HOW A LEADING COMPANY CAN OVERCOME A COMPETITIVE CHALLENGE:
A CASE STUDY OF ANHEUSER-BUSCH COMPANY

by

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Submitted to the Alfred P. Sloan School of Management
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ABSTRACT

By examining a case study of Anheuser-Busch Company, the largest beer company in the world, this thesis deals with how a leading company can overcome a competitive challenge.

In 1970’s Anheuser-Busch faced a severe competitive challenge from Miller Brewing, a subsidiary of Philip Morris. Miller brewing introduced the powerful and modern mass marketing tactics to the beer industry in the United States. As a result, its market share increased dramatically and Miller became a major threat to Anheuser-Busch. At the same time, Anheuser-Busch suffered from a cost crisis and from an internal management conflict. Meeting these crises successfully was a critical challenge to Anheuser-Busch.

In 1975 August A. Busch III was named CEO of the company. He introduced the new management philosophy to the company. He also formed the new management team in order to address the crises. On this new platform, he and his management team reformed Anheuser-Busch strategy drastically. This thesis describes the new management philosophy and examines how Busch III implemented that philosophy at Anheuser-Busch.

Anheuser-Busch learned many valuable lessons from the fierce competition with Miller Brewing. These lessons included improvements to total strategic planning, marketing and cost control programs. Based on these lessons Anheuser-Busch met the challenge and outperformed its competitor. As a result, Anheuser-Busch solidified its leading position and succeeded in growing its market share and profit even the total market changed into flat in 1980’s.

Thesis Supervisor: John R. Hauser
Title: Kirin Professor of Marketing
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I. Introduction

There are many cases where a leading company faced a critical competitive challenge and experienced hard time struggling with it. Some companies were successful in meeting the challenge and some were not. Everyone may want to know the reasons why they were divided into the two groups. Although it is a very interesting theme to study, it requires more knowledge, more information and more time to generalize the study into a theory.

Instead, I would like to study a case where a leading company faced a critical competitive challenge, overcame it and even made use of the lessons it learned through the challenge in order to strengthen its sustainable position in the future. Even if this approach has a limitation to a specific industry, we will be at least able to obtain valuable implications.

I picked up the case of Anheuser-Busch Company, Inc. The company is a parent company of its large subsidiary, Anheuser-Busch, Inc, the world largest brewer famous for its Budweiser brand. For I studied mainly the beer industry in the United States in this thesis, I will call the company just as Anheuser-Busch except for some special occasions.

Anheuser-Busch was established in 1852 in St. Louis and has been the leading brewer in the United States since 1957. The company dominates 46.5% market share in 1996 and the closest competitor, Miller Brewing, holds 22.4%, less than half of Anheuser-Busch market share. Anheuser-Busch is literally a “King of Beers”.

When we take a look at a chart that shows historical industry market trend and Anheuser-Busch’s market share, it is hard to believe that Anheuser-Busch ever faced competitive challenges except for 1976 (Exhibit 1). In that year all breweries of the company had been shut down for three month by a terrible strike. As a result, the spread between Anheuser-Busch and Schlitz, the second largest brewer then, shrank drastically.

However, the real threatening competitor was not Schlitz but Miller Brewing, the third largest at that time (Exhibit 2). In 1970 when the U.S. beer market was in the middle of rapid growth that started around 1960, Philip Morris purchased Miller Brewing, the seventh largest brewer then. Philip Morris introduced the modern and
powerful marketing, which it had developed successfully in Tobacco industry, along with huge capital infusion into a relatively conventional beer industry. Miller's surge started in 1973 by gaining the acceptance of a new beer drinking generation, so-called Baby-Boomers, a major driver for the market growth during 1960's and 1970's. Miller introduced a new brand, Miller Lite, low-calorie beer, nationwide in 1975 on top of successful Miller High Life. As soon as Miller Lite was launched, it also obtained the acceptance of Baby-Boomers. Miller’s growth had been overwhelming since 1973. Its marketing strategy was substantially different from that of the conventional beer industry in both quality and quantity. Moreover, Philip Morris was ready to invest necessary capital for Miller’s capacity expansion.

In the early 1970’s, even though it continued to grow its volume, Anheuser-Busch had external and internal issues such as strikes and increasing cost of products sold. Along with these crucial problems, it was suddenly confronted by a major competitive challenge of Miller Brewing, or Philip Morris.

August A. Busch III, Chairman of the Board and CEO of Anheuser-Busch, was named CEO in 1975 at the age of 38 and also Chairman of the Board in 1977. He declared war against Miller Brewing upon his appointment and the Great Beer War had started. Under his strong leadership, the company had reformed almost all its strategy and action plans with an amazing speed. August A. Busch III declared the victory of the Great Beer War in the letter to shareholders in annual report 1980.

*Five years ago, the company faced a major competitive challenge.*

*It met that challenge head-on with dynamic marketing programs, innovative management and the teamwork of our employees.*

*Today, we are better off for having faced that challenge.*

*We have solidified our position of industry leadership, sharpened our management skills, and created in our employees a reinvigorated pride in Anheuser-Busch.*

In spite of the flat growth of the market since 1980, Anheuser-Busch alone continues to grow its market share until today. It is as if Anheuser-Busch’s Clydesdale that warmed
up during 1970's has been running a race at a full speed without any competitors in the race truck. Finally, below are my goals to achieve in this thesis.

1. *Understand Anheuser-Busch Crises in 1970's*
2. *Understand how Anheuser-Busch managed to overcome the crises*
3. *Understand how Anheuser-Busch made use of the lessons for its future growth*
II. Anheuser-Busch Crises in 1970’s

1. Industry Overview in 1970’s

Before studying in detail the crises of Anheuser-Busch in 1970’s, I would like to overview the beer market trend at that period. For this overview can help us better understand the crises of Anheuser-Busch.

As soon as the Baby-Boomers reached a beer drinking age in 1960’s, the U.S. beer market started to grow rapidly. According to a survey done by an industry consultant in 1981 (Exhibit 3), Age 18-24 group was the largest beer consumer on per capita basis. This age group consumed 56% more beer than the average consumption per capita. The second came Age 25-34 group. It also consumed 35% more than the average. Other older groups consumed less than the average by 15% to 60%, respectively. When we compare the U.S. beer market trend with the population trend of 18-34, it is easy to find a strong correlation between these two variables. The rapid market growth continued until around 1980 when the Baby-Boomers were no longer heavy-beer-drinking age. Thus, the first key word for this period is “Baby-Boomers”. How to attract them had been the critical issue to the competitive beer industry.

