AB InBev’s Acquisition Formula

By Laurence Capron , INSEAD

The beer giant applies three core principles to swallowing its competitors.

“I don’t need free beer. I can buy my own.” It was with these words that InBev’s CEO, Carlos Brito announced to employees of his American rival Anheuser-Busch (AB) that he had just bought their company for US$52 billion.

That was back in 2008. It came as a huge shock for the company’s employees who drank free AB beer at baseball games in the stadium of the company’s namesake, Busch Stadium.

The InBev “integration machine” had been set in motion and Anheuser-Busch experienced the same treatment as all companies that had been acquired by InBev over the last two decades: a war on waste; streamlined processes; instilling a meritocratic culture... all the “well-oiled” methods that had made AB InBev the world's leading beer company.

But will the Belgian-American giant repeat this strategy with its latest acquisition the British brewer, SAB Miller, the world’s number two beer company? What are the principles at the core of InBev’s strategy for acquisitions? What lessons could other companies who wanted to pursue a consolidation strategy via mergers or acquisitions learn from InBev? And what if any are the limits?

InBev’s post-merger integration system is a case study with three principles applied throughout:

1. Absorption and rationalisation.

InBev developed integration principles that its leaders have applied for over two decades: efficiency and optimisation, cost reduction and redundancies, instilling a meritocratic culture based on measuring performance and removal of executive privileges to maximise shareholder value. The nature of InBev’s M&A integration model is partly reflective of the nature of the company’s shareholders. The beer giant is partly controlled by 3G Capital, a private equity fund managed by Brazilian investors who follow the principles of private equity to the letter. This type of governance favours the systematic implementation of "consolidation" type acquisitions.

2. "One firm, one culture."

InBev’s discipline is reinforced by a strong corporate culture built around ten guidelines. Among these unifying principles are zero complacency, an ownership society, tight cost management, integrity and meritocracy. This culture is imposed on all companies that come under the control of InBev.

3. Implementation without compromise.

Often post-acquisition integration is as much an art as a science due to the many compromises that are required. These include balancing cost reduction and maintaining income, managing the rationalisation of brands whilst maintaining local micro-brands, juggling individual business performance and sustainability of the local community. For InBev, post-merger integration has become a science that is implemented with no qualms, regardless of the consequences: the removal of local iconic brands, massive layoffs (in particular the redundancies that Anheuser Buch made just before Christmas) and the rationalisation of suppliers at the expense of the local ecosystem’s development.

While many leaders bow to the success and discipline with which InBev applies its acquisition policy, others have reservations with the brutal nature of the company’s post-acquisition rationalisation. Is it an admirable, innovative approach or a step backwards at a time when local ecosystems and social responsibility are being promoted? One example is in the U.S. where AB InBev has been accused of obstructing the emergence of new competitors. The beer giant has acquired all the distributors so any new local brands will have little or no access to distribution networks.

If we look at InBev's success in its own prism, my research on growth patterns; build (organic growth), borrow (alliances) and buy (acquisitions) from my book, ***Build, Borrow or Buy: Solving the Growth Dilemma***, shows that any successful business can face obsolescence of its key skills and must anticipate renewal. Whatever the company's mode of growth it has only one string to its bow and is therefore likely to experience growing pains. SAB Miller is certainly the last major acquisition that AB InBev can undertake in the beer sector. If InBev wishes to continue its growth in this sector then its leaders must learn to give more importance to organic growth and internal innovation. But this will require a radical cultural change. Without this culture change, a key competence centred on streamlining through M&A could become a major constraint. But AB-InBev and its investor, 3G Capital, could of course decide to redeploy their key-competencies by making new acquisitions in other consumer sectors.

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https://knowledge.insead.edu/strategy/ab-inbevs-acquisition-formula

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About the research

This post is based on the book ***Build, Borrow or Buy: Solving the Growth Dilemma***.