The evolution of InBev USA

An interview with Simon Thorpe, president and CEO, InBev USA

Simon Thorpe was appointed to head Labatt USA in 2003, and currently serves as chief executive of the company, under its new name, InBev USA. Prior to joining parent company Interbrew in 2002, Mr.Thorpe worked for an international division of Hallmark. He has also served in executive positions with the Kellogg Co. and at Tambrands, which is now a division of Proctor & Gamble. His tenure at Labatt USA/Inbev USA has been an eventful one, given the complexities of the AmBev/Interbrew merger that created InBev and transformed InBev USA. Mr. Thorpe has overseen the departure of ex-partner FEMSA, and the integration of Beck's North America into InBev USA. Most recently, he has presided of the rollout of the Brahma brand in the United States. We recently spoke with Mr. Thorpe about these challenges, and what he sees for the road ahead.

Modern Brewery Age: What was your charge when you took over at InBev USA?

Simon Thorpe: The company had spent a considerable period of time, even before I arrived here, working with FEMSA on what both companies wanted to achieve in the US. What we endeavored to do, was firstly to determine whether we could make the relationship with FEMSA work. We concluded that the time was right for both sides to recover their own destiny. So at that point, we went into the process of unwinding the joint venture. It had been a 70/30 joint venture between Interbrew and FEMSA; Interbrew 70%, FEMSA 30%. Coincidentally, around that time, along came AmBev. And that caused the parties to examine whether to go ahead with the unwinding. And we concluded, as you know, that it was a good thing for us to part ways, and do our own thing. This allowed us to pursue the goals of each company more actively. This was the first step.

The second step was merging together Beck's North America and Labatt USA. As you will recall, Interbrew had acquired Beck's North America several years previously. For reasons of focus as much as anything, FEMSA objected to putting that business into the joint venture. But now, with that merger complete, we are now able to realize the synergies we looked for in the acquisition of Beck's North America. Our portfolio in the U.S. began to take a new shape.

There was also a need to restructure the organization. We decided to "right-size" the organization, and we took out about a third of the organization at that time, down-sizing the commercial organization we had behind the business. We also decided to restructure the orientation of some of the people in the business.

For example, we had found that our customer service group was brewery oriented rather than customer oriented. Now that group has been reoriented so they are now focused on customers, and the customers don't have to talk to seven different people. They can have a single point-of-contact for all of the issues they have.

Another example would be the way in which our national account group operated. We had an integrated on- and off-premise national key chain account group, and we decided we wanted to up-resource that group as part of our business. We wanted to be able to help wholesalers leverage the retail execution. So we've beefed that up, and structured that into two separate pieces, one focused on on-premise and one focused on off-premise so that we could develop more proactively.

We also separated all the admin tasks away from our district managers. They were spending about 40% of their time with customers. Today they are spending about 80% of their time with customers. Instead of doing a whole load of demand planning and forecasting, we've pulled that back into central resources.

So that step involved change the nature and orientation of the organization and right-sizing it to the business we had.

The next piece of the puzzle was to integrate the zone structure that we created as part of the combination of Interbrew and AmBev. We had a stand-alone U.S. business, and that was integrated into a North American whole. What we've done as part of that is to have a lot of the supporting functions—the transactional pieces, the finance, human resources—all integrated on a North American basis. We want to have them reporting to North American groups, not as stand-alone units for the U.S. or Canada.

That enables us to leverage scale across the whole of the region, and exchange best practices more than in the past. It allows us to get better leverage on bigger innovation projects. For example, we can get much greater cost efficiencies on anything from marketing to point-of-sale procurement to raw materials.

That was the next piece of the puzzle then, to integrate the North American zone. Then we moved forward to thinking about the consolidation of our wholesale footprint. Having right-sized our own organization, we then went through a process of prioritizing our customer portfolio, and deciding which customers would be long-term players with us. About 300 wholesalers make up about 94% of our volume, and we have 800 wholesalers on our list. So there are 500 wholesalers that

represent just 6% of our volume. Now we service those 500 with a tel-sell operation, and focus our entire field organization on the 300 that are make-or-break for us.

When will the wholesaler consolidation be complete?