The second key word is “Premium Beer”. The Baby-Boomers loved “Premium Beer” and its shipment volume gradually increased in 1960’s and soared in 1970’s (Exhibit 4). As of 1974 it outsold “Popular Beer” for the first time in the history. There are no authorized definitions for “Premium Beer” or “Popular Beer”. Historically, the U.S. beer industry consisted of many small regional players, and they were doing business mainly inside their own territories by selling beer at “Popular Price”. In the meantime, several big regional brewers started to shipment their beers outside their territories. These “shippers” had to mark up additional costs such as freight. They began to claim their beers to be “Premium” to justify the higher price than those of the regionals. In general, main brands brewed by national players such as Anheuser-Busch, Pabst, Schlitz and Miller, and also brewed by big regional players such as Coors were categorized as “Premium Beer”. One of the reasons why Baby-Boomers wanted to buy premium beers was the overall increase of disposable income. They could buy premium beer simply because they could afford it. The second reason was the shift of retail outlets
from on-premise market to off-premise market, especially to supermarket (The third key word was “Off-Premise”). When we enjoy beer in a bar, the number of brands we can order there are limited. However, in a supermarket we can buy whatever brand we like because a supermarket has a wide selection of brands in order to meet various customers’ needs. Under the competitive condition as above, national brands (Premium Beers) which national players promoted by heavy advertising and storefront promotions must have had competitive advantages against small regional brands. National players even introduced fierce price promotion to acquire market share from the regionals.

The fourth key word was “Convenient Packages”. Can and Non Returnable Bottle are convenient packages mainly for off-premise market. These packages grew dramatically in line with the shift from on-premise market to off-premise (Exhibit 5).

2. Competitive Crisis

In 1970 Philip Morris, one of the major Tobacco companies in the United States, purchased Miller Brewing Company at the cost of $227 million. Miller was the seventh largest brewer at that time with a premium brand, Miller High Life, which was the sixth largest brand and one of the only three national brands. The other two were Budweiser and Schlitz. Philip Morris seemed to have paid a special attention to the nationwide distribution network and high brand awareness of Miller brand. Although Miller had been showing slow sales performance despite the very favorable market trend, Philip Morris judged the potential volume and profit of Miller in the future would be promising under the strong market trend towards “National Premium Brands” if it could restructure Miller properly.

In 1971 Philip Morris appointed John A. Murphy as Chairman and CEO of Miller Brewing Company and started to restructure the company. Until then, Philip Morris maintained the former Miller management to run the brewing company in a conventional way. But that system did not work to improve Miller’s performance and at last Philip Morris decided to reorganize the top management of Miller by its own people. John A. Murphy used to be an executive vice president of Philip Morris International and was the first top management of a major brewer who came outside the beer industry. As soon as
he was named, he began to introduce Philip Morris style of marketing, “Power Marketing”, backed up by the profitable parent company (Exhibit 6, 7).

Firstly, the new Miller management repositioned Miller High Life drastically. Its concept had been a “Champagne of Beer”. The brand had many drinkers but mainly women and upper-income class people. The positioning was unique but its market was not so promising in volume because its customers were not heavy drinkers. In order to obtain “Real Drinkers”, they repositioned Miller High Life simply back to “New Standard Beer” and introduced a new advertising campaign to penetrate its new brand image. This new advertising campaign, “Miller Time”, captured the strong sympathy of the Baby-Boomers.

Secondly, they introduced a new package called 7-oz Pony Pack Bottle. At that time 12-oz bottle was the industry standard. The new 7-oz pack bottle was well accepted by not only light drinkers but also heavy drinkers because of its uniqueness. It was said that one of the reasons for the success was that heavy-drinkers could drink up beer before it got warm even in a hot summer season. This package was so successful that it contributed a large part of incremental sales in 1973 and initiated the Miller’s surge along with the new advertising campaign.

Thirdly, they started to spend an incredible advertising expenditure compared with their sales volume. Their share of voice had been twice as large as their market share during 1973 to 1976 (Exhibit 8). This spread decreased as Miller’s sales went up in later years, but “Continuous Heavy Advertising” can be considered to be one of the most characteristic marketing strategy of Miller. The most symbolic fact was Miller spent nearly the same total amount of money for advertising as Anheuser-Busch in 1975 when its sales volume was only one third against that of Anheuser-Busch (Exhibit 9).

Fourthly, this is closely related to the aggressive spending on advertising, they started to dominate many popular TV sports programs and events such as the World Series, ABC Monday Night Football, CBS Pro Football and College Football, Professional Basketball, Tennis and the Indianapolis 500. Miller initiated and developed the “Sports Marketing” in an well-organized and modern manner to reach the majority of “Real Beer Drinkers” with its brand messages.
Fifthly, Miller propelled “Multi-Brand Marketing”. Anheuser-Busch had already initiated “Multi-Brand Marketing” by lining up Michelob brand for super premium category and Busch brand for popular beer category on top of Budweiser brand for premium category. Miller’s uniqueness was that Miller did not hesitate to line-up another brand in the premium beer category, where it already had Miller High Life. It introduced Miller Lite, low-calorie beer, in 1975 with another aggressive advertising campaign. Light beer was not Miller’s original but Miller developed a new concept for its Miller Lite. Before Miller Lite, a light beer was perceived as a “diet beer” which had a negative image. Miller Lite sent a message in a positive way to “Real Drinkers” that they could drink more beer as they like because Miller Lite had a less filling taste with only two thirds of calorie compared with regular beers. Miller Lite also used sports stars and celebrities like Mickie Mantle and Whitey Ford as brand spokespersons. Miller Lite had been so successful that it contributed a lot to total Miller sales and profit performance. Miller jumped from the seventh place in 1970 to the second place in 1977. Miller’s sales volume grew five times from 5 million barrels in 1970 to 24 million in 1977. Miller’s operating income boosted from only $5 million to $107 million respectively (Exhibit 2, 10, 11).

Finally, aggressive volume growth requires aggressive brewery expansion. When Philip Morris purchased Miller Brewing, it had only two breweries with obsolete equipment. Philip Morris headquarters continued to show its strong commitment to the long-term success of Miller. From 1973 to 1977, Philip Morris invested $500 million on top of its initial acquisition cost of $227 million in order to expand and modernize Miller’s capacity. Through this super-aggressive expansion investment, Miller’s breweries had become the most efficient ones in the industry as of late 1970’s. That efficient production enabled Miller to gain more profit than before as it gained more volume.

Before Philip Morris purchased Miller in 1970, brewers were fighting with each other but the battles had been local or still within the conventional rules of the industry. Philip Morris revolutionized the relatively quiet industry with its aggressive marketing and huge capital investment into the really competitive one where modern marketing strategy was vital to survival and growth. Philip Morris studied the industry trend
carefully and found key factors for success, such as “Baby-boomers”, “Premium Brand”, “Off-Premise market”, “Convenient Packages” and advertising. Once the opportunities having been found, it simply focused its strategy and resources on these key factors with a strong commitment. In 1971, even before Miller showed any upward move in the market, Philip Morris stated clearly its long-term commitment to Miller’s success in the annual report.

