The Reinvention of the Brewing Industry

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The brewing sector, renowned for its traditional management methods and old school image, has been forced to reinvent itself. To adapt to a rapidly changing environment, brewers have chosen a number of different methods to create growth and attract investment. The effect has been revolutionary – but how has this changed the culture of the organisations? And what skills will be needed to survive?

Despite some outdated practices, the brewing industry has often been used as a case study to inspire managers who perceive themselves to be in a less glamorous field. Now, having proved their credentials as nimble and innovative businesses, brewers have some genuinely useful experience that can be applied across industry sectors.

Self-reinvention was an imperative for brewers trying to reinvigorate growth and expansion in a somewhat gloomy environment. Western European brewers have been under pressure from investors watching the margins in their mature local markets becoming squeezed, and changes towards healthier lifestyles eroding the traditional demand for beer in favour of wines and waters.

In search of profitable revenue growth, brewers have had to look beyond the brewery / pub model of vertical integration in local markets. With varying degrees of success, three strategies for reinvention have been pursued:

- a switch into leisure;
- international expansion;
- or innovation.

While approaches to the search for new pastures have varied, there has been a common consequence: changes have taken place, not just in the products and services, but also in the way in which these businesses are managed and run.

Bass and Whitbread, both brewers of many years, have taken the first route and reversed completely out of brewing. They saw their future competitive advantage stemming, not from their skill at brewing quality beer, but from their knowledge of their customer base. While Bass has rebranded as a retail and leisure group called Six Continents PLC, Whitbread has kept its name but no longer brews beer or owns pubs. Their beer brands live on, subsumed by the brewers who have chosen the second option: international expansion.

This second group, most notably Heineken, Interbrew, Carlsberg and South African Breweries, have expanded across Europe and into developing markets such as Central America and China. Interestingly, the United States has the largest revenue pool in the brewing industry but is tightly guarded by local giant Anheuser-Busch which, through a network of dedicated wholesalers, keeps a very effective barrier to entry to aspirant brewers.

The third route, innovation, is possibly the most risky, but, as you would expect, it has the potential to deliver the highest rewards to investors. The main risk attached to innovation in the brewing sector is that there is very little scope for genuinely new products to be developed.

Unlike in computers or sports apparel, there is very little to change about the technical composition of beers. Indeed the very appeal of many premium brands depends upon the long brewing heritage and the quality impression that comes from a product that has not changed in centuries.

Of the traditional brewers it is Guinness (now GuinnessUDV, part of Diageo PLC) that has made the most impact through innovation: first with the invention of the widget, to create a draught beer texture from a can; and more recently with the creation of a completely new drinks category, the ready-to-drink (RTD) spirit.

Evidence for the potential of the RTD sector was shown by the popularity of alcopops such as Hooper's Hooch in the 1990s. But whereas the speed with which alcopops appeared was matched by the speed of their decline, RTDs have some credentials which make them much more likely to outlast the alcopop fashion.

The most obvious advantage that the RTDs have over alcopops is the association with a strong and recognisable spirit brand. GuinnessUDV have pioneered this sector with Smirnoff Ice, a lemon flavoured RTD vodka.

GuinnessUDV has shown particular skill in the way in which it has successfully combined the strengths of two, previously independent, businesses – now distributing a spirit brand from UDV (Smirnoff) alongside the beers from Guinness into back-bar fridges.

There is also an elegant win / win for the marketing department at GuinnessUDV. Smirnoff Ice, which has its own significant marketing budget, also benefits from the marketing dollars behind the Smirnoff brand. In return, the Smirnoff vodka brand is reinvigorated by the injection of youth and contemporary relevance from Smirnoff Ice.

The power of this symbiosis has been reflected in the Diageo share price which has been trading at a healthy premium compared to the rest of the European drinks sector.

The RTD market is about to get significantly more competitive with the launch of Bacardi Silver (the child of a joint venture between Anheuser-Busch and Bacardi) and the possibility of a RTD Malibu which is now being talked of by Philip Bowman, CEO of Allied Domecq. New brands are likely to grow the whole sector, benefiting all those participating.

The attraction of RTD for brewers is that they can reach new consumers (such as women) and also extend their revenue from existing consumers by providing drinks for different occasions (the pub-going beer drinker who swaps to mixed spirits in a night club).

In this way, cannibalisation of beer brands is minimised. This approach also erodes barriers to entry in markets such as the US, where the RTDs enjoy high margins and strong consumer demand that pulls the products through previously sticky supply chains.

So much for the strategies being followed by the brewers; what effect has this had upon management style, and which competencies will be needed to maintain competitive advantage?

The ability to build brands remains the primary goal of brewers. But, underpinning this, the management teams have been forced to add new skills to ensure success.

Firstly, they have needed to enshrine the atmosphere of rapid change within their organisation. The requirement is not just the ability to react quickly to the changes in the external environment; people need to take responsibility for creating changes for everyone in the market.

New brands are needed with increasing frequency to quench the consumer's thirst for novelty, while established brands need to keep their image fresh and relevant. Looking forward, it will be the ability to change the rules by which the sector is played that will be a key source of competitive advantage.

Secondly, the brewers have needed to **collaborate**. This takes much more than web-enabled, short-term communication. It requires the ability to build long-term partnerships for mutual benefit.

Through collaborating, the brewers have tapped valuable innovation potential outside their own organisations, spread the risk of international expansion and built distribution networks in exotic locations. Equally important has been the ability to collaborate internally, aligning the goals and decision-making across divisional and geographic boundaries.

Collaboration also offers a solution where acquisition may not be appropriate or is considered too risky. Some brewers have used collaboration as a smart way to deliver the benefits that might have been used to justify an acquisition - but without costs.

For brewers this could mean teaming up with distribution partners in different countries, or - in the case of Anheuser-Busch and Bacardi - a brand-sharing exercise to take on Diageo in the RTD market. In the future, successful collaboration will be determined not by the type of software used to swap data but by the ability to understand and align the objectives of the participating businesses.

Developing the ability to create change and to collaborate will require strong leadership and a commitment to investment. The lesson for other industry sectors is clear: sustainable success is likely to be defined as much by those businesses that are best at orchestrating organisational change and integration as by the particular brands and services that they sell.