Beer mergers

Another round?

A tie-up between two American brewers leads to talk of further mergers

THE ordinary beer-drinking Joe may still be a touchstone of opinion in America but his thirst is not what it was. On October 9th SABMiller, one of the world's bigger brewers and America's second largest, announced a joint venture in the United States (and Puerto Rico) with Molson Coors, the country's third biggest. The pair are teaming up to take on both Anheuser-Busch, America's leading beer-maker, and the country's drinkers, whose consumption of all these firms' main brews has virtually ceased growing.

The deal creates a huge operation with revenues of $6.6 billion. MillerCoors, as it will be known, will command some 29% of the American market. By extracting annual savings of $500m by the third year, it expects to be able to compete more fiercely with Anheuser-Busch and its flagship Budweiser brand. The American brewer has nabbed around half of the American beer market and pumps out 102.6m barrels of suds a year.

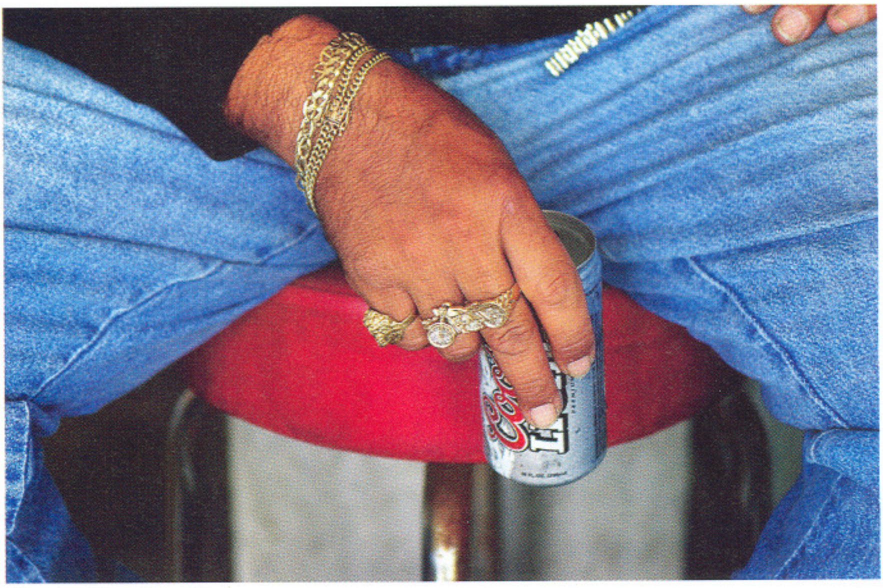
But beer drinking in most rich countries is growing slowly or is in decline. One estimate suggests that American spending on beer might grow by just 1.5% this year. And that increase will come courtesy of imports or boutique "craft" beers. Rich drinkers prefer to tipple on premium ales or wine and spirits. Sales of the mass-market varieties, on which America's big brewers rely, are stagnant.

Faced with dwindling sales in established markets, most big brewers have searched for growth elsewhere, namely in Latin America, Asia, eastern Europe and Africa. Although competition is often fierce, Belgium's InBev, the world's leading brewer by volume, and SABMiller have become adept at operating where margins are slim. The strategy appears to be working. In the past five years the shares of both SABMiller and Inbev have prospered while Anheuser-Busch's have languished. Anheuser-Busch still relies on its home market for around 80% of its admittedly handsome profits.

SABMiller is the product of a previous assault on the American market. In 2002 when SAB, a South African brewer, bought America's Miller for $5.6 billion, the intention was to take on Anheuser-Busch in its own backyard. But Budweiser's brewer easily withstood the attack, boosting its market share and margins.

That may change, now that it finds itself in a bar brawl against bulkier opposition. Stiffer competition and changing tastes might squeeze earnings at home, and the company lacks a thriving global business to fall back on. Building one now would be difficult, since the juiciest targets in emerging markets have already been snapped up.

So talk of a deal between InBev and Anheuser-Busch is more than just idle conversation at the bar. The American firm struck a deal last year to import InBev's profitable premium beers such as Stella Artois and Beck's. An even closer relationship might suit both. The American firm's portfolio is light on the sort of profitable, high-end beers in which InBev specialises. By the same token, despite its fine array of niche brands, InBev lacks an internationally recognised powerhouse like Budweiser. The fight for Joe's attention (and dollars) can only intensify. ■



Pass me the wine list