

CASE 29

HEINEKEN*

Dutch brewer Heineken inaugurated a new state-of-the-art brewery on the outskirts of Addis Ababa, Ethiopia, on January 18, 2015, in a ceremony that was attended by Jean-François van Boxmeer, chairman and CEO of the firm, and His Excellency Hailemariam Desalegn, the prime minister of the country. The new facility allowed Heineken to expand its capacity for beer production in Ethiopia, where it already operated two other breweries that it had acquired from the Ethiopian government in 2011. Besides producing the flagship Heineken beer, the new brewery would produce Bedele, Harar, and the newly launched Walia beer. "Our inauguration marks the latest chapter in our Africa story which began over 100 years ago," van Boxmeer stated on the occasion.¹

The move came on the heels of acquisitions and capacity investments that Heineken had been making in other developing markets. In 2013, the firm had strengthened its position as the world's third-largest brewer by taking full ownership of Asian Pacific Breweries, the owner of Tiger, Bintang, and other popular Asian beer brands. With this deal, Heineken added 30 breweries across several countries in the Asia-Pacific region. A few years earlier, the firm had acquired Mexican brewer FEMSA Cerveza, producer of Dos Equis, Sol, and Tecate beers, to become a stronger, more competitive player in Latin America.

At the same time, Heineken maintained its leading position across Europe. It had made a high-profile acquisition in 2008 of Scottish-based brewer Scottish & Newcastle, the brewer of well-known brands such as Newcastle Brown

Ale and Kronenbourg 1664. Although the purchase had been made in partnership with Carlsberg, Heineken was able to gain control of Scottish & Newcastle's operations in several crucial European markets, such as the United Kingdom, Ireland, Portugal, Finland, and Belgium.

These decisions to acquire brewers that operated in different parts of the world were part of a series of changes that the Dutch brewer was making to raise its stature in the various markets and to respond to changes occurring in the global market for beer. Even as sales of beer stagnated in the United States and Europe, demand was growing in other developing countries. This led the largest brewers to expand across the globe through acquisitions of smaller regional and national players (see Exhibits 1 and 2).

The need for change was clearly reflected in the appointment in October 2005 of Jean-François van Boxmeer as Heineken's first non-Dutch CEO. He was brought in to replace Thorny Ruys, who had resigned because of his failure to show much improvement in performance. Prior to the appointment of Ruys in 2002, Heineken had been run by three generations of Heineken ancestors, whose portraits still adorned the dark-paneled office of the CEO in the firm's Amsterdam headquarters. Like Ruys, van Boxmeer faced the challenge of preserving the firm's family-driven traditions while dealing with threats that had never been faced before.

Confronting a Globalizing Industry

Heineken was one of the pioneers of an international strategy, using cross-border deals to expand its distribution of its Heineken, Amstel, and about 175 other beer brands in more than 100 countries around the globe. For years, it had been picking up small brewers in several countries to add more

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	Year Ended December				
	2010	2011	2012	2013	2014
Revenue	16,133	17,123	18,383	19,203	19,257
Gross profit	5,842	6,157	6,534	7,017	7,204
Operating income	2,044	2,151	2,181	2,328	2,687
Income before taxes	1,967	2,025	3,634	2,107	2,440
Net income	1,436	717	2,949	1,364	1,516

Source: Heineken.

EXHIBIT 1
Income Statement
(In millions of euros)

EXHIBIT 2 Balance Sheet (In millions of euros)	Year Ended December				
	2010	2011	2012	2013	2014
Total current assets	4,318	4,708	5,537	5,495	6,086
Total assets	26,549	27,127	35,979	33,337	34,830
Total current liabilities	5,623	6,159	7,800	8,003	8,532
Total liabilities	16,321	22,323	24,288	21,935	22,421
Total stockholders' equity	10,228	4,804	12,762	12,356	13,452

Source: Heineken.

CASE 29 :: HEINEKEN C215

brands and to get better access to new markets. From its roots on the outskirts of Amsterdam, the firm had evolved into one of the world's largest brewers, operating more than 190 breweries in over 70 countries, claiming about 10 percent of the global market for beer (see Exhibits 3 and 4).

In fact, the firm's flagship Heineken brand ranked second only to Budweiser in a global brand survey jointly undertaken by *BusinessWeek* and Interbrand a couple of years ago. The premier brand had achieved worldwide recognition, according to Kevin Baker, director of alcoholic beverages at British market researcher Canadean Ltd. A U.S. wholesaler recently asked a group of marketing students to identify an assortment of beer bottles that had been stripped of their labels. The stubby green Heineken container was the only one that incited instant recognition among the group.