*The continuing consumer trend toward national premium brands should be a positive factor for the company. To take fullest advantage of what we see as excellent opportunities for Miller, we will continue to emphasize the building of market franchises for long-run profitability, although this may mean sacrificing profits over the short term.*

Along with the modern marketing strategy and the huge investment, this long-term perspective of Philip Morris management must have been a greater threat than that of its actual market share to Anheuser-Busch and other brewers.

3. **Cost Crisis**

Anheuser-Busch had been facing other crucial problems when it was suddenly confronted by the unprecedented competitive crisis, Miller’s challenge, in the middle of 1970’s.

Cost of materials of beer, which comprises of ingredients cost such as barley malt, hop, rice and corn grits and packaging materials cost such as can and bottle, started to increase drastically due to the overall inflationary economic situation in the United States at that period. However, Anheuser-Busch could not raise its beer price up enough to offset the cost increase because of then President Nixon’s Economic Stability Program and the very competitive industry situation. As a result, cost of products sold against net sales soared from 73% in 1970 to 84% in 1974 and its operating income was squeezed badly in 1973 and 1974 despite its continuous shipment volume growth (Exhibit 12, 13). Cost of materials represented more than 50% to net sales, by far the largest cost factor.
Furthermore, Anheuser-Busch had been using only natural premium ingredients and that made the matter worse to the company.

Immediately after the price freeze ended in 1974, Anheuser-Busch raised its beer price substantially and its profit improved dramatically in 1975. But that was a temporary solution of the cost crisis. Cost of materials continued to increase in 1975 and the rest of 1970’s (Exhibit 14). The second largest factor of beer cost was payroll, which represented nearly 20% to net sales. Anheuser-Busch froze the payroll per employee from 1974 to 1976 in order to secure its bottom line (Exhibit 15). This payroll freeze contributed directly to the company’s profit recovery in 1975. But it compelled the company to pay the terribly larger money in 1976.

In 1976 the strike occurred at all Anheuser-Busch breweries for three high demand months. Its sales volume dropped from 35 million barrels in 1975 to 29 million barrels in 1976. Its net income was damaged from 85 million dollars to 55 million respectively. As a result of the strike, the average payroll per employee jumped by 18% in 1977 and the total payroll continued to increase nearly at the same ratio as that of net sales. Beer business is very capital intensive. If a company invests huge amount of capital for modernization and expansion, its payroll ratio to net sales will decrease substantially. In other words, the productivity per employee will improve dramatically. But the case of Anheuser-Busch in 1970’s was quite different from the general productivity theory. Although it was spending extraordinary capital expenditures since 1975, its shipment volume per employee had been below the industry level since 1970 and the spread expanded after the strike (Exhibit 16).

It seemed that Anheuser-Busch had to realize two mutually contradicting goals at the same time, beer price increase and sales volume expansion, in order to achieve a favorable financial result in 1970’s even under the competitive challenge by Miller Brewing.

4. Management Crisis: Old Management vs. New MBA Executives

August A. Busch, Jr. had managed the company as Chief Executive Officer from 1946 to 1974. He was the father of August A. Busch III, current Chairman and CEO of Anheuser-Busch. Busch Jr. opened a new brewery outside St. Louis in 1951. It was the
first brewery expansion outside a brewer’s main territory in the U.S. beer industry. He also made the company the largest brewer in 1957 and this leading position continues to date. He was a so-called “Beer Baron” and his flamboyant style was very popular in the industry and also among St. Louis people. His management philosophy may be described as follows.

1. Strong Commitment to Product Quality
2. Moderate Brewery Expansion based on Sustainable Growth Theory
3. Partnership with Distributors

He referred to his strong commitment to product quality frequently and clearly stated that Anheuser-Busch would never sacrifice the quality of beer in order to reduce the cost as long as he lived. The company continued to use only natural and premium ingredients and the time-consuming brewing method while other brewers began to shift into lower cost ingredients and time-cut brewing methods. As a result, per barrel cost of products sold had been substantially higher than that of competitors (Exhibit 17). This strong commitment to quality was also the main brand message in its advertising.

He opened eight breweries strategically throughout the United States during his reign. These brewery expansions brought about substantial freight cost reduction to the company and also contributed to strategic sales expansion programs in respective regions. He and his management financed these brewery expansions largely by internally generated cash flow. They had been reluctant to borrow money from banks. They maintained its debt to debt plus equity ratio at a low level from the late 1960’s to the early 1970’s when the market was growing rapidly (Exhibit 18). They even reduced the capital expenditures and paid back the long-term debt. Until the late 1970’s Anheuser-Busch continued to suffer product shortage almost every year (Exhibit 19). They could enjoy 100% capacity utilization for years but they also lost the opportunity to gain the possible maximum sales volume and market share. On the contrary, Philip Morris invested huge amount of capital expenditure for Miller’s brewery expansion and modernization by using debt financing from a long-term perspective.
The third backbone of his management philosophy was a strong partnership with distributors. He initiated many wholesaler support programs. He created a "Wholesaler Advisory Panel" in 1960's, which consisted of 15 wholesaler representatives. The panel met four times a year with Anheuser-Busch senior executives including Busch Jr. They discussed about Anheuser-Busch strategy frankly without any filters of Anheuser-Busch organizations. If there were any reasonable problems, Anheuser-Busch immediately reformed its programs and operations. This panel gave wholesalers pride and feeling of involvement and gave Anheuser-Busch in return the precious market information. On top of this highly strategic partnership program, Busch Jr. and his management introduced many specific wholesaler support seminars featuring delivery, warehousing, sales promotion, finance and management. Furthermore, Busch Jr. and his management frequently visited the distributors. All these close communication and support programs developed the strong partnership with distributors and it became one of the most significant competitive advantages against rivals.

While Anheuser-Busch was expanding its business in 1960's, a new group of people with a new culture emerged. As soon as E.H. Vogel was appointed vice president in charge of marketing, he started to visit many marketing institutes and universities in the United States to absorb modern marketing theories. He was a brew master himself and found the company's marketing and planning were not based on scientific theories but based on intuitive creativity or empirical decision making process. He became acquainted with Professor Russell Ackoff at Wharton School and introduced "Management Science" to Anheuser-Busch in 1959 for the first time in its history. Ackoff made some researches with his researchers at Wharton, backed up by Anheuser-Busch, on advertising expenditure issues such as how much a company should spend on advertising, how total advertising budget should be allocated into various media to maximize the sales, etc. One of the biggest reasons why Busch Jr. approved this project was that he wanted to reduce the growing advertising budget. Ackoff's research results provided favorable tool to Busch Jr. and the company approved further financial support to the school. It was said that Anheuser-Busch supported $200,000 to $300,000 a year for researches. Wharton allocated smart researchers to work on many projects regarding marketing and advertising by using the latest analytical computer-models.
Vogel introduced the ideas of “Management Science” to the company. August A. Busch III, Vice President and General Manager then, who had a vague but urgent feeling to change the conventional management culture, was sparked by the ideas and started to establish an internal organization for “Management Science”. He became a director of the board of a management science association and started recruiting capable people. He also contacted many Wharton MBAs who were staff for Ackoff and told them enthusiastically his future plans at Anheuser-Busch. Since around 1965, he hired many management science professionals and MBAs and he placed them at Planning Department as his think tank.

