

**AB & Inbev: Integrating Supply Chain Systems, Cutting Costs**

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*BRUSSELS, Belgium (AP) - The maker of the King of Beers has agreed to go to work for the Belgian brewer InBev SA. Anheuser Busch Cos. said early Monday it had agreed to a sweetened \$52 billion takeover bid from InBev, creating the world's largest brewer and heading off what was shaping up as an acrimonious fight for the maker of Budweiser and Bud Light beers. (AP Business News, July 14, 2009)*

When Inbev announced the intention to buy out Anheuser-Busch, Inc. in early 2008, most AB investors thought such a possibility was highly unlikely. In the months leading up to the initial offer to purchase, Inbev stock had slowly declined, as A-B stock remained steady. As well, the Busch family had managed the company through decades of prosperity, leading AB to be the number 1 Seller of Beer in the world, by volume. However, as AB delved into areas of expansion that were outside its core competencies—Busch Gardens, Eagle Snacks, Soft Drinks—it also accumulated unprofitable assets, over-reaching plant capacity, and new challenges in distribution. Ultimately, what was a beer company became diluted by ancillary lines and brands. This offered an opportunity for an impartial, well-structured, and financially practical competitor to take advantage of AB's wasted potential.

Until the announcement of the buyout agreement, most Americans had no familiarity with the foreign company that would come to control at least a part of most everyone's favorite drinks: Bud Light & Budweiser. But even more amazing to most Americans, is to think of the AB brands as just another bottle in a line of over 300 brands globally, that Inbev manages. CEO Carlos Brito said in a media conference call: For InBev, the deal gives an aggressive company an iconic beer brand—

Budweiser—to sell into emerging markets such as China and Brazil where it has already established a wide network.” (AP, 2009)

To accomplish this objective, Inbev sticks very close to its core mission, as explained in the company’s annual report, and listed online for investors: Winning with Consumers via our Winning Brand Portfolio, Winning at the Point of Connection, World-class efficiency, Targeted External Growth.

These tenets were founded as CEO Carlos Brito took the helm of Inbev, and implemented a strict sum-zero strategy for financial responsibility at all levels of business. And in the tradition of sustaining competitive advantage, back in 2005 Inbev signed a contract with Infor Advanced Scheduling as a provider of global supply chain management software solutions to improve its supply chain efficiency. The software allows Inbev to synchronize the complex flow of materials and product through various constraints at the phase from brewing to packaging. The software allows a brewing facility to schedule tank capacities, monitor shelf life, and consistently manage large production volumes, eliminating waste, spoilage, and reduced capacity utilization.

"Over the last decade, as a result of our strategy of targeted external growth, we have seen a significant increase in complexity of our global supply chain as a result of our corporate strategy of targeted external growth", said Paul Timmermans, Vice President Supply Chain Management. (EMEA Press Release, 2005).

While these tenets have been around long before the acquisition of AB, they are definitely critical in meeting several key goals in the re-structuring of ABInbev's many levels of organization. After the merger, ABInbev signed a contract with iTradeNetwork, Inc to provide an on-demand supply chain management IT solution to promote online ordering and trade-based procurement. This will allow a better order exchange between suppliers and the pubs, restaurants, and other retail outlets, expediting distribution and taking advantage proportions of scale to more efficiently deliver product to business centers within the United Kingdom. This ability to connect with the consumer is aligned with the mission tenet of "building sales and merchandising capabilities achieving preferred supplier partnerships with customers and consistently building the equity of our brands." (ABInbev, 2009) Alistair Kemp, Trade Market & Technical Sales Director for ABInbev states: "Our customers are telling us they want to trade with us online, and we are looking forward to an ambitious rollout plan in 2009."

The pursuit of world class efficiency has been a critical aspect of Inbev's success, in ways that includes both financial accounting of every cent spent from sales to marketing to general administrative, all the way down the supply chain to fuel consumption rates, efficient FTL deliveries and shipping route selection. Managing these often overlooked and seemingly miniscule costs have added up in large cost savings for Inbev, and their approach to integrating AB in these methods has been fruitful. Recently, ABInbev has selected Softeon's Route Accounting System to

enhance supply chain execution by standardizing the end-to-end ecommerce, shipping and routing requirements of ABInbev's network of wholesalers. These systematic upgrades allow wholesalers to communicate up and down the supply chain their inventories and shipments in real time, offering a chance for both breweries and end-customers a chance to adjust product flow and the rate of distribution to optimal levels. The simple Java-scripted software suite is highly accessible requiring fewer hardware requirements and "enabling our clients to implement a leading-edge solution for their business operation, realizing overall productivity improvements in excess of 35%. More specifically, with Softeon's WMS solution, pick productivity of 50% or more has been achieved and sustained across Softeon's Anheuser-Busch InBev wholesaler customer base (which are both large and mid-sized) with varied operations like Pick by Routes/Pick to Order/Pick to Carts/Peddle Routes, and more." (Softeon, 2009)

To complement the systemic and organizational restructuring from an over-extended conglomerate into lean operations, these previously mentioned strategies have been complemented by a reduction in plant and assets that fall outside of core competencies. Most recently, ABInbev has secured the sale of four US drinks can plants to Ball Corporation for \$577 million. While one third of the 10 billion can production capacity of these plants was attributed to beer cans for ABInbev, the other two-thirds were used to produce soft drink cans. This sale allowed for ABInbev to reduce fixed costs and at the

same time more fully utilize the seven can manufacturing plants that are owned by ABInbev's U.S. Subsidiary Metal Container Corporation.

And the results of such shrewd liquidation are the growing margin among leading ABInbev brands. ABInbev's sales may have fallen 1.1% by volume in its second quarter 2009, but its revenue rose by 1.4%. "The company cut costs, used its size to get better terms from suppliers and sold \$3.56 billion of assets in the first six months of the year." (St. Louis Post-Dispatch, August 13, 2009)

The company's top brands—including Bud Light—are largely responsible for the ability for ABInbev to maintain profits even as the demand for beer declines and gives way to wine, spirits and other beverages. This is in part due to a company focus on reaching farther into developing markets and also penetrating current markets deeper with more offerings, all of which are encouraged by a strong supply chain system. The company gained market share in Argentina, Belgium, Brazil, South Korea, Ukraine, the United Kingdom and the United States. (Post-Dispatch, 2009)

However, the future for ABInbev begs some serious evaluation. It is probable that most of the savings from liquidating assets and integrating AB to Inbev systems has already been achieved. The strategy has already compromised some relationships between ABInbev and its suppliers, as ABInbev is a price maker and has demanded renegotiation of contract terms in a cost-cutting effort to help pay for the merger and pay down debt.

These pressures are compounded by the possibility of Japanese beverage company Suntory's discussed merger with direct ABInbev rival Kirin. These two Japanese companies together had last year sales of about \$41 billion. (New York Times, July 13, 2009) The merger would create a company larger than ABInbev in terms of sales, and the formed company would begin with at least a 50% share of the Japanese beverage market, within which ABInbev does not yet have a manufacturing, brewing or distribution facility. This poses a serious threat to expansion within the Japanese market, one of a few markets left globally that is untapped by ABInbev.

ABInbev chooses to focus in what it has, and while it plans for what could be, the company's strategy for the short term is to consolidate before entering such a market. However, just managing the current manufacturing, packaging, distribution and sales/marketing efforts of over 300 brands has become somewhat of a state-of-the-art for ABInbev, with AB gaining from the aggressive "synergies" strategy of Inbev, while Inbev has gained critical mass in the US beer market, proving that from end-to-end, a successful merger is one where both partners gain leverage, expertise and value from each other's key competencies.

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