But the beer industry was undergoing significant change due to a furious wave of consolidation. Most of the bigger brewers began to acquire or merge with their competitors in foreign markets in order to become global players. To begin with, this gave them ownership of local brands that propelled them into a dominant position in various markets around the world. Beyond this, acquisitions of foreign brewers could provide the firms with manufacturing and distribution capabilities they could use to develop a few global brands. "The era of global brands is coming," said Alan Clark, Budapest-based managing director of SABMiller Europe (see Exhibit 5).²

Over the past decade, South African Breweries Plc acquired U.S.-based Miller Brewing to become a major

global brewer. The firm recently acquired Fosters, the largest Australian brewer. U.S.-based Coors linked with Canada-based Molson in 2005, with their combined operations allowing the firm to rise to a leading position among the world's biggest brewers. In 2008, Belgium's Interbrew, Brazil's AmBev, and U.S.-based Anheuser-Busch all merged to become the largest global brewer, with operations across most of the continents. Last year, SABMiller made an unsuccessful bid to acquire Heineken in order to reduce the threat of being bought by Anheuser-Busch InBev.

Since its acquisition of Anheuser-Busch, InBev was planning to include Budweiser in its existing efforts to develop Stella Artois, Brahma, and Beck's as global flagship brands. Each of these brands originated in different locations, with Budweiser coming from the U.S., Stella Artois from Belgium, Brahma from Brazil, and Beck's from Germany. Similarly, the newly formed SABMiller was attempting to develop the Czech brand Pilsner Urquell into a global brand. Exports of this pilsner doubled shortly after SAB acquired it in 1999, but sales afterward plateaued. John Brock, the CEO of InBev, commented: "Global brands sell at significantly higher prices, and the margins are much better than with local beers."³

Wrestling with Change

Although the management of Heineken moved away from the family for the first time, the managers were well aware that the long-standing and well-established family traditions would be difficult to change. Even with

EXHIBIT 3 Geographic Breakdown of Sales (In millions of euros)	2014	2013	2012	2011	2010
Africa & Middle East	2,643	2,554	2,639	2,223	1,988
Americas	4,631	4,495	4,523	4,029	3,296
Asia Pacific	2,088	2,037	527	216	192
Central & Eastern Europe	2,868	3,097	328	3,229	3,143
Western Europe	7,478	7,456	7,785	7,752	7,894

Source: Heineken.

C216 CASE 29 :: HEINEKEN

Market	Significant Brands
U.S.	Heineken, Amstel Light, Paulaner, ¹ Moretti
Netherlands	Heineken, Amstel, Lingen's Blond, Murphy's Irish Red
France	Heineken, Amstel, Buckler, ² Desperados ³
Italy	Heineken, Amstel, Birra Moretti
Spain	Heineken, Amstel, Cruzcampo, Buckler
Poland	Heineken, Królowski, Kujawiak, Zywiec
China	Heineken, Tiger, Reeb ⁴
Singapore	Heineken, Tiger, Anchor, Baron's
India	Heineken, Arlem, Kingfisher
Indonesia	Heineken, Bintang, Guinness
Kazakhstan	Heineken, Amstel, Tian Shan
Egypt	Heineken, Birell, Meister, Fayrouz ²
Israel	Heineken, Maccabee, Gold Star ⁴
Nigeria	Heineken, Amstel Malta, Maltina, Gulder
South Africa	Heineken, Amstel, Windhoek, Strongbow
Panama	Heineken, Soberana, Crystal, Panama
Chile	Heineken, Cristal, Escudo, Royal

¹ Wheat beer.

² Nonalcoholic beer.

³ Tequila-flavored beer.

⁴ Minority interest.

Brewer	Market Share*
1. Anheuser-Busch InBev (Leuven, Belgium)	21%
2. SABMiller (London, U.K.)	11
3. Heineken (Amsterdam, Netherlands)	10
4. Carlsberg (Copenhagen, Denmark)	6
5. Molson Coors Brewing (Denver, U.S.)	4

*Based on annual sales, in millions of U.S. dollars.

Source: *Beverage World*.

CASE 29 :: HEINEKEN C217

EXHIBIT 4 Heineken Brands

the appointment of non-family members to manage the firm, a little over half of the shares of Heineken were still owned by a holding company that was controlled by the family. With the death of Freddy Heineken in 2002, the last family member to head the Dutch brewer, control passed to his only child and heir, Charlene de Carvalho, who insisted on having a say in all of the firm's major decisions.