These MBAs were completely different from the old style management. They were young (mainly middle 30’s as of the middle of 1970’s), smart and ambitious. They based their planning on scientific analysis of the market and simulation. The market had been changing dramatically and growing fast since 1960. All these facts led them to plan an aggressive expansion strategy. Furthermore Philip Morris purchase of Miller and its aggressive marketing alerted them to do so immediately.

As I mentioned at the beginning of this section, Busch Jr. and his management were running Anheuser-Busch by their own conservative ways. Since the establishment of Planning Department that was headed by Busch III, the old management and the new MBA executives often had conflicts regarding the company’s strategic planning process. This can be called a battle for supremacy necessary to restructure the stagnant situation of the company. This battle lasted during the early 1970’s when the company faced the competitive challenge and also the critical cost crisis. Finally, the director of the board named Busch III as Chief Executive Officer in 1975 and his reign has started.
III. August A. Busch III Management Philosophy

August A. Busch III entered Anheuser-Busch as a Teamster member in 1957. He started his career as a malthouse worker and experienced various jobs at various departments until he became Vice President and General Manager of the company in 1967. The beer market started to show dramatic changes when he entered the company. He attended a university but never graduated it. Instead, he enjoyed sports such as ski and fishing. The academic studies at the university did not seem to attract his curiosity. But the dramatically changing beer market did spark it. He even attended the Siebel Institute of Technology in Chicago and gained a diploma as a brewmaster. It seemed that he had input all necessary and detailed information about beer business operations during his experiences at various departments and also had set up his own staff by the end of 1960’s. He had been ready to run the company any time after 1970. The competitive challenge by Philip Morris and the cost crisis had determined him to do so immediately.

As soon as he was named CEO in 1975 at the age of 38, he stated his management philosophy to the whole company as follows. Although it was simple and brief, it clearly expressed his visions and challenges. He transformed the company toward the exact direction he promised in this management philosophy.

*It’s a WE company. It’s Team management.*

*It’s Creativity and Ingenuity. It’s the application of Management Science.*

*Above all, it’s people, common sense and hard work.*

*It’s a WE company.*

This philosophy seems to contain his strong antithesis against “family own company” and his desire to transform the company into a modern and sophisticated one like publicly held large companies. He seems to deny the qualification as presidency or CEO just because he or she is a family member. In his view top management should be named because he or she is a professional officer to run a company. He is said to possess less than 1% shares of Anheuser-Busch. The Busch family total possesses 25% but they
are dispersed. One of the Directors of the Board clearly explained Busch III was named CEO just because he was an extraordinarily capable officer.

He started to implement programs to transform the company from “family own” to “WE company”. First, he introduced the Employee Stock Purchase and Savings Plan in 1977. Although the government mainly supported the fund for this plan, Busch III promptly started it. As of 1977, approximately 70% of eligible employees participated in this plan and purchased total 400,000 shares and they became the shareholders of Anheuser-Busch. Second, he offered special convertible debentures exclusively to the company’s distributors in 1989. The distributors invested $242 million dollars in total and they also became potential shareholders of the company. Third, he reorganized Anheuser-Busch organization in 1979 and made its operating divisions independent companies, such as Anheuser-Busch, Inc., domestic beer business, Anheuser-Busch International, Inc., international beer business, Metal Container Corporation, can business, Busch Agriculture Company, agricultural products business, Busch Creative Services, advertising agency, Busch Entertainment, entertainment business, etc. The official purpose of this reorganization was to reinforce each operation’s management through decentralization. But in my view, it was also a special offering of posts of CEO to Anheuser-Busch senior executives. As long as Busch III is CEO of Anheuser-Busch, they cannot experience the top position in the company. Every senior manager dreams to be a CEO to run a company. Busch III knows this dream more than anyone else does. He presented these posts to his senior management, of course with huge responsibility, and tried to reduce the level of his dominance in Anheuser-Busch.

He also began to communicate with the employees. He and his senior executives visited all breweries and held a meeting. Busch III wanted two-way communication. The first half was allocated for Anheuser-Busch senior executives to make a presentation on the company’s strategy and action plans. The second half was consumed as Question and Answer session. According to a former executive, initially employees’ reaction was not so active in the Q&A session. No one raised a hand. Then, one of senior executives asked an employee whether he was happy working at the brewery. He replied no. The executive asked why not happy. He said because he could not enjoy playing softball at the brewery any more. The executive asked why you could not play. He said the
company cut the budget for it. The executive asked the plant manager whether it was true or not. The plant manager answered it was true. Then the executive asked again the employee how much the budget used to be. He replied $1000 a year. The executive asked the plant manager if he could allocate the amount from the total brewery budget. The plant manager said he could do it. Then the executive said to the employee you would enjoy playing softball and asked again if he was happy. The employee said no again. The executive asked why not. He said because there was no place to play softball any more for the ground had been deserted and it was covered with grass. The executive asked the plant manager whether he could cut the grass. The plant manager said he could. After this conversation, many employees raised their hands and two-way communication started. During the cost crisis in the middle of 1970’s, Anheuser-Busch virtually cut the total payroll and that brought about budget cut of employee welfare as above and finally led to the terrible strike in 1976 (Exhibit 15).

Through the programs above, Busch III seemed to have been transforming the company from “Family Own Company” to “WE company”. He set up a framework in which all Anheuser-Busch people, from the bottom to the senior executives including distributors, are happy working not for the company but for themselves. But he knew that if all Anheuser-Busch people work for themselves, they will work very hard and that will result in excellent performance of Anheuser-Busch. It was amazing that only 38 years old young CEO, who had no real experience of running the company, stated his challenge clearly at the beginning of his reign and did achieve it.

*It's Team management.*

As I mentioned in the earlier section, Busch III was sparked by the ideas of Management Science and desired to establish an internal organization where strategic planning was made based not on conventional process but on scientific one. He hunted many Management Science professionals and young MBAs by himself telling them his vision of Anheuser-Busch in the future. His story charmed many of them and they entered the company in the middle of 1960’s. John H. Purnell, one of senior executives ever since the startup of Busch III reign and a Wharton MBA, described the interview with Busch III as follows:
It literally changed my life. Anheuser-Busch was on the threshold of a new era, and August painted a picture of an exciting adventure of new frontiers to be conquered. It was an electrifying meeting. After that I cancelled all my other interviews and came here.

