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Why InBev's Brito Backs the Three-Tier System: Where Beer is Tightly Regulated, Profits are Higher

InBev operates what **Carlos Brito**, ceo, calls a "hybrid" system. In some countries it uses wholesalers, in other countries it goes direct to retailers. And in some countries, it does both.

You can expect InBev to continue A-B's wholesale branch operations, because "the branches give us an opportunity to create people within our companies that understand better what wholesalers go about in terms of their business every day," Brito said, adding:

"That, if used in a smart fashion, enables us to have a much better dialogue with wholesalers because instead of just preaching to wholesalers what they should do, when we have branches we also feel the problems and the issues and the opportunities that are within the marketplace, what competition is doing, what customers are requiring."

Brito said InBev supports the three-tier system "not only because it is the law, but because of very pragmatic reasons. There is a high correlation in countries where beer is more tightly regulated in terms of profitability.

"If you go to Canada, for example, where we have big business, in the U.S. where we see the numbers from A-B, in Korea where we also have a good-sized business, these countries are heavily regulated and have a three-tier system in place, like Korea.:

In these countries, "profitability is much higher." And, he added, "with what we know today, it doesn't make any sense to change any of this stuff that is working well."

Will InBev seek to squeeze wholesalers? That's a concern, especially given high fuel costs. But **Carlos Brito**, InBev's ceo, sought to assure wholesalers.

The wholesaler's margin "has to be a margin that is interesting enough to (be) attractive to entrepreneurs and to keep them focused on the business.

"I always say, it is better to get that in the marketplace. Get our niche to approve the marketplace, sell higher, at higher prices, higher value-added products so we can cope with changes in fuel and energy."

A-B Price Increases Will More than Offset Distributor's Rising Fuel Costs: Peacock

"First and foremost, we want to drive share. That is how we all win," **Dave Peacock**, vp-marketing, said.

“Beer pricing right now is below food and beverage CPI. We know there is room there,” he said, adding: “We understand the consumer is getting pressure, especially the blue-collar consumer. But it is our belief that the pricing will hold, will be accepted, and initial discussions with retailers indicate the same.

“And we think the yield from price increases will be enough to offset some of the fuel increases – more than enough when you look at fuel being about 7% on average of wholesalers cost centers.”

MillerCoors Can Quit Grinning, There’s No Sales Confusion Here, A-B Says

Responding to reports that some MillerCoors reps think there is “confusion” between **Anheuser-Busch**’s sales force and **InBev**’s sales force, **Evan Athanas**, vp-sales/wholesale operations, noted that Miller and Coors are merging in the U.S.

“They have a guy who calls on retailer X – Miller has one and Coors has one. They have to decide who will stick around,” he noted.

“We don’t have that uncertainty,” Athanas said. “We have one sales force in the U.S. There is not another InBev sales force that is being merged with ours in a significant way.” The people that have been selling InBev products will continue to be the people selling A-B products, he said.

“We aren’t going through what Miller and Coors are going through. They are going through something much more difficult and something we have the opportunity to capitalize on.”

InBev’s Cost-Cutting a Plus for St. Louis

We thought that headline would get your attention.

There’s no doubt **Inbev** has a fearsome reputation for cost-cutting. But we don’t think it ever intends to spend a dollar to save a nickel.

And that’s why, upon sober reflection, we think fears in St. Louis that InBev would move **Anheuser-Busch** somewhere else were misplaced. Yes, there will be job cuts in St. Louis. That’s guaranteed because a whole bunch of corporate types won’t be needed.

But St. Louis won’t experience what Milwaukee is experiencing, with the decision by the new **MillerCoors** joint venture to leave town so it wouldn’t appear that **Leo Kiely** and his buddies favored Milwaukee over their former stomping grounds in Denver and Golden, Colo.

Another reason: Moving a corporate headquarters is hugely expensive. **MillerCoors** itself will pay \$39.5 million – roughly \$100,000 a job -- that’s to move nearly 400 jobs to Chicago. That’s \$39.5 million that MillerCoors won’t be spending to market their products, nor to drive down production or distribution costs.

There will be turbulence in St. Louis, and especially at One Busch Place. But nothing like the turbulence at MillerCoors in the wake of its decision to move to Chicago and take up residence in one of the skyscrapers along the Magnificent Mile.