EXHIBIT 5 Leading Brewers, 2014

The family members were behind some of the changes announced at the time of van Boxmeer's appointment that would support the firm's next phase of growth as a global organization. As part of the plan, dubbed "Fit 2 Fight," the executive board was cut down from five members to CEO van Boxmeer and Chief Financial Officer René Hooft Graafland. The change was expected to centralize control at the top so that the firm could formulate a strategy to win

over younger customers across different markets whose tastes are still developing.

Heineken created management positions that would be responsible for five different operating regions and several different functional areas. These positions were created to more clearly define different spheres of responsibility. Van Boxmeer argued that the new structure provided incentives for people to be accountable for their performance: "There is more pressure for results, for achievement."⁴ He claimed the new structure had already encouraged more risk taking and boosted the level of energy within the firm.

The Executive Committee of Heineken was cut down from 36 to 12 members in order to speed up the decision-making process. Besides including the two members of the executive board, this management group consisted of the managers who were responsible for the different operating regions and several of the key functional areas. Van Boxmeer hoped that the reduction in the size of the committee would allow the firm to combat the cumbersome consensus culture that had made it difficult for Heineken to respond swiftly to various challenges even as its industry had been experiencing considerable change.

Finally, all of the activities of Heineken were overseen by a supervisory board, which consisted of 10 members. Individuals on this board were drawn from different countries and had a wide range of expertise and experience. They set up policies for the firm to follow in making major decisions on its overall operations. Members of the supervisory board were rotated on a regular basis.

Developing a Global Presence

Van Boxmeer was well aware of the need for Heineken to use its brands to build upon its existing stature across global markets. In spite of its formidable presence in markets around the world with its flagship Heineken brand, the firm had been reluctant to match the recent moves of formidable competitors such as Heineken's InBev and the U.K.'s SABMiller, which had grown significantly through mega-acquisitions. It was assumed that, in large part, the firm had been reluctant to make such acquisitions because of the dilution of family control.

For many years, Heineken had limited itself to snapping up small national brewers such as Italy's Moretti and Spain's Cruzcampo, which provided it with small but profitable avenues for growth. In 1996, for example, Heineken acquired Fischer, a small French brewer, whose Desperados brand was quite successful in niche markets. Similarly, Paulaner, a wheat beer that Heineken had picked up in Germany a few years ago, was making inroads into the U.S. market.

However, as other brewers were reaching out to make acquisitions all over the globe, Heineken was running the risk of falling behind its more aggressive rivals. To deal with this growing challenge, the firm broke out of its play-it-safe corporate culture to make a few big deals. In 2013, Heineken spent \$2.1 billion to acquire BBAG,

a family-owned company based in Linz, Austria. Because of BBAG's extensive presence in Central Europe, Heineken became the biggest beer maker in seven countries across Eastern Europe. The acquisition of Scottish & Newcastle in 2008 similarly reinforced the firm's dominance in Western Europe.

At the same time, Heineken was making a string of acquisitions in other parts of the world. Its recent acquisitions in Ethiopia, Singapore, and Mexico allowed it to build its position in these growing markets. The firm also made an aggressive push into Russia with the acquisition of mid-sized brewing concerns. Through several acquisitions since 2002, Russia became one of Heineken's largest markets by volume. Heineken ranked as the third-largest brewer in Russia, behind Sweden's Baltic Beverages Holding and InBev.

René Hooft Graafland, the company's chief financial officer, stated that Heineken would continue to participate in the consolidation of the \$460 billion global retail beer industry by targeting many different markets around the world. During the last decade, the firm added several labels to Heineken's shelf, pouncing on brewers in far-flung places like Belarus, Panama, Egypt, and Kazakhstan. In Egypt, Ruys bought a majority stake in Al Ahram Beverages Co. and was using the Cairo-based brewer's fruit-flavored, nonalcoholic malts as an avenue into other Muslim countries.

Maintaining a Premium Position

For decades, Heineken had been able to rely upon the success of its flagship Heineken brand, which enjoyed a leading position among premium beers in many markets around the world. The brand had been the best-selling imported beer in the U.S. for several decades, giving the firm a steady source of revenues and profits from the world's biggest market. But by the late 1990s, Heineken lost its 65-year-old leadership among imported beers in the U.S. to Group Modelo's Corona. The Mexican beer was able to reach out to Hispanic Americans, who represented one of the fastest-growing segments of beer drinkers.