He positioned them in Planning Department as his think tank. They began to analyze the market in detail and study all Anheuser-Busch operations and investment scientifically. Busch III discussed every issue with them and this style became the base of his Team Management.

When he was appointed President in 1974, Busch III promoted several of young MBA planning staff to officer’s position. In 1977, he reformed a new management organization at corporate level and established the Policy Committee. Busch III initially appointed “old senior managers” and “young MBAs” by half-and-half. “Old Senior Managers” were those who had been officers even before he was appointed President. But he replaced them with new members by the beginning of 1980’s (Exhibit 20).

The characteristics of the Policy Committee, or Team management policy of Busch III, can be summarized as below:

1. A Small Number of Young Members and Its Longevity  
2. Close and Productive Communication and No Management Politics  
3. Corporate Perspective and Operation Responsibility

Almost all the members of the newly appointed members were very young. Their average age was around middle 30’s as of 1977. Even the oldest was only 41 and the youngest was 29. Many of them had served as a Policy Committee member very long for nearly 20 years. Three of them have still been serving until today. It is hard to tell in general whether appointment of young MBA executives is a right decision or not. But Busch III did execute it and he did prove his decision right. It was evident that Busch admitted the smartness and ambitiousness of the young MBA executives. However, he
did not seem to expect them to do perfect jobs immediately. In an interview with Business Week in 1986, Busch III remarked as follows:

_Executives do not learn from success, they learn from their failures._

_So making mistakes is not something that is feared around here._

Busch III found out the potential young executives in person and put them in an extremely important position for their age. It seemed that he had set up a long-run program for the young executives to develop their management skills through trials and errors in the real business operations. These trials and errors continued to stimulate their fresh brains and discipline them.

A small number of members, around ten, had two meanings. One was that each member had to represent wide range of job responsibility. This gave huge authority to the young executives and inspired their ambition. The other was that it was suitable for everyday communication among members. Busch III usually arrived the office at 7:00AM every morning. So did all Policy Committee members. They had an informal breakfast meeting in the executive dining room and discussed on all sorts of company issues. Although this meeting was informal, it worked for them to communicate not only corporate issues but also specific issues of each operation everyday. Busch III required the executives to be interactive and this small size facilitated it.

Busch III also introduced a unique discussion system called “Dialectic”. He often broke the policy committee into two teams and let one team support a recommendation, such as brewery expansion, and let the other oppose it. Through this “dialectic”, discussion in the committee became more logical and they could study all possible pros and cons of a matter. Furthermore, this approach helped grow a notion to attack an idea, not an individual.

Busch III encouraged close communication and introduced a rule for discussion among the Policy Committee not only because they brought about productive and detailed discussion but also he believed they could avoid management politics. He explained the evil of management politics as below:
If there's anything that hurts a company, it's political maneuvering or backbiting. It means people are concerned about protecting their political interests and not thinking about their jobs and their corporation.

Busch III assigned every Policy Committee member responsibilities to manage one or two company operations or corporate departments. But at the same time he appointed them as corporate vice president whose responsibility was to contribute to the corporate level decision-making. He eliminated one layer intentionally. This management system forced the members of the committee unbelievable hard work and pressure. For Busch III demanded that they should always grasp every critical issue in their responsible areas and get ready for action plans to solve it. He even demanded them to state their opinions about other operation's plans. Every morning Busch III asked the members questions or opinions at 7:00AM in the executive dining room.

In his view, Anheuser-Busch was at war then. If it (Anheuser-Busch) took its time in analyzing the situation, planning a strategy and carrying it out, its enemy (Miller) would gain more ground (Market Share). As commander in chief he continued to press his staff to work hard, prepare for every possible opportunities and threats at a full speed. However, no member worked harder than Busch III himself. Many members admitted that Busch III knew more than they did even if the topic was in their areas of expertise. One member asked why so. He simply said he stayed up late and studied it. Busch III did not allow the failures of the members if they did not prepare for issues. But if they did, he did not blame them for it. He described the essence of Team Management as below:

Once you set the facts on the table and take all the chaff off, you can get to the clean facts and make a clean-risk decision. If the decision is wrong after that kind of homework, we never look back.

It's Creativity and Ingenuity. It's the application of Management Science.

There used to a discussion on whether management (or marketing) is "Science" or "Art". Busch III seemed to have already prepared the answer to this question even before
he started to run the company. His answer was clear. Management should be both "Science" and "Art". "Management Science" is the necessary condition, and "Creativity and Ingenuity" are the sufficient condition for excellent management. It seems rare but possible for a company to show excellent performance with its "Creativity and Ingenuity" without any foundation of "Management Science". Anheuser-Busch before 1970 was a good example. It developed many "Creativity and Ingenuity". It introduced pasteurization and a refrigerated railroad car for the first time in the U.S. beer industry. These two innovations enabled the company to expand its business from local to national without damaging product quality. However, once the market becomes more competitive and consumer's needs are diversified, it is hard for a company to continue successful innovations without a pilot who directs the way the company should proceed. For there are many possible ways to innovate but the company has scarce resources. If it digs a wrong hole on the ground and a competitor digs a right one, it will cause a vital damage. Busch III seemed to have sensed such a new era had been approaching and convinced that the pilot must be "Management Science" to maintain the company "Creative and Ingenious".

Busch III is also a strong believer in the importance of "Planning". He also loves the word "Preactive" and hates "Reactive". He explained the reason why "Reactive" is so bad in an interview with Industry Week in 1982 as below:

"Reactive" is the worst of all words, because you must react to external stimuli without a proper plan and without homework.

Busch III felt vexed greatly when Philip Morris purchased Miller in 1970 and gained its market share dramatically with the modern and powerful strategy. He has never forgot this contempt that Anheuser-Busch had to react to Miller's strategy. His burning fighting spirits against Philip Morris or Miller accelerated the sophistication of "Management Science" and promoted its fruits, "Creativity and Ingenuity" in every division and operation of the company. In 1978, when Miller was growing faster than Anheuser-Busch, Miller's top management made a public claim that Miller was going to
be No. 1. William K. Coors, then chairman of Adolph Coors Company, also attended the meeting, described the reaction of Busch III to the claim as follows:

\[ \text{I will never forget the look on his face.} \]
\[ \text{He said, “Over my dead body” and he meant every word of it.} \]

\textit{Above all, it’s people, common sense and hard work.}

Busch III wanted to transform the company from “Family Own Company” to “We Company”. He also tried to throw away the idea of “His Company”. A modern and sophisticated corporation owes a large part of its excellent performance to its excellent people who have pride in working at the company. He seemed to have a strong dream to realize such a motivated organization.