We expect a year. It's not a five-year plan. We don't have the time to linger. We have to make decisive, purposeful progress with our business to achieve our goals. This will not go beyond 12 months. And we are now in the process of looking at the 300 and examining whether we want to consolidate that footprint further. Let me give you an example of the problem. You can go down the road and find a wholesaler with Beck's, another with Bass, another with Stella Artois. On a Monday you can go out with wholesaler A, and he is fighting to get a tap handle for Beck's. On a Tuesday, you can go out with wholesaler B, and he is fighting tooth and nail to get the same tap handle for Stella, and you know what happens on Wednesday.

The whole idea is to get our portfolio as consolidated as we can into one wholesaler. We are giving money to wholesalers A, B and C, so we are using our own money to fight ourselves. We can't afford a network of 800 wholesalers. We have more wholesalers than any brewer in America, and we don't have the critical mass to afford that.

Isn't it difficult to extricate yourself from these relationships…

Yes, but we've done well so far. We've been able to broker about 50% of the deals we need to make—willing buyers and willing sellers. Some are taking longer. We have to be patient. There are family legacies at stake for a lot of people. And since we have the fastest-growing portfolio in America, everyone suddenly wakes up and realizes we can add more incremental gross margin to the wholesale business than a lot of our competitors can. So some people are a little more reluctant to let you go, and make the deals happen. But this will happen in good time. I'm pleased with the progress. We are ahead of our schedule at the moment. We are on-plan and on-prediction with where we would hit problems.

There has been some litigation...

Very minimal. We've had a couple of instances in Ohio that we think we can resolve. I don't see that being a major concern. I want to try to avoid litigation. It is better for everyone. I'd rather spend money on helping wholesalers profit from a transaction than on lawyer's fees.

Is this hugely expensive?

Yes, it is expensive. We will see a significant company investment in the process of consolidation over the next 12 months. We have already spent a fair amount of money on brokering the transactions. The key point would be, if we had X million dollars to spend, I would rather spend it on making the deals happen and put it in the pockets of the wholesaler community rather than spending it on litigation. The time is right to make a number of these deals right now.

This is something that is happening in a number of countries around the world. There is a trend towards consolidation, both retail and wholesale. Progressively over a number of years we've invested in that as a company. We've invested in improving the capabilities of wholesaler networks in particular. We've invested in tools to help us manage prioritization and see-through profitability of the business right through to retail. We've invested in speed of information that allows us to see consumer trends right at street level.

When you right-sized the company, do you think customer service declined?

We are now reorienting our supply chain. We just consolidated our demand planning, and built a new central customer service group. These take time to set up, and get up to speed, and inevitably there are teething troubles. We are still building the structure, but we are making good progress. I am never satisfied, and we are not at the point where we should be as the world's number one brewer, but we will get there. As I said, we want to judged not by what we say, but what we do.

Do you regret that InBev no longer has any Mexican brands?

I would like to think we could have made a long-term success of the FEMSA relationship. I still believe there was value here for both parties. But, at the same time, the opportunity to pursue our own destiny has allowed us to accelerate our own business.

During the merger, there was talk about AmBev running the North American business...

AmBev does not control the North American business. There is one company, and it is InBev. InBev has three shareholding blocs. About half the company is owned by the original Belgian Interbrew shareholding. About a quarter of the company is owned by the Brazilian shareholding that formerly owned AmBev. And about a quarter is a public float, primarily in Europe.

When the companies came together, there was an exchange of assets. The AmBev shareholdings bought the assets of Labatt Canada. And Interbrew owns the assets of InBev USA. So, strictly speaking, we are a subsidiary of InBev in Belgium. And strictly speaking, Labatt Canada is a subsidiary of AmBev Brazil. But both pieces are joined. It's somewhat like an exchange of rings in a marriage. The two companies are bound together contractually, and the further we go, the more closely our assets are welded together.

I report to the InBev North America zone president, one of four zone presidents that oversee geographic zones around the world. They report to the InBev CEO.

Carlos Brito, the zone president for North America, used to work for AmBev, now works for InBev, and has the responsibility to manage the business for InBev. But he also must protect the assets that are owned by the AmBev shareholding.

It's not simple. But it's not as complicated as people make out. There are no conflicts of interest. It is a single company.

Was one condition of the merger a major international roll out for Brahma?

It makes sense to do it. One of the reasons we came together was that we saw huge potential in Brahma around the world. As we looked at the files, we looked for synergies between these two companies. Number one, we got this exchange of world brand portfolios. So we've launched Stella Artois in Argentina, Beck's in Brazil, and Brahma in 15 or 16 countries. So that very immediate exchange of brand portfolios was important.