Furthermore, the firm was concerned that its Heineken brand was perceived as obsolete by many young drinkers. John A. Quelch, a professor at Harvard Business School who studied the beer industry, said of the Heineken brand: "It's in danger of becoming a tired, reliable, but unexciting brand."⁵ The firm was therefore working hard to increase awareness of its flagship brand among younger drinkers. Heineken also introduced a light beer, Heineken Premium Light, to target the growing market for such beers in the U.S. Through such efforts, the firm managed to reduce the average age of Heineken drinkers from about 40 years old to about 30 years old.

At the same time, Heineken was pushing on other brands that would reduce its reliance on its core Heineken brand. It had already achieved considerable success with Amstel Light, which became the leading imported light beer in

providing any specific details, Graafland, the firm's CFO, made it clear that the firm's management would take initiatives that would drive long-term growth. In his own words: "We are positive that the momentum in the company and trends will continue."⁷

Upon taking over the helm of Heineken, van Boxmeer had announced that he would have to work on the company's culture in order to accelerate the speed of decision making. This led many people both inside and outside the firm to expect that the new management would try to break loose from the conservative style that had resulted from the family's tight control. Instead, the affable 46-year-old Belgian indicated that he was trying to focus on changes to the firm's decision-making process rather than making any drastic shifts in its existing culture.

Van Boxmeer's devotion to the firm was quite evident. Heineken's first non-Dutch CEO had spent 20 years working his way up within the firm. Even his cufflinks were silver miniatures of a Heineken bottle top and opener. "We are in the logical flow of history," he recently explained. "Every time you have a new leader you have a new kind of vision. It is not radically different, because you are defined by what your company is and what your brands are."⁸

Furthermore, van Boxmeer seemed quite comfortable working within the family-controlled structure. "Since 1952 history has proved it is the right concept," he stated about the current ownership structure. "The whole business about family restraint on us is absolutely untrue. Without its spirit and guidance, the company would not have been able to build a world leader."⁹

Building on Its Past

The recent acquisitions in different parts of the world—Asia, Africa, Latin America, and Europe—represented an important step in Heineken's quest to build on its existing global stature. In fact, most analysts expected that van Boxmeer and his team would make efforts to continue to build Heineken into a powerful global competitor. Without

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ENDNOTES

1. Newstex Global Business Blogs, January 19, 2015.
2. Jack Ewing & Gerry Kherrmouch, Waking up Heineken. *Business Week*, September 8, 2003, p. 68.
3. Richard Tomlinson, The new king of beers. *Fortune*, October 18, 2004, p. 238.
4. Ian Bickerton & Jenny Wiggins, Change is brewing at Heineken. *Financial Times*, May 9, 2006, p. 12.
5. Ewing & Kherrmouch, op. cit., p. 69.
6. Andrew Kaplan, Border crossings. *Beverage World*, July 15, 2004, p. 6.
7. Christopher C. Williams, Heineken seeing green. *Barron's*, September 18, 2006, p. 19.
8. Bickerton & Wiggins, op. cit.
9. Ibid.

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Finally, Heineken was stepping up its efforts to target Hispanics, who accounted for one-quarter of U.S. sales. Besides developing specific marketing campaigns for them, it added popular Mexican beers such as Tecate and Dos Equis to its line of offerings. For years, these beers had been marketed and distributed by Heineken in the U.S. under a license from FEMSA Cerveza. In 2010, Heineken decided to acquire FEMSA, giving it full control over all of FEMSA's brands. Benj Steinman, publisher and editor of the *Beer Marketer's Insight* newsletter, believed Heineken's relationship with FEMSA was quite beneficial: "This gives Heineken a commanding share of the U.S. import business and . . . gives them a bigger presence in the Southwest . . . and better access to Hispanic consumers," he stated.⁵

Above all, Heineken wanted to maintain its leadership in the premium-beer industry, which represented the most profitable segment of the beer business. In this category, the firm's brands faced competition in the U.S. from domestic beers such as Anheuser's Budweiser Select and imported beers such as InBev's Stella Artois. Although premium brews often had slightly higher alcohol content than standard beers, they were developed through a more exclusive positioning of the brand. This allowed the firm to charge a higher price for these brands. A six-pack of Heineken, for example, cost \$9, versus about \$6 for a six-pack of Budweiser. Furthermore, Just-drinks.com, a London-based online research service, estimated that the market for premium beer would continue to expand over the next decade.

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