November Article

Oktoberfest: celebrating the merger between AB InBev and SAB Miller

October was a special month for Anheuser-Bush InBev (AB InBev) and SAB Miller (SAB). After a 13-month process, AB InBev finally announced the completion of its merger with the second world's largest brewer and main competitor, SAB Miller. This "Megabrew" merger surpassed the USD 100 bn barrier, making it the third largest acquisition ever in corporate history, according to the Financial Times. From Asia to America, it is clear that this deal will reshape the global beer industry.

Even though AB InBev's purchase is sizeable, it is also a natural consequence of the company's rapid path to global expansion. Over the last two decades, AB InBev developed a growth strategy based in acquisitions, rather than organic growth. The company, as we know it today, is therefore the result of a continuous process of multiple acquisitions, that brought into the same group well-known brands such as Stella Artois, Budweiser, Corona or Leffe. The process started in 2004, when Interbrew and Ambev announced a merger, forming a new company called InBev. Four years later, in 2008, this very same company engaged in another takeover, acquiring the Belgium brewer, Anheuser-Bush. Now, after the completion of this deal, the "new" AB InBev is expected to have about 30% of the global market share.

This deal had an important strategic rationale. After a long series of acquisitions, AB InBev was battling against a slow-growth market in the United States and Europe. This merger was, by turn, partially motivated by the need of AB InBev to expand geographically, as the American and European consumers, especially millennials, are shifting their consumption from well-known brands towards craft beers, wines and spirits. With a strong presence in Africa, SAB Miller was perceived by AB InBev as an opportunity to expand its brand's portfolio and entering into developing economies, where the prospects of the beer industry seem more favourable. According to Bloomberg, it is expected that only in the African market, 65 million people are due to reach the legal drinking age by 2023.

However, this deal also brought significant anti-trust challenges in almost every corner of the globe. By creating a global beer company, AB InBev faced endless negotiations with a wide range of regulatory authorities, in more than 16 jurisdictions. Staring in South-Africa, the Budweiser maker was only able to get an approval from the Competition Tribunal, by promising to keep a certain amount of jobs and through the creation of a fund to support the local beer-making industry. In Europe, the company agreed to sell some of its brands, such as Peroni and Grolsh, in order to ease the European Commission's concerns.

Now, after the completion, what is left for AB InBev? Carlos Brito, CEO of the company, stated that "As a truly global brewer, we will be able to achieve more together than each of us separately".

I believe AB InBev will face two important challenges. The first one concerns a potential cultural clash. Considering AB InBev's integration model, we can expect Carlos Brito to implement a strong "cut costs strategy" on the acquired firm, that is known to have a less strict policy concerning expenses and administrative perks. Given this, this "hard culture" imposed by the Brazilian CEO, may lead to a tough an competitive environment among the SAB staff.

The second point is related with AB InBev's future growth. With approximately 30% of the global beer market share, it is difficult to see how the company plans to implement organic and sustainable growth strategies. Will Carlos Brito maintain AB InBev's reputation of being an "integration machine"? This week, Fortune magazine announced that the company is interested in buying Karbach Brewing, one of the fastest-growing craft brands in the United States.

Does this mean that are more deals to come? Let's wait and see.

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