How is Brahma faring?

I was walking through the mall in Westchester last weekend, and as I was passing the new Nike women's store, and there was a whole display on Brazil, and Ginga, the whole thing. Brazil is so hot right now. We are launching right into a jet stream that will take the business a long way. We have a liquid which is one of the most drinkable beers that we've ever produced. That's a much abused claim. A lot of people claim to have the most refreshing beer. We've beaten all the competition in tests by a significant margin. If you are trained in consumer goods businesses, you look for a 70/30 blind test winner, and we've achieved more than that with this brand against some significant competitors, full strength and light. On top of that, the bottle is amazing. It

makes an immediate connection with the brand. So we see something in the marketing mix that is resonating right now. And we think this can be an enduring consumer proposition. It has universal appeal around the world, as we can find. That's one of the criteria we apply to our global brands. Whether it has universal relevance and resonance around the world.

Just as there are Brahma skeptics, there were a lot of Stella skeptics...

I think we have taken a lot of trouble to maintain Stella as a beer of supreme quality and worth. We have driven that idea through the obvious means, advertising and promotion. But also through the training of wait-staff, and the glassware.

Stella seems like it has strong female crossover appeal, more than most beers...

For Stella, glassware has been key. It has the chalice glass. When you hold a Stella, you hold it like a wine glass. It is nice to be seem with that. It is not a clunker, it is special. Universally around the world, Stella has a co-ed profile. We have a lot more beers in our portfolio that can leverage the co-ed experience, without alienating one or the other.

There are some things we won't do with Stella. We won't put it into accounts that won't accept the glassware. We won't put Stella into 30-second TV commercials during soap operas. One of the real successes has been the consistency of that approach. No pallet displays at discount prices. We've stayed true to the core brand. And this has proved to be successful. Our goal is to drive more incremental gross margin per case than any other brewer in the country. This business should be the most profitable brewing company in the U.S. It doesn't have to be the biggest, but it should be the most profitable supplier for our wholesalers, and it should be the most profitable business per hectoliter for our retail customers.

How do you achieve this, given the competition?

It's about marketing. It's about thinking of your competitive set, not as other beer, but wine, spirits and soft drinks as well. It's about looking at usage occasions when a special beer is just the thing. It may mean creating the usage occasions to make people feel more special because they are having an import beer rather than a regular mainstream beer. That special usage occasion can be when you get home in the evening. It could be when you are out on a Friday night.

You have to tease this apart, and really understand how special occasions work—how people want to feel, how they want to signal what they stand for, how they want to show a

badge. That's part of the key to unlocking the door for an import portfolio.

Part of it is about challenging the paradigm for a commodity. The simple illustration of this would be to put a perfectly poured Stella Artois in a chalice glass beside a glass of mainstream beer plonked in front of you in an industry-standard glass. The Stella is so much more valuable. If you are given a bottle of wine in a restaurant, it is presented in a different way. There is some romance and elegance attached to the presentation. If you order a cocktail, there is some theater attached to producing a cocktail. The same can be true for beer. If you go to Belgium, or France of Hungary, every brand has its own glass. And it is important to the barman, to the wait-staff, to the proprietor, to serve the beer in its appropriate glass. It is part and parcel of what makes the beer special. It is important to serve it properly.

What makes us successful is the attention to detail with on-premise serving rituals, and presenting the product in the right way. And consumers can present it in the right way at home. Say I give you six Stella Artois glasses when you leave here, and you take them home, and pour Stella into them. Three weeks down the line, it would be impossible for you to pour a mainstream beer into that glass. It would be impossible, because it just wouldn't feel right.

So, for us, glassware in the home, making this special occasion at home, is as important as the serving ritual in bars and restaurants.

How has the on-premise business been performing?

I could say we've been doing fine. But we see the dynamics in on-premise moving. And its complicated. The tavern business is becoming a more difficult environment at the moment. Contemporary on-premise is evolving. We would say that the traditional business is less popular than putting a Stella Artois or a Brahma into the hands of a theme bar. And I'm not talking about South Beach or Manhattan. This is Kansas City and Duluth. Contemporary on-premise is changing. The traditional model of session drinking a single type beer has gone away. Portfolio drinking in a contemporary on-premise is a very different model. We are very focused on a portfolio of alternatives in contemporary on-premise right now. How do you keep brands that are relevant to that contemporary on-premise audience. The second dynamic is what is happening to older people who used to go out on-premise, but now are married with children. Instead of going out, they stay in.

