SABMiller faces competition in Latin America

SABMiller faces some changes in its most profitable region, Latin America, as its dominance is put to the test and as the region's economy slows...

The world's second-biggest brewer earns more than half its Latin American profits in Colombia and Peru, where it has near monopolies - controlling 98% of the Colombian beer market through its Bavaria subsidiary and 96% of the Peruvian market through Backus.

But now a Heineken-backed entity is building a brewery near Colombia's capital, Bogotá.

Adding pressure is the short-term outlook for the region's economy, which is heavily dependent on the commodity cycle and seems poised for a difficult year or two as commodity prices plunge.


(Image: Public Domain)

Avior Research analyst De Wet Schutte says SABMiller probably has little room to grow margins in the region, having already done so since buying the businesses in 2005. The group will also need to step up marketing spend as it contends with new competitors.

But Schutte says there is plenty of room for volume growth and an opportunity to increase the prominence of more profitable, high-end international and local beers.

SABMiller is trying to drive per capita beer consumption by making beer more affordable, growing its easy-drinking portfolio to attract women and other new consumers and targeting different occasions, while also increasing the frequency of consumption. It is focusing much of its effort on promoting more at-home, midweek and weekend consumption.

The strategy differs slightly between Peru, where at-home consumption is the norm, and Colombia, where the at-home market is small.

Schutte says incomes are rising and over the longer term, once recent excise hikes are worked out of the system, pricing power will be boosted by having 'premium' beers in the product portfolio.

He also believes Bavaria's new competitor, a Chilean brewer teaming up with Colombian soft drinks business Postobon, which will be backed by Heineken, will find it difficult to make meaningful inroads into the market.

The 'Bavarian Barrier'

Schutte says that on a recent market visit, he was struck 'by how deep and wide Bavaria's distribution network runs - that's arguably the biggest barrier to entry'.

Unlike in many developed markets, where a high proportion of sales are made through modern supermarkets, SABMiller's customer base of retail outlets in Colombia is highly fragmented, with numerous small, family-owned shops.

'The difficulty in doing business like that is also the strength for Bavaria's position, and is a massive barrier to entry.

'I think Heineken will find a home in Colombia, being a global aspirational brand. But ultimately it's about who's the largest and who can reap the benefits of economies of scale, and having household brands.'

Meanwhile, SABMiller plans to add two new 'frontiers' to its Latin American unit, regional president Karl Lippert told investors last month, referring to SABMiller's intended re-entry into Brazil and shift to in-house distribution in Canada.

The Brazilian market, which SABMiller pulled out of in 2012 after finding it inefficient to export to that country, is dominated by the world's biggest brewer, Anheuser-Busch InBev.

Trying Brazil again

SABMiller will try its hand in Brazil again through an agreement with the country's second biggest beer player, Grupo Petropolis. Petropolis is to produce one of SABMiller's premium beers initially, which SABMiller will market in the country and build as a brand. Lippert expects the partnership to be able to produce 1m-2m hectolitres annually in Brazil over the next 10 years.

Further afield, SABMiller will continue to export to Canada from the US, albeit now via its own distribution networks. The brewer's distribution agreement with Molson Coors comes to an end in April next year.

Canada has been assigned to SABMiller's Latin America unit, to which all profits will be attributed, as well as those of Ecuador, Panama, Honduras and El Salvador.

Lippert concedes that the regional business faces difficult trading conditions in the near term, largely due to the depressed commodity cycle, but says the addition of Brazil and distributing its own products in Canada will help offset this.

Schutte expects SABMiller to have a tough re-entry into Brazil, similar to Heineken's prospects in Colombia. But he expects the Canadian venture to be 'more substantial' as the group will earn the entire margin on its beers rather than a portion of the margin, as is the case with the current distribution agreement with Molson Coors.

Source: *Financial Mail*, via I-Net Bridge

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