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Beer, bucks and brands

InBev's acquisition of Anheuser-Busch is all about the US company's portfolio of famous brands. And it is the declining value of another celebrated American brand that has helped to make it possible

A king is one who has "few things to desire and many things to fear".
Francis Bacon

St Louis, Missouri, 11th July 2008: Beer is big business in St Louis and one way to measure the value of a beer brand is to buy a beer company. That is happening here right now as the number one non-American beer *meister*, Belgium-based InBev, is intending to pay US$52 billion to acquire the number one American brewer, Anheuser-Busch. At present, the venerable house of Budweiser accounts for half of all drafts drawn from American taps, cans, kegs and bottles. With only US$3 billion in shareholder equity, the purchase of Anheuser-Busch has to be about brand value, right? Well, maybe; but this is really a tale of two kinds of brands. One kind is beer. The other is money.

These days, growth among industry giants depends as much on acquisition and merger as it does on organic growth. Organic growth is a result of marketing and market share changes. This is also where intangible brand values can hold and expand economic and shareholder returns by driving demand and consumption of well-branded goods and services. According to the Millward Brown Brandz valuation index, Anheuser-Busch's Budweiser and Bud Light brands, had a combined 2008 value of US$10.8 billion, a 9% rise from 2007. This would translate to a brand purchase premium ratio of 4.80 under the InBev tender offer. Is this a fair premium?

One of the advantages of annual brand indexing is that it is possible in the abstract to compare the relative value of related businesses as a function of the brand premium. In the beverage category, the Millward Brown survey also indexed the Coke and Pepsi brand values. These produce brand purchase premium ratios of 5.32 and 6.74 respectively. This could suggest that Anheuser-Busch is undervalued with respects to its brand premium. However, when the brand premium ratios are multiplied by the current price earnings ratios of Anheuser-Busch, Pepsi and Coke, the indices are respectively 125, 127 and 152. In this context pricing seems consistent with industry value expectations.

Given the general cultural acceptance of global capitalism, it has been surprising – if not predictable – to hear patriotic refrains from politicians in Washington DC and Missouri that the King of Beers is too American an institution to simply be purchased by a Brazilian-Belgian consortium. In St Louis, beer has been an economic blood line for over 150 years and its king is Anheuser-Busch. Of course, InBev has been at it a great deal longer with its Belgian roots going back another 500 years before Budweiser. And of course, beer was a European import to the American continent so perhaps it has come full circle. That said, the power of brands does rely on the national authority to regulate and issue marks that are legally protectable values. If the roles were reversed – which is to say that Anheuser-Busch were buying InBev – then perhaps the American national interest would be cheering on the merger as further validation of economic manifest destiny.

One reason why this is not happening is the relative disrepair that has befallen a different American brand, the dollar. In the most recent 12 months ending in June, the Euro has appreciated over 14% compared to the greenback. This is a result of monetary policy that is seeking to keep capital costs low in the United States in order to stimulate capital investment, increase payrolls and improve exports. Discounting the brand premium of the US dollar has had the effect of giving US$7 billion more purchasing power to InBev in the present merger negotiations than it had a year ago. This amounts to 70% of the estimated brand premium value of Anheuser-Busch.

How InBev will pay for this merger of equals is a matter of some conjecture. In prior acquisitions, InBev has made its mark by buying premium beer brands and then instituting rigorous cost cutting measures to achieve shareholder expectations. In the case of Budweiser, its premium position relies heavily on its multi-billion annual advertising and sport/entertainment promotions. Cutting costs here could seriously jeopardise the purchase premium price for Anheuser-Busch in the first place. This suggests other cuts, probably of personnel, are likely to ensue.

Of course a merged InBev/A-B offers an unprecedented cross-marketing opportunity in a half dozen major markets. But organically speaking, beer in America is pretty well tapped out so to speak. The market is highly mature and unless there is a surge in alcoholism, absolute consumption is unlikely to exceed the US GDP for the foreseeable future. An increase in premium brand access therefore may squeeze profitability to aggregate cross marketing market share.

So, paradoxically, the easy credit monetary policy of the US may have succeeded in both creating investment, diluting a national brand value, reducing payrolls and squeezing profitability in the beer business. But the InBev/A-B merger also goes to the substance and essence of modern brand management. A core purpose of branding is to create a state of mind in the customer that decreases apparent choices and increases price acceptance in excess of costs. Often we perceive this as a singular function of brand management in a merchant marketplace. But sometimes, brand management requires lateral thinking beyond the brand marketplace. Business continues to view intellectual property as a core business asset that can and should be monetised to create economic value. However, as we continue to do so, we also need to understand the monetary brand management is equally critical to our intangibles business strategies. Failure to do so may leave us all crying into our beers.

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