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Analysis of Supply Chains in the Consumer Packaged Goods Industry
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Executive Summary

The following paper presents a case study on InBev, the product of the 2003 merger between beverage giants Interbrew of Belgium and AmBev of Brazil, to contribute to the MIT Supply Chain 2020 (SC2020) Project on supply chain excellence in the year 2020. With a goal to, “...identify what is important to maintaining a competitive positioning, including the business strategies, operating models, goals, and best supply chain processes” (Lapide, 2005), detailed research was conducted using a standard framework to find the needed information to compare InBev with other SC2020 participants. The framework employed in this paper will establish InBev’s industry characteristics, position in the industry, specific Belgian supply chain details, supply chain framework; and then on to AmBev’s Brazilian supply chain, supply chain framework, comparison and contrast with Belgian operations, and finally, predictions for the beverage industry.

The beverage industry is characterized by significant barriers to entry; vast consumer power; significant consolidation among, and growing power to, retailers; oligopolistic practices by leading industry participants; low threat of harmful product substitutes, and; little market power for suppliers, as determined using the Porter 5-Forces Tool.

An overview of the top four beverage firms, by revenue, shows little material contrast among the general strategies and supply chains employed by Coca-Cola, Nestle, Anheuser-Busch and Diageo. The industry is polarizing toward homogeneity as evidenced by recent near-identical international expansion efforts by all firms. All firms are seeking to capitalize from high-growth regions, since they are all situated in mature regions, due to the requirement to provide superior returns for shareholders. International growth typically comes by means of mergers and acquisitions, forgoing the learning, cultural diffusion and technology transfer that usually occurs during, and subsequent to, greenfield or organic expansion.

Most firms license out some of the production of their beverages to rivals, and through these license and reciprocal agreements, ensure parity in quality, taste and appearance of beverages, as well as parity in supply chain performance due to subsequent utilization of that rival’s distribution channels. Further, rivals often jointly hold ownership in the same beverage companies, ensuring that technological and operational know-how remains identical.

To most consumers nearly all beverage brands are indistinguishable in blind taste tests, thus negating brand preference as the primary determinant of purchasing decisions. With relative parity in operational efficiency, distribution, packaging, and others, marketing is only distinguishing feature among beverage brands. The industry is driven predominantly by consumer trends and preferences, and effective marketing amplifies these trends. Successfully competing against a free, potable, life-sustaining beverage (tap water) requires a very crafty value proposition, yet most beverage firms succeed even in this realm on nothing other than highly effective advertising.

InBev, like many industry competitors, consists of a patchwork of disparate acquirees, formed from rampant merger and acquisition (M&A) activity. The resulting geographic spread has necessitated segmentation into new regional strategic business units. InBev’s pace of M&A has been so frenetic that they have lacked the ability to capitalize from their growth in volume and scope, opting instead
for regional autonomy and relatively decentralized operations. While less than ideal from an economic point of view, priority in the industry has been strategic gaming in emerging markets where rivals jockey for capacity in desirable regions.

InBev’s supply chain structure can be described as regionally efficient yet bound by historical, regulatory, geographical, political and temporal constraints. In Belgium, for example, InBev is bound by regulatory constraints against further distributor consolidation, and is further forced to adhere to a strict recycling imperative. Belgian soil is suboptimal for growing several brewing inputs, which necessitates importation of raw materials from nearby countries. The four Belgian plants in operation exist in their present topology due to M&A in Belgium, and should be retained as such due to the image that each beer brand portrays. Therefore, while several compelling reasons exist for more optimized operational efficiency, InBev instead chooses to operate within their given parameters to achieve brand image and quality, factors which cause lesser friction and require lesser effort.

Raw materials for Belgian production are sourced from several disparate suppliers, depending on quantity available, quality of input, price, reputation of partner, proximity of supply, and relative transportation cost. Their packaging consists mostly of recycled glass bottles, and includes metal cans, kegs, and plastic bottles, all in varying sizes. Procurement and production decisions are made out of necessity more than choice; as aforementioned, InBev must operate within myriad constraints, but they also must deliver their beverages in a manner which suits their marketplace. In Belgium a significant percentage of beer is sold through vending machines, which requires specific can sizes. Similarly, kegs and bottles cannot vary significantly from existing sizes otherwise the industry faces millions of dollars in refitting costs.

InBev’s core competence is declared to be brewing excellence, which is reinforced by their world-class brewing process in Leuven, Belgium. To implement such automation in all their brewing facilities is prohibitive in cost and time yet, with enough growth in sales, could be warranted from a cost-benefit analysis. The same would apply under further M&A – once sufficient volumes are reached in a region, best practices rollout becomes ideal. But until this brewing standard is offered at all plants, even this competency cannot be claimed as company-wide; and further due to the low value-to-weight ratio on beverages, finished goods are not exportable globally, barring any sharing of the benefits of this brewing excellence.

Beer production can take several weeks to several months, and is perishable as a raw material or finished good. InBev recognizes the urgency in rapid transportation and consumption of their products, yet all wholesalers keep significant safety stock of beers. The supply chain is optimized for fill-rate since beer spoilage is considered less financially detrimental than a stockout. InBev, like most beverage producers, stamps their product with a "brewed-on" or "best-before" date to further amplify the negative effects of spoilage.

As a patchwork of acquirees who presently share little knowledge, and leverage no core competencies in beverage production, InBev’s Belgian operations lack what Michael E. Porter refers to as “fit”. Activities are inconsistent, and do not support the overall strategic position of the firm.

Looking at AmBev and their South American operations, what is clear is that AmBev possess market power and market dominance in beer in nearly all South
American countries. They also hold market strength in soft drink sales, buoyed by their licensing agreements to produce, bottle and distribute Pepsi across South America.

AmBev, like InBev, is also a hotchpotch of M&A activity, yet AmBev has succeeded in rapidly assimilating acquirees into their corporate culture to achieve a more cohesive structure. Furthermore, AmBev has centralized know-how, best practices and operational efficiency, retaining the resulting core competencies within their walls.

AmBev possesses a strong competitive advantage due to its first-mover position and abundant, low-cost capital. This advantage has been augmented with a consistent, reinforcing set of supporting activities under the headings of operational efficiency, market understanding, product portfolio attractiveness, staff management, stakeholder management and market power. From their mastery of their operating environment, available resources, management of partners and other stakeholders, and a drive for continuous improvement, AmBev has earned its dominant, sustainable position in South America.

While InBev cannot replicate AmBev’s “activity map” to achieve similar success in Belgium, several prudent practices can be adopted: committing to a particular target market with coincident products rather than “straddling” and attempting to service every market with many products; centralize corporate knowledge to align staff and teach to them common goals, understanding and corporate culture; really understand the markets in which entry is desirable, specifically focusing on consumer tastes and preferences; innovate to become distinguished from the pack, then market the outcome aggressively; design the supply chain for operational/financial optimality; centralize operations for coordination and scale, and; employ fast measures to develop and enhance cohesion among acquirees.

The future of the beverage industry holds few surprises, and will continue to play out as it is now. As long as consumers continue to increase beverage consumption each year, and disposable incomes rise in potential markets, manufacturers will devote their efforts to gaining and growing market share in these emerging markets, and will do so primarily with M&A. Threats will be neutralized and competition will be relatively silent due to the large, menacing capital that can be deployed for any contingency. The “holding pattern” that presently exists will continue despite the positive effects that are attained in more confrontational wars.