As soon as he was named CEO in 1975, Anheuser-Busch “People” welcomed their CEO with a three-month long strike. It damaged the market share and profit of the company miserably. The year 1976 would have been a memorable year for both Busch III and Anheuser-Busch because it was the first full year under his leadership and it was also the centennial of the company’s flagship brand, Budweiser.

Before the strike, Anheuser-Busch reduced the total payroll for years to sustain its bottom line. The distance between the company and its “People” was becoming farther and farther and peaked in 1976. Busch III may have underestimated their dissatisfaction against the company. But it did not take long for him to face this issue square and executed new programs, such as Employee Stock Purchase Plan and Employee Meeting. He declared victory of the battle with Miller in 1980. He expressed his sincere joy that he could create a reinvigorated pride in Anheuser-Busch “People”.

“Common Sense”. What implication did Busch III try to convey to the whole company through the word? I studied many articles and annual reports but could not find a clear description on it. I even asked Anheuser-Busch people about it but they could not provide me with the intent of Busch III, either. Following is my personal interpretation of his word.

I looked up the meaning of “common sense” in Oxford American Dictionary. According to the dictionary, its meaning is \textit{“normal good sense in practical matters,}
gained by experience of life not by special study.” This definition confused me for a while. I thought Busch III introduced “Management Science” because he wanted to change the conventional culture of Anheuser-Busch into more modern one based on scientific and analytical studies. But he stated clearly that “Common Sense” is his principle philosophy “above all” others.

It seemed what he dreamed to realize was not entire reconstruction or denial of Anheuser-Busch traditions but to level them up through utilizing sophisticated management tools. He dreamed to establish new traditions of the company based on the old ones. August A. Busch, Jr., his father and former CEO, often said that the brewing business was “People Business” not “Computer Business”. Busch, Jr. also loved intuitive creativity and ingenuity of experienced people. They had the same management philosophy but just in different management processes.

From a different point of view, this philosophy contains a severe warning to scientific and analytical study. This approach looks so smart, logical and inclusive that it may have a potential risk to look down on “Common Sense”. For example, Anheuser-Busch studied the relation between sales and advertising expenditure before Philip Morris entry. It found out that there was a saturation point of advertising expenditure. According to the finding, Anheuser-Busch reduced per barrel advertising expenditure strategically and successfully in 1960’s. They were proud of their efficient spending on advertising compared with those of competitors. However, Philip Morris entered the industry and it started the “Power Marketing” with “profligate” advertising. Philip Morris did so because it was their “Common Sense”, gained by the experiences in Tobacco industry. Their finding in the past did not work in the context of new competition. Busch III met this challenge with his “Common Sense” to beat Miller. His counter plan was very simple but very powerful. Anheuser-Busch continued to outspend Miller until Miller gave up raising its advertising expenditure and finally stopped Miller’s surge. In this case, there were not enough data to analyze. Busch made a humble decision-making to outspend Miller from a standpoint of duopolic competition. This decision would not have been made from a databased analytical process. Busch III seemed to recognize the limit of analytical study even though he made it as a foundation of “Management Science”.

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In the late 1960's and the early 1970's there was an internal conflict between Busch, Jr. and young MBA executives headed by Busch III regarding the management process. Even the succession of CEO position was not carried out in a normal way. It is a sad story because both of them believed the same philosophy, "People" and "Common Sense". But no one knows how depressing it was than Busch III does.

I have already referred to the "Hard Work" of Busch III and the Policy Committee members many times in this chapter. I would like to summarize his intent to make "Hard Work" his philosophy. He often uses a set of phrases, "Listen to the Market" and "Don't Miss the Bus". Many people close to him say Busch III always has an atmosphere of urgency, especially during the Great Beer War with Miller in 1970's and 1980's. They also describe him as a master of street fight. In his view, which seems to be one of his greatest "Common Senses", in order to defeat a competitor we have to "outthink" the enemy and execute effective attacks before the enemy does. In order to "outthink" the enemy, we have to "Listen to the Market" carefully and continuously. In order to execute effective attacks, we must not only develop action plans but also monitor and revise them continuously. Busch III insisted that there were no easy answers to gain market share but "only constant pressure, constant attention to the marketplace". This conviction has been forcing him to work hard constantly and his atmosphere of urgency has been encouraging the entire organization of Anheuser-Busch to work hard, especially the senior executives. Busch III referred to "Hard Work" as follows.

*The minute they're out of bed in the morning,*

*I want them immediately thinking about making their areas of work better.*

*We don't ask our managers to work 12-hour days, but most of them do.*
IV. Anheuser-Busch Strategy Reforms

1. Total Strategy Framework and Planning

Busch III showed his management philosophy and set up the new management team as soon as he was named CEO. This established a new platform on which Anheuser-Busch organization could do business differently from its old style. However, in order to overcome the crises, they did need a new business strategy, a direction where they should go and how. I would like to describe it, especially from viewpoints of strategy framework and headquarters organization.

First I would like to review business environment in 1970’s. Miller’s surge overshadowed the potential drop in volume of Anheuser-Busch. The cost crisis squeezed its gross margin terribly. Overall, the old management faced the crises with “Conservative Strategy”. They spent less marketing expenses and less capital investment in order to make a sound bottomline. On the other hands, Busch III and his “Planning” staff insisted that Anheuser-Busch should capture “Business Opportunities” for their growth instead of paying too much attention to negative sides of market information. They pointed out that total market was still on the growth trend, especially more to “National Premium Beer”, and there were many weak players from which Anheuser-Busch could derive market share. They also said that financial position of Anheuser-Busch was still in good shape. Their new strategy can be called “New Growth Strategy” with “More Marketing Expense” and “More Capital Investment” (Exhibit 21).

Their strategy framework was based on a simple but solid equation (Exhibit 22). That is profit is a function of “Volume”, “Price” and “Cost”. The old management tried to reduce “Cost” in order to secure profit. New management decided to increase “Volume” and “Price” and to reduce “Cost” at the same time in order to expand the bottomline. In order to increase “Volume” and “Price”, “Common Sense” tells us more marketing expenses will be needed to gain more distribution and more consumer franchise. In order to decrease “Cost”, “Common Sense” tells us more capital investment will be essential for productivity improvement. But many top management cannot take this kind of risk easily because it is very tough to convince themselves that the aggressive expenses and capital investment can really generate “Volume Up”, “Price Increase” and
“Cost Down”. But Busch III and his senior management took the risk. In the background of this decision-making, “Planning Department” played a very crucial role.

I mentioned earlier Busch III hired young MBAs with sophisticated management science skills and positioned them at Planning Department. Some of them were promoted as Policy Committee members. He centered all critical functions to this department, such as market research, sales analysis and forecasting, new product development, financial planning, logistics & distribution and capital investment (Exhibit 23). He established an organization where all information vital to business strategy planning gathers in Planning Department and made planning staff work hard to analyze, evaluate and forecast every aspects of beer business. Busch III and Policy Committee developed the New Growth Strategy backed up by analytical works of planning staff. This close and strong relation between Busch III, Policy Committee and Planning Department was the most important characteristic in Anheuser-Busch organization. The New Growth Strategy seemed too optimistic, however, they believed that this strategy would work and they started to lead the whole organization to implement it.

