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InBev and Anheuser-Busch

In early June 2008, Belgian-based InBev NV launched an unsolicited $46.4 billion bid to acquire Anheuser-Busch Co., owner of the 132-year-old Budweiser brand. The combination would create the world's largest brewer, with sales of about $36 billion annually. Carlos Brito, CEO of InBev, said that the deal "will create a stronger, more competitive, sustainable global company which will benefit all stakeholders."[1] The initial response from Anheuser was noncommittal, stating that the company "will pursue the course of action that is in the best interests of Anheuser-Busch's stockholders." On June 26, Anheuser's board formally rejected InBev's original proposal of $65 a share, saying it substantially undervalued the company. The board indicated that it would be open to a higher price.

In mid-July, InBev raised its offer to $70 a share, and the Anheuser board voted to accept the deal, recognizing that a better offer was unlikely. The $70 price represented a substantial premium for Anheuser shareholders. InBev management would now have to prove to their shareholders that the premium was justified.

The Brewing Industry

The basic beer brewing process is quite straightforward. Malted barley (malt) is the primary ingredient, although other grains such as unmalted barley, corn, rice, or wheat can also be used. Yeast, hops, and water are the other main ingredients. The most challenging aspects of industrial-scale brewing are maintaining quality control across large volumes, multiple products, and different production sites, and ensuring that costs are closely managed.

Products

A common characteristic of global beer markets is the segmentation of products on the basis of quality and price. Premium brands are at the top of the market, with the very top of the market represented by the super-premium segment. Mainstream or core brands are in the middle of the market; value or discount brands at the lower end of the market. For example, in the United States, Michelob would be considered super premium, Budweiser premium, Miller High Life core, and Busch value. Heineken and other imports generally compete against super-premium beers and are priced similarly. Craft beers from small brewers, such as Samuel Adams Boston Lager and Sierra Nevada Pale Ale, were an important growth segment.

In the developed countries, most beer consumption was in the mainstream and premium segments. In the United States, the top five brands were all in the premium segment: Bud Light, Miller Lite, Budweiser, Coors Light, and Corona (import). In countries where consumers have lower disposable income, the value and discount segments were more important. Trading up to more expensive products was a more common trend than trading down. Once beer drinkers moved up a segment, they rarely traded down.

Globally, the largest selling brand names by volume were Snow (China; brewed by a joint venture between SABMiller and China Resources Enterprises), Bud Light, Budweiser, Skol (Brazil), Corona, Heineken (Netherlands), Brahma (Brazil), Coors Light, Tsingtao (China), and Miller Lite. (Note: The Snow brand had about 25 extensions. Bud Light was the highest volume single product.)

Markets

China was the largest market by volume, followed by the United States, Germany, Brazil, Russia, Japan, U.K., Mexico, South Africa, and Spain. In the developed markets, growth was flat. For example, in the United States, overall growth was slightly more than 1%. However, in the U.S. craft segment, growth was 11%, putting pressure on the large national brewers. Growth in emerging markets was much higher than in the developed countries. The China market was growing about 10% annually, although beer prices were much lower than those in Europe and North America.

The distribution of beer varied from country to country and from region to region. The nature of distribution reflected consumption patterns and market structure, geographic density of customers, local regulation, and the existence of third-party wholesalers or distributors. In some markets, brewers distributed directly to customers (e.g., Belgium and France), while in other markets, wholesalers were used, for legal reasons (e.g., United States and South Korea), or because of historical market practice (e.g., Russia and Argentina).

The U.S. brewing industry was dominated by a small number of firms. For the major brewers, the entire country represented one huge market with only minor regulatory differences between the states. The major brewers concentrated on establishing a limited number of national brands that generated substantial production and marketing efficiencies. Beer was distributed to wholesalers, who were then free to distribute to retail selling points, which in most states were grocery stores, convenience stores, and drugstores. Prices were controlled only to the extent of taxation.

Consolidation

Consolidation among the largest brewers (Exhibit 1) was an important industry characteristic of the last decade. In 2002, SAB (South Africa) acquired Miller Brewing Company (#2 in the United States), creating SABMiller. In 2005, SABMiller acquired a majority interest in Bavaria S.A., South America's second largest brewer, and in 2008, acquired Grolsch, the second largest brewery in the Netherlands. In 2005, Coors (United States) and Molson (Canada) merged, creating the fifth largest global brewer. In 2007, Heineken (Netherlands) became the second largest brewer after partnering with Carlsberg (Denmark) to acquire Scottish and Newcastle (U.K). Also in 2007, SABMiller and Molson Coors agreed to merge their U.S. operations. The large Danish brewer, Carlsberg, made a number of regional acquisitions that strengthened its position in the Baltic States and Russia.

Exhibit 1. The Largest Brewers

Company	***Millions of hectoliters***
SABMiller	230.9
InBev	227.0
Heineken	167.4
Anheuser-Busch	150.6
Carlsberg	121.0
MolsonCoors	58.0
Modelo	50.9
Tsingtao Group	50.5
Beijing Yanjing	40.7
FEMSA	39.9

Interbrew

Interbrew was formed in 1987 when two Belgian families merged their private brewing interests. Interbrew's 1995 acquisition of the largest Canadian brewer, John Labatt, moved the company into the top tier of global brewers. In addition to many small acquisitions, the company was involved in two additional major deals: the 2000 acquisitions of U.K. brewers Bass and Whitbread, and the 2003 acquisition of Germany's Beck's. Interbrew went public in 2000.

Interbrew's strategy was significantly different than that of companies such as Heineken and Carlsberg. Interbrew had a stable of national and regional products, and did not have what could be called true global brands. With the acquisition of Beck's and increased international marketing emphasis on its Belgian brand, Stella Artois, the company was moving more aggressively to establish a global presence. Also, because the company had grown through many acquisitions, there were many different organizational cultures in the various parts of the company.