The traditional model is to seed on-premise, and then move into retail supermarkets. But for many guys in their 40s, experimentation in occurring in liquor stores and supermarkets, because they are not going to on-premise establishments in the same way. We see the dynamic of trial in on-premise leading to sales in off-premise being totally changed. There is a lot more experimentation and trial going on in conventional retail than used to happen. For us, the introduction to the brand is as important in a supermarket as it is in a club in South Beach.

So the first thing is the shift between old-style taverns and contemporary on-premise. The second thing is the shift between trial in retail. You can walk into a liquor store in Connecticut, and you will see someone with a shopping cart, and they are experimenting. They are buying for a whole set of occasions, from everyday drinking, to a special occasion to a barbecue on Sunday. And they are buying different products for each different usage occasion.

How do you define contemporary on-premise?

You can almost define it by what people are drinking when they are in there. And the clientele can vary during the evening. It crosses over for us into dining. More investment in interior decor, and creating an experience in a bar. That is paralleled in the U.K., interestingly, in the supermarket area. Those that are most successful with beer are the ones that are presenting beer in a way that is successful and interesting.

This is not just about being special. There's a market for pallet displays. There are consumers that want to buy 30-pack cans. But there is also a way to make it more special. There are some U.S. retailers that have it nailed—Wegmann's, Albertson's, HEB. They present beer in a way that is

driving value for them and for the customer. We can see that in a lot of channels. There are some smart people working on this. People watching the portfolio shopping by consumers. Thinking about innovative merchandising, and how to sell solutions to consumers coming in looking for multiple products, particularly in those states where you can have combination stores.

Is it worrisome to watch the onslaught of spirits on-premise?

I don't regard any competitor as worrisome. Some of them are smart. Some of them we can learn from. But this company, we can compete on multiple levels with any competitor. I don't think there are any companies worldwide that are better positioned to deal with the competition, wherever it may come from—wine, spirits, malternatives, soft drinks. We have the portfolio to do it. Other companies don't have the brands that people really aspire to.

There is a human side to beer that does not exist in other beverages. Our corporate mission has language that speaks to the social nature of drinking beer. If you put a few people in a room, drinking beer, pretty soon they will be talking to each other. Beer helps promote social interaction between people.

Earlier, you mentioned the "commodification" of the beer business...

This company believes in building brands, not in selling products. Providing an experience and interaction with a brand that brings value beyond a commodity. The more you make beer ordinary, the less special it is. Consumers today, here and in the rest of the world are looking for things that are more interesting. The idea of interesting, involving and engaging brands is more relevant than it ever has been. If we are able to move more quickly than other companies to leverage our broader portfolio, if we can do all these things, then we can overcome any obstacle.

We are the number one or two in 20 of the world's largest beer markets. There are very few markets where we are not one or two. We have the greatest global footprint and the greatest ability to leverage consumer insights. We've proven that with Brahma, I think. Within the first twelve months of the combination of the two companies, we launched the Brahma brand globally. I think that illustrates how we can leverage the power of a global company quickly. We went from zero, and within six months, we are launching the brand in 15 countries.

We've rolled out a global organizational structure. We made all our compensation and human development processes unified around the world. We have a simple system of cost management worldwide. We're moving to a single global IT structure. These are some examples on how leveraging the power of a global organization quickly—speed to value—can really create a competitive advantage.

Are you content with the existing portfolio?

This time last year we had 24 brands in Labatt USA. All of them were getting attention and focus, each of them had a brand manager. All of them were being sold by all the sales force,

and all of them had investment levels behind them. Everything was a priority.

This year, we have the focus on four global brands—Stella, Beck's, Bass and Brahma—and on Labatt Blue and Rolling Rock. All our money, effort and energy is going behind those six. That's a huge sea-change.

As I said, we used to have 800 wholesalers, now we're focused on 300. And I think that will come down to about 230 or so.

Will you shed some of the non-focus brands?

Over time, frankly, that might happen. Right now, we're going to focus on six brands, a simplified customer base and simplified wholesaler network. We will take all our money and focus on achieving a few things very well. That's enough for us to accomplish over the next couple of years.

You absorbed some of the Guinness draft program. Are you continuing that program?