Planning Department staff not only worked for Busch III and Policy Committee to develop a basic strategy but also worked together with other departments, such as Brand Management, Sales Department, Packaging Department and Materials Acquisition Division, in order to develop specific strategies. Many companies still have a problem of strategy gaps between Planning Department and other departments. Anheuser-Busch cleared this problem by making Planning Department staff committed not only to strategic planning but also to working closely with other department people. Again the strong tie between Busch III, Policy Committee and Planning Department could facilitate planning staff to work together with other department staff to develop specific strategies.

In Anheuser-Busch organization, there is a strong atmosphere, that is, “Plans are nothing Planning is everything.” (Dwight Eisenhower). The whole organization functioned in this corporate culture. In next sections I will discuss specific strategies such as Total Marketing and Cost Control Programs in detail.

2. Total Marketing
   1) Framework
As I discussed in the previous section Anheuser-Busch changed its basic business strategy from "Conservative Strategy" to "New Growth Strategy" and established the Total Strategy Framework. In order to achieve "Volume Up" and "Price Increase", they created and established their "Total Marketing".

Busch III said there's no easy answers to gain market share but only constant pressure, constant attention to the marketplace. "Total Marketing" has a strategic framework to achieve this (Exhibit 24).

"Total Marketing" consists of four components. The first one is "Pull Marketing". The second one is "Push Marketing". The third one is "Target Marketing". And the last one is "Marketing Research" and "Sales Analysis". "Pull Marketing" is to give constant pressure to "Consumers". It deals with Brand Mix Strategy including new product and package development, Communication Strategy such as Media Strategy, Creative Strategy and "Promotion Strategy" in order to capture maximum consumer franchise. "Push Marketing" is to give constant pressure to "Customers". Anheuser-Busch cannot sell its beer to consumers directly. Therefore how it can motivate distribution channel, wholesalers and powerful National Retail Accounts, to sell more Anheuser-Busch brands is vital to achieve maximum distribution and exposure at retail level. "Target Marketing" is to give special pressure to the consumers and customers in target areas. Anheuser-Busch selected the target areas from viewpoints of market size, market share and future growth. In order to increase Anheuser-Busch market share, they invested more money and developed and implemented a tailored "Target Marketing Plan" on top of "National Marketing Plan". "Market Research and Sales Analysis" is to pay constant attention to marketplace. The findings through this research and analysis provide Busch III, Policy Committee and Planning Department with directions where Anheuser-Busch focus its resources on. Constant flow of this process refined Anheuser-Busch Total Marketing.

However, this framework does not seem so new or original. Many marketing textbooks teach such a framework, even in 1970's. Many companies have a similar framework. But many companies do not seem so successful as Anheuser-Busch. I would like to point out how Anheuser-Busch differentiated its marketing from others.
First Anheuser-Busch emphasized the importance of "Planning". "Planning Department" played a leading role in "Total Marketing". It was given critical functions such as Market Research, Sales Analysis & Forecasting and New Product Development. This is a huge advantage when developing strategy. Brand Management and Sales department did not have such functions. Although Planning Department communicated with Brand management and Sales Department, it had the initiative for strategic planning of "Pull Marketing" and "Push Marketing" backed up by Busch III and Policy Committee. This created highly integrated marketing strategy. There are many companies whose Brand Management or Sales Department is so strong that they often lose marketing integration. In Anheuser-Busch "Planning Department" functioned to control balance between "Pull Marketing" and "Push Marketing" from a standpoint of marketplace and total optimization of Anheuser-Busch resources. The existence of powerful "Planning Department" was the first characteristic of Anheuser-Busch marketing organization.

Second, Busch III and Policy Committee paid constant and close attention to marketplace competition. They tried to grasp competitive situation in every marketplace. Ultimately speaking, there was no "National Marketing Plan" in Anheuser-Busch Total Marketing. "National Marketing Plan" was localized to meet the needs of local consumers and customers in order to maximize local market share. Every "Local Marketing Plan" was closely studied and watched by Busch III and Policy Committee. Busch III explained the reason for this in an interview with Industry Week in 1982 as follows:

*You can’t generalize about competition. You have to do it by market.*

*You can’t say there are only three or four major competitors across the whole U.S. There are some areas where local breweries are extremely strong.*

Third, Anheuser-Busch continued to reinforce the functions of Brand Management and Sales Department. In order to do this, Anheuser-Busch hired marketing and sales experts who used to work for excellent consumer goods companies, such as Procter & Gamble and General Mills. Through this headhunting, Anheuser-Busch
enhanced its marketing and sales skills, such as creative production, media buying, sales incentive programs and so on. Although these two departments were not given primary "Planning" function, they focused their energy on improving their own professional expertise and achieved one of the best marketing and sales organization in the United States.

Miller was good at "Pull Marketing" in 1970's. "Pull Marketing" is a very important factor for success, however, "Pull Marketing" alone cannot sustain constant growth. Anheuser-Busch met this challenge with "Total Marketing". They learned a lot from Miller's "Pull Marketing". They quickly imitated and finally outperformed Miller. They also reinforced its "Push Marketing" and "Target Marketing". They succeeded in establishing a very solid value chain of "Total Marketing" from "Planning" to "Implementation", which is not easy to imitate.

I would like to describe the details of "Pull Marketing", "Push Marketing" and "Target Marketing" in the following sections.

2) Pull Marketing (Brand Mix Strategy)

Many people agree that Miller introduced a modern and powerful marketing into the industry for the first time. I described the essence of it earlier. This forced other brewers including Anheuser-Busch to follow Miller's strategy in "Pull Marketing" area. But it seems that the process how each brewer learned and implemented its own "Pull Marketing" differed greatly from brewer to brewer. I would like to study how Anheuser-Busch reformed its "Pull Marketing", especially on "Brand Mix Strategy".

During the disastrous strike in 1976 Busch III and his senior management got together in Williamsburg to discuss their short-term and long-term strategy intensively on how to restore and expand their business. But it did not seem that they were successful from the very beginning. There were strategic mistakes or confusion at the beginning, especially as to "Brand Mix Strategy". However, they were quick enough to respond and revise their strategy later on.