When A-B InBev marketers and other staffers go to work in St. Louis, they’ll still be working at the brewery. To be sure, MillerCoors can put pictures of its breweries on the walls, and hang old advertising posters on the wall. But its not quite the same as walking by trucks waiting to take product to market, or smelling the brewing process.

Pernod Ricard Signs FTC Consent Decree, Promises to Stop Distribution Stoli

Pernod Ricard signed a consent decree, promising to end its distribution agreement with **Spirits International BV** (SPI), the owners of **Stolichnaya**, within six months of acquiring **Vin & Spirit** and the **Absolut** brand.

The consent decree was accepted simultaneously with the **Federal Trade Commission** issuing a complaint charging that Pernod Ricard's proposed \$9 billion acquisition of **V&S Vin & Spirit** would be anticompetitive and in violation of U.S. antitrust laws because it would effectively combine the two most popular brands of "super-premium" vodka sold nationwide, Absolut and Stolichnaya.

The FTC said the consent order also addresses the FTC's competitive concerns in four other distilled

spirits markets. In purchasing V&S, Pernod will assume V&S's role in **Future Brands LLC**, a distribution joint venture between V&S and **Fortune Brands, Inc** (Fortune).

Fortune's subsidiary **Beam Global Spirits & Wine, Inc.** (Beam Global) owns brands that compete with Pernod brands in four markets -- Cognac, domestic cordials, coffee liqueur, and popular gin. Pernod's participation in the joint venture would give Pernod access to competitively sensitive information about the competing Beam Global brands.

The consent order preserves the competition between Pernod and Beam Global by imposing firewalls to prevent Pernod from acquiring and using competitively sensitive information about the Beam Global brands.

"The proposed acquisition would have brought together the two leading suppliers of super-premium vodka, and raised concerns about the exchange of information in four other distilled spirits markets," said **Jeffrey Schmidt**, Director of the FTC's Bureau of Competition. "The consent order announced today effectively addresses those concerns and ensures that the Absolut and Stolichnaya brands, and the Pernod and Beam Global brands, will continue to compete aggressively."

A-B to Maintain High Level of Sports Marketing, Execs Say

Anheuser-Busch will maintain its high level of sports marketing and sponsorship under new owner InBev. In fact, they said, spending could increase, A-B executives told The Associated Press

"There's nothing at all for those of us that are at the pulse of all this to suggest that our sports are cutting back at all," said **Tony Ponturo**, A-B's vp-global media and sports marketing.

Sports marketing accounts for two-thirds of Anheuser-Busch's overall marketing, but InBev's reputation as a cost-cutter had raised speculation that the huge budget could get the ax, leaving many a drinker to wonder "Whassup?"

InBev has said it has plans to make Budweiser and Bud Light into worldwide icons like **Coca-Cola** and **Pepsi**.

Maintaining Sponsorships

Carlos Brito, InBev ceo, has said he knows that his new company's ability to reach consumers through sports is one of the reasons it's such an attractive brand, and added that there wouldn't be cuts.

Ponturo and **Dave Peacock**, vp-marketing, emphasized that and said spending could in fact go up.

The beer maker will still maintain sponsorships, they said, adding that it's inking new deals and extending contracts even just this week. On Tuesday, one day after the deal was official, Ponturo said the company renewed a multi-year deal with the National Basketball Association.

Ratings for events like this week's Major League Baseball's All-Star game are up, especially with men age 21 to 34, Ponturo said. So they're not going to change what works.

Beer Consumer 'Surrounds Himself with Sports'

"The beer consumer totally surrounds himself with sports. It's emotional, there's a connection. It's local. It's passionate," he said.

Anheuser-Busch's reach into the sports world is massive. It's the official international beer sponsor of the upcoming Olympics and is sponsoring 25 country's teams. The company also has deals with teams for the National Football League, Major League Baseball, professional golf, and the 2010 FIFA World Cup in South Africa, among others.

To many, Anheuser-Busch and its Budweiser and Bud Light brands are synonymous with sports. That's because the image has been built heavily on marketing.

Think Super Bowl and images of Clydesdale horses and chants of "I love you, man" fill your head.

