Perspectives 2

SAB Miller & AB InBev in 2020

Laggards or Leaders?

Imagine that in 2020, AB InBev and SAB Miller's combined portfolios control "just" 55% (versus 2014's 63% dollar share) of the U.S. off-premise beer market. The above scenario would amount to a massive $4 billion negative retail sales gap, posing huge challenges for these two companies and to the industry at large. Amidst such change, it behooves all industry stakeholders to gain a deeper understanding of the changes facing the industry's two largest suppliers.

Is the Above Scenario Realistic?

Using our U.S. Beer Industry model's simulation capabilities, from a 2014 base we have applied forward growth/decline assumptions by retail sales channel and beer category type. The assumptions roll up within the model, unveiling a detailed forward forecast of the entire 2020 U.S. off-premise market. Our SAB Miller and AB InBev forward scenario assumptions were bearish, forecasting their leading National brands to shrink 22% in by 2020. Note that a 1% category dollar share decline for these two company's combined portfolios equals $500MM in annual sales.

### Developing a Strategic Perspective toward Industry Change

Management's leadership challenge is to plan effectively in the face of complexity and change. This process starts at the global (big picture) level and when warranted, also allows gaining rapid insight at more granular levels.

Our Company Group Holding matrix combines all brands of a single conglomerate parent (Co. Group), represented as a single bubble. For example, the AB InBev bubble below represents a combined 34 brands. SAB Miller's bubble represents 40 brands.

The matrix vertical axis plots the cumulative 2020 revenue growth/decline percentage for each Company Group. The horizontal axis shows the average retailer gross profit percentage earned for each Group's retail sales in 2020.

A Restructured Industry - Focus on SAB Miller & AB InBev

Source: EFFIS Consulting Beer Industry Model
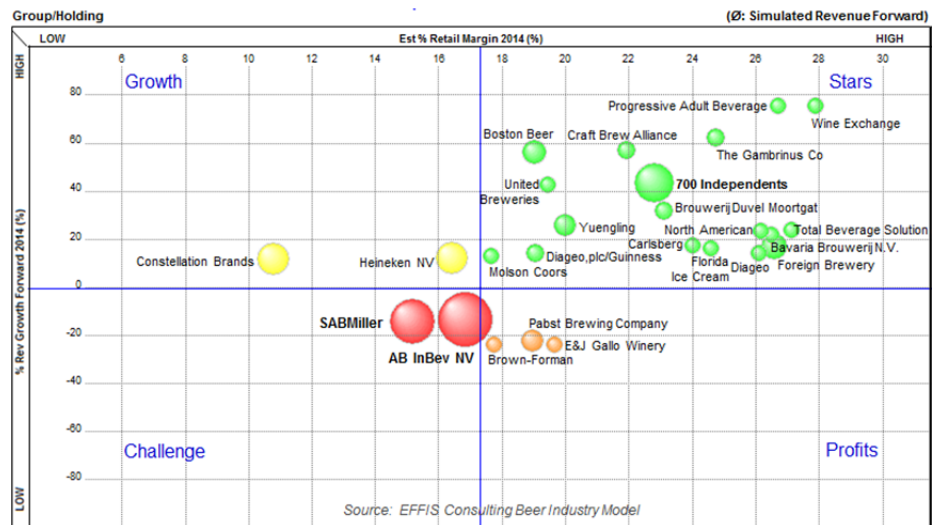
Key Data Points from the Matrix

- 100% of the 2020 off-premise industry ($51.4 billion sales) is reflected in the 25 matrix bubbles. Bubble diameter is proportionate to each Company Group's simulated 2020 U.S. off-premise retail sales.

- The matrix is divided into named quadrants:

  o **Green bubbles** are Stars - highest revenue growth and retail profits

  o **Yellow bubbles** (e.g. Constellation Brands) are Growth Leaders, with lower average retail profitability but higher than average revenue growth

  o **Orange bubbles** show Groups generating ongoing "Profits" (higher than average margins) for retailers, despite their negative growth.

  o **Red bubbles**, SAB Miller and AB InBev, are Challenged (revenue declines and lower than average retail profitability)

- SAB Miller's and AB InBev's 2020 Group Co. revenues exhibit a decline of 14.5% and 13.5% by 2020, respectively, as compared to 2014.

- Stars comprise 29% of total industry sales by 2020. Craft brewers are mostly Stars and comprise over 70% of the $14.7 billion in 2020 retail sales found in this quadrant.

