Chinese beer industry . . . What would their business look like if they had the entire PepsiCo portfolio on their trucks?"