There are three phases Anheuser-Busch had reformed its strategy from 1977 to 1990 (Exhibit 25). The first phase can be called as "Contingency" strategy. The second as "Foundation-Making" strategy. The third one as "Expansion" strategy.
During the first phase, the total beer market had been growing and the fast growing segment was "Light Beer" (Exhibit 26). Miller introduced Miller Lite in 1975 nationally and many brewers imitated the concept and introduced their own "Light Beers", such as Schlitz Light in 1977 and Coors Light in 1978 in "Premium" segment as Miller did. But Anheuser-Busch introduced Natural Light in "Popular" segment in 1977 and "Michelob Light" in "High Price" segment in 1978. At that period Anheuser-Busch had a dilemma. "Premium" segment had been still growing (Exhibit 27) and they did not want their Budweiser to be cannibalized with "Budweiser Light".

There were three strategic mistakes Anheuser-Busch made at this phase. First, "Popular" segment had been shrinking during this time of period (Exhibit 27). Even though the new product was added value by "Light Beer", this strategy did not follow the market trend. Moreover, the structural change of the market had occurred in "Premium segment" and it was doubtful whether Natural Light could compete with Miller Lite effectively. Second, Anheuser-Busch introduced Michelob Light in "High Price" segment. This segment had been dominated by Michelob for nearly two decades and Michelob had been growing greatly even at that time. Michelob had been a "Pride of Anheuser-Busch", highly accepted by high-income people. However, Michelob Light made the core competitive advantage of Michelob diluted. Michelob had been accepted by its drinkers mainly for its "rich and smooth" taste. "Super Premium" concept did not accord with that of "Light". And again this segment was growing but not a main stream market, either. Third, because Anheuser-Busch introduced two new light beers in 1977 and 1978, they had to allocate their marketing expenditure heavily into the two products. As a result, Anheuser-Busch could not allocate enough marketing budget to Budweiser in order to compete with strong competitors. In 1978 the voice share of Budweiser dropped greatly and it could not expose its brand message at such a level as "King of Beers" (Exhibit 28, 29, 30). Budweiser could not recover its market share level before the strike until 1979 (Exhibit 31).

Anheuser-Busch managed to restore its total market share before the strike in 1978, however, this was mainly contributed by the three products, Michelob, Michelob Light and Natural Light (Exhibit 31, 32, 33, 34). As I said earlier, Natural Light did not base its growth on the market trend, just on the very fast growing "Light" segment.
Michelob had its own issues with regard to the brand expansion into other beer type. Above all, these new product introductions and the dispersed allocation of marketing budget were starting to prevent Budweiser from growing. Even though they achieved to restore their total market share in 1978, it could not be said that their strategy would be a sustainable one, but could be said a “Contingency” strategy.

There were hot discussion in Anheuser-Busch organization whether their flagship brand, Budweiser, had reached its peak or not at “Contingency” phase. But they finally backed to the basic idea that they should position Budweiser as their top priority brand and started to reposition Budweiser and increase its marketing expenditure dramatically in 1979. They studied the success of Miller High Life and Miller Lite in detail. Miller repositioned Miller High Life from “Champagne beer” for rich people and women to “Reward beer” for “Real Beer Drinkers”, especially for “Baby-Boomers”. Miller Lite also targeted the same drinkers through “Sports Marketing” with the less filling taste. Anheuser-Busch learned very valuable lessons from Miller and made use of these lessons in order to refresh its “old brand”. Budweiser was then perceived as a “Daddy’s Beer” by young drinkers. It was a big challenge for Anheuser-Busch to change this deeply embedded perception of “Baby-Boomers”.

They imitated the “Miller Time” campaign and started “This Bud’s for You” campaign in 1979. They started to send a message to the young adult drinkers that “This Bud’s for You, not for your daddy” and also increased the marketing expenditure for Budweiser dramatically during 1979 to 1981. They spent their massive money mainly into “Sports Marketing” media, targeting the young adults, as Miller did in the early and middle 1970’s. Anheuser-Busch began to steal Miller’s sports related sponsorships and TV programs. As a result, Budweiser increased its sales volume and market share dramatically. It contributed almost all incremental market share increase for this period. Anheuser-Busch continued to spend enough money for Natural Light, Michelob and Michelob Light, however, these products did not contribute to total market share increase of the company.

Anheuser-Busch succeeded in making its foundation for the future growth during 1979 to 1981, overcoming the unstable brand strategy at “Contingency” phase. There seems to be three factors for this success. First, this was the last timing for “Premium”
segment to increase in total. The main driver for the U.S. beer market growth had been “Baby-Boomers’. They started to become 30’s in 1980’s and the market growth changed flat. Anheuser-Busch managed to catch the last timing to appeal them by repositioning its Budweiser. Second, even though the total market had matured, there still existed the huge “Premium and Regular” segment market. Schlitz, Pabst and other players had not been so competitive compared with Budweiser. Under the strong trend toward “Light Beer”, all of them introduced their own “Light Beers” to survive and that resulted in “less and less focus” on their shrinking “Premium Regular” brands. Budweiser derived incremental market share from these weak competitors even after the total Premium segment matured in 1980 (Exhibit 35). This was also the very important source of the future growth of Anheuser-Busch at next phase. Third, the most threatening competitor, Miller Brewing, started to lose its momentum. Miller High Life peaked in 1979 and started to lose its market share. The success of Miller depended on its brand mix, Miller High Life and Miller Lite. Miller had been successful because these two brands increased the market share of both brands. But Anheuser-Busch repositioned Budweiser and started to spend more money for advertising. “Refreshed” Budweiser stopped not only the growth of Miller High Life but derived the market share from Miller High Life. Miller was forced to face a severe challenge since 1979. Miller Lite continued to grow but Miller High Life continued to lose the market share Miller Lite obtained (Exhibit 36). Miller tried to regain the market share of Miller High Life through increasing the voice share of the brand, but Anheuser-Busch responded to this challenge with “Fight Fire with Fire” strategy and its share of voice started to overwhelm Miller (Exhibit 29). Finally Miller could not succeed in revitalizing Miller High Life and the miracle Miller serge since 1973 had stopped. And finally Anheuser-Busch had made the very solid foundation of its brand strategy in 1981 and was ready to expand in the future.

In 1982 Anheuser-Busch introduced Budweiser-Light. The magnitude of the introduction of this new product was far larger than those of Natural Light and Michelob Light. Anheuser-Busch started the third phase of its brand strategy. It can be described as “Expansion” strategy. For Anheuser-Busch established the solid foundation during 1979 to 1981. There were enough room for Budweiser to increase its market share from weak “Premium Regular” brands. The largest target for the company to attack at this
phase was "Light Beer" segment where Miller had still dominated by its Miller Lite. Since the introduction of Budweiser Light, later renamed "Bud Light", Anheuser-Busch reinforced its brand mix strategy because they succeeded in not only gaining market share from growing "Light Beer" segment but also expanding Budweiser market share in "Premium Regular" segment. This situation was exactly the same as Miller surge in 1970's.

Anheuser-Busch allocated a huge sum of money for Bud Light brand penetration. Bud Light media expenditure had been nearly the same level as Miller