



Case study

SABMiller in emerging markets

Choosing an entry mode

Our choice of entry mode has varied and generally been determined by legacy issues, rather than strategic considerations. The beer industry is dominated by a high degree of family ownership, and family ownership is usually sticky – they want to stay involved and are rarely going to sell 100%. We have a strategic partnership with the family-owned French firm Castel Group in 16 African markets. Additionally, many of our African assets are majority-owned assets with governments, acquired from privatisations.

The main disadvantage with a joint approach is simply financial: our brands in Africa are seeing incredible growth and we wish we had a bigger share of that. Other than that, the partnerships in Africa mostly have upsides. For instance, Francophone Africa can be more French than France, and Castel understands Francophone Africa.

The subsidiaries with government partners also have upsides. In the alcohol business, licence to trade and a rational tax environment are crucial. Having government partners helps with this. Doing business in Africa also involves much more community investment than in other world regions. A government partner can make sure this is not wasted. For instance, our government partners have helped us to be effective on water sustainability issues in Tanzania – and water is, of course, critical for beer brewing.

Building competitive advantage

There are two reasons our competitive advantage is sustainable. The first is that brands have, if anything, more power in Africa. Most Africans have first-hand experience of truly bad, even dangerous, food and beverage products. They also don't have money to waste. That makes Africans, as a general rule, more loyal to brands they know and risk-averse to new brands.

SABMiller's sustainable advantage in eastern and southern Africa is also based on our capital-intensive approach. In many African countries, you are competing with the informal economy. Much home-made alcohol is truly awful, but people are price-sensitive. You need to invest enough to get to a scale that enables you to compete on price with home-made alcohol.

Mistakes companies make in Africa

A lot of companies tend to underinvest in Africa because they are worried about risk. Even sophisticated global players can take a top-down approach, attempting to identify and pick off 'profit pools' from 10,000 feet. The markets in Africa don't work like that. For example, products such as beer are often very local. Trying to bring a global brand into a 'profit pool' just isn't going to work. A lot of companies also don't understand just how much innovation is going on in Africa. Adding Oreo flavour to breakfast cereals is not innovation; producing beer from an entirely new starch at a 30% cost advantage is.

SABMiller is unique among global leaders in the consumer goods sector in that its origins are in the emerging markets. Today, 70% of SABMiller's global revenues are from the emerging world. Latin America is the biggest regional contributor to the company's global earnings, producing over a third of earnings. But the company is most excited about Africa, where with its strategic partner, SABMiller controls over 60% of the African beer market.

Nigel Fairbrass, Senior Vice President Communications and Reputation; Richard Farnsworth, Business Media Relations Manager; and Tristan Van Strien, Senior Investor Relations Manager at SABMiller talk about their successful partnership strategy in Africa.

The key challenge in Africa is keeping up the level of investment. Investing ahead of demand is very capital-intensive. Elsewhere in the world they're reading about pipelines being blown up, and we're asking for more money to put into Sudan. And the pace is extraordinary. We built a new brewery in Juba, South Sudan, and within 18 months it was running at capacity so we doubled it. It's now once again at capacity and we're coming back for more investment. So the global organisation as a whole has to believe in you.



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