- The green Independent (Stars) bubble represents 700 producers ($7.3 billion in 2020 sales) and includes players such as Sierra Nevada, New Belgium, Stone, Lagunitas, etc. This is the only Co. Group (albeit not under a single corporate umbrella) driving 2020 revenue gains in the billions of dollars.

There's More Than Meets the Eye

With complexity comes nuance and varying degrees of portfolio performance. This is particularly true as one goes beneath the surface to uncover the "real" meaning behind any complex, fragmented business.

A Deeper Look at SAB Miller and AB InBev's Group 2020 Performance

While at first glance identical to the previous matrix, the matrix below sheds deeper insight into each of the 25 Company Group bubbles. Note that the SAB Miller and AB InBev bubbles also show outer rings. These outer rings reflect the underlying sku level performance "dispersion" (across each matrix quadrant) across each supplier's individual product line.

The red outer rings for SAB Miler and AB InBev reflect those skus in their portfolios performing as Laggards; the green outer rings show the proportion of skus performing as Stars.

Source: EFFIS Consulting Beer Industry Model
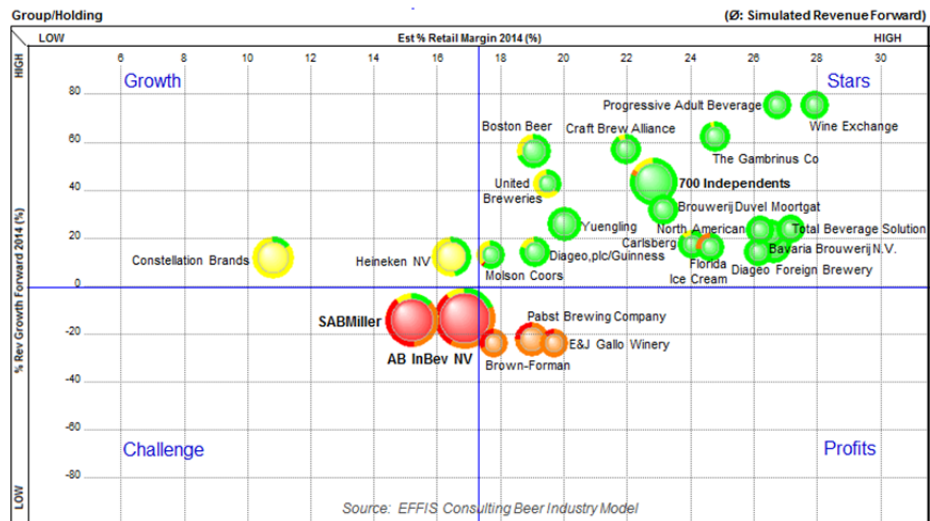
Key Insights from SAB Miller & AB InBev's 2020 Portfolio Dispersion Matrix

- 69% of AB InBev's individual sku portfolio performance (615 skus) lies outside the Laggards quadrant. Surprisingly, in 2020 21% of AB InBev's individual skus, totaling $3.6 billion in retail sales, are to be found in the green Star quadrant!

- 24% ($2.6 billion retail sales) of SAB Miller's individual skus will perform in the Stars quadrant.

- The combined Star performing skus (fastest growth and highest retail profits) of SAB Miler and AB InBev total $6.2 billion in sales.

- A company's portfolio performance is almost always found within multiple quadrants. The above matrix highlights the importance of gaining a rapid strategic view both the global and local detail found within any business or industry segment.

Should the Above Industry View Matter to Your Business?

Producers: Where does your portfolio fit in the redrawn industry landscape?

Retailers: How do you replace a looming 15% revenue decline in your AB InBev and SAB Miller portfolios? Where should you invest to bridge gap?

Distributors: On which producers in your portfolio can you focus to seize new opportunities in sales channels which rely heavily on National brands?

Managing Effectively Through Increasing Industry Complexity

Our Retail Industry Model is meant to assist beer industry executives in making informed decisions to increase profitability and market knowledge. The model allows management to more effectively assess their company's strategy within the context of internal operations and marketplace dynamics.

About EFFIS Consulting

EFFIS Consulting has been consistently engaged at the intersection of strategy consulting and analytics. A boutique firm, our experienced team brings a strong combination of corporate and practical experience, as well as extensive intellectual capital.

As needed, we build custom models for our customers based on multiple financial or operational sources, including in-house data or market intelligence data that they may have purchased. We typically team-up with our customers at the board or key executive level in a workshop format to gain real-time strategic insight over enterprise or market data.

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