Ponturo declined to say exactly how much the company spends on marketing, but industry estimates are that Anheuser spent \$378 million in the U.S. on marketing last year. That's far above the nation's second and third-largest brewers, **Miller Brewing Co.** and **Molson Coors Brewing Co.**, which began their own joint venture in the U.S., **MillerCoors LLC**, this month.

InBev bought A-B knowing full well its heavy reliance on sports marketing and the company isn't going to change what works, Peacock said.

"They're not going to walk away from it, and sports are so important for reaching consumers with us, and we're going to maintain the relationships and sponsorships that we have that work," he said.

A-B Advertising Secret

People expect Anheuser-Busch to have catchy, sporty ads and they're able to do that since they're such a strong presence in the marketplace, said **John Sweeney**, director of sports communication at the University of North Carolina's School of Journalism. Since everyone knows **Budweiser** and **Bud Light**, they don't need to spend time talking about the brands in their ads.

"They're having a conversation with customers, so it's like yeah, they drop some nice things about Budweiser in, but in the meantime it's fun, it's interesting," he said.

Putting the ads on during sports events makes sense, he said, because men drink beer and men watch sports.

"We don't congregate in huge numbers in many places, so sports is where we all gather and that makes it a very efficient place to buy media for the male target, which of course is your target beer drinker," he said.

Other brewers know it, Sweeney said. If A-B pulls back, other brewers could swoop in to take those slots.

A-B Renews Olympic Sponsorship Through 2012

Anheuser-Busch renewed its exclusive malt beverage sponsorship of the U.S. Olympic Team through 2012.

A-B's sponsorship of the USOC spans more than two decades and 13 Olympic Games and Olympic Winter Games. Budweiser has been an Olympic supporter since 1984 when the brand was the official beer sponsor of the Olympic Games in Los Angeles. Anheuser-Busch backs its U.S. Olympic Team sponsorship with significant media buys on NBC and affiliated networks during the Olympic Games, as well as select athlete and National Governing Body sponsorships, retail point-of-sale and promotional items in stores nationwide.

"No sporting event or property embraces the American passion for pure competition and athleticism like the U.S. Olympic Team and the Olympic Games," said **Tony Ponturo**, vp-Global Media and Sports Marketing. "Budweiser is an American icon that is proud to support the U.S. Olympic Team as ambassadors to the world."

"Anheuser Busch has proven to be an invaluable partner to the U.S. Olympic Committee," said USOC Chief Executive Officer Jim Scherr. "The continued partnership between these two iconic, American brands through 2012 reflects Anheuser-Busch's commitment to supporting tomorrow's Olympic athletes, as well as the strength and value of the U.S. Olympic Team brand and the Olympic Movement worldwide."

Budweiser is the official international beer sponsor of the 2008 Olympic Games in Beijing, China, and is the exclusive alcohol beverage and non-alcohol malt-based beverage sponsor of the 2008 Olympic Games telecasts on NBC and its cable and Latino properties.

Budweiser and Bud Light also sponsor the U.S. Soccer Federation and the U.S. Ski and Snowboard Association, as well as 25 National Olympic Committees including China, Russia, Great Britain and Australia.

"Sponsorship of the U.S. Olympic Team provides Anheuser-Busch with an opportunity to reach adult beer drinkers around the globe and, at the same time, gain national and international exposure for Budweiser and the company's other brands," Ponturo added. "We'll continue to develop an association between our beer brands and the marks and designations of the U.S. Olympic Team and U.S. Olympic Committee in a variety of ways, which may include television, print, radio and outdoor advertising, as well as packaging, merchandising and point-of-sale materials."

Spirits

DeKuyper introduces **Burst Bar Shots**, a new product line of premixed cocktails in one bottle. "All a consumer needs to do is 'Open, Pour and Party'," the company said. In consumer testing, Burst bar Shots scored at parity or better than traditionally combined mixed shots for overall opinion, liking and purchase interest. A 750ml bottle of DeKuyper Burst Bar Shots retails for \$10.99.

Joel Whitaker
Editor, Kane's Beverage News Daily
PO Box 224, Spencerville, MD 20868-0224
301-384-1573
F: 301-879-8803
www.bevnewsdaily.com

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