We've done two things. We wanted to drive that draft understanding out to our broader sales organization, so it would not be the ownership of a special group. All our people are draft representatives now. Part of the reason for changing our sales organization, was to get all our people to spend more time on-premise, doing exactly that job. Anytime you change an organization, you tune it a bit. We are putting more investment on-premise—people, investment, programming—as we go through this year. For Stella, particularly, we see a need for that. Our customers are asking for help in this area, and providing more on-premise resourcing is a very logical thing for us to do.

We separate two things in on-premise. One is the servicing of an on-premise business, and the other is the development of it. We have limited resources. We are not the largest beer company in America. So we have to put our resources very carefully into places where they can work the most. We want to develop and encourage and grow on-premise businesses. We can add value here. We can show people how they do it in Belgium, or anywhere else in the world. A lot of people can service a line, or install nitrogen dispensers. Where we see our added value is in helping people to see how they can do it better, and add value to their businesses.

Our on-premise group has an objective of improving the overall profitability to the on-premise customer of our portfolio. We can encourage an on-premise customer to sell our beer successfully at full price.

What do you see with imports for the coming year?

I've been wrong in most of my projections for imports in the coming year. It is particularly difficult to project for this year, because there are so much dynamic happening. I think we see overall imports more conservatively. The specialty import definition is where we generally compare. This area is complicated by brands like Michelob Ultra. The import figure is complicated by the relative growth of Mexican brands in the U.S., and by some of the timing of pricing last year. It's hard to read, so I think we would be fairly conservative, somewhere in the 2-4% range for imports. But we've a long way to go before any of us in this industry can call these things. I would challenge any of your readers to predict what the first quarter would be like. If there is someone out there who predicted what the first quarter of this year would be like, I will hire them.

In a market that is volatile, the only true

(Continued on page 31)

metric is whether you are building market share. We have consistently built market share, and we are continuing to do so. The core fundamentals of our business are on track. We are seeing some difficulties with Rock Green Light. About 80% of the shortfall in our business has been driven by Rock Green Light. Michelob Ultra fell off in the fourth quarter, and we fell off in the first quarter this year. We are relaunching Rock Green Light next month.

We're also launching our Beck's Premier Light. This is moving on the next wave of the body conscious lifestyle, low calorie. This is the lowest calorie beer in America, and it's also an authentic German import, Reinheitsgebot and all that.

The old Beck's Light was the real thing, about 28 IBUs...

We took that down slightly, but only slightly. It's still a challenging flavor. So it's a good beer, and the lowest calorie. We've got great distribution on this, full distribution in Wal-Mart and all the major chains. It went national from the get go. The advertising is breaking. This is a bolder platform than our competition, and it put us ahead of the game. This is what we want to be doing. Faster and more flexible, bringing new innovation to the market, and getting it right. We've seen a lot of innovation in the beer category, and a lot of it hasn't been successful. That has made wholesalers and retailers a bit shy of committing to new products. It's our responsibility to get it right.

Are there challenges for the new InBev USA that have not been worked out yet?

We are not without our issues. When you put companies together, there are things that don't work exactly as you've planned. We have experienced some difficulties. Our customers, I think, rightly, an expectation that the world's number one brewer will have customer service levels of that number one caliber. We are working very hard to ensure that our order servicing and customer services are truly world class. But we have work to do. Part of that is due to our relatively modest scale in the United States. Part of it is a function of what we needed to do as we brought the companies together. Many of our customers are being very patient. I would be wrong not to thank them for their patience. But our goal is the same as it was when we set out, and that is customers first. We are working to create a long-term sustainable platform for InBev in the United States. Our goal is to be the leader is premium beer. And I am using "premium" in its true sense. There are brands that claim to be premium. But brands like Stella and Beck's really are premium.

There has been a lot of talk about the demise of beer. *Ad Age* had an article about "The Death of Beer" on the cover...

We don't believe that. People in this industry may be struggling. But we just do not see it that way. All our numbers indicate that fundamentals are still very strong. We see a real ability to compete with wine and spirits. We know how to do that in a number of ways. As I often say, it's not what you say, it's what you do. I think the proof of the pudding will be the success of Stella Artois; Beck's Premier Light becoming what we think it can be; and Brahma becoming not a fashion brand, but a brand that will endure for the next 20-30 years.

Part of the culture of our company is that we try to do things, and not talk about them. That's very characteristic about our company.

Thanks for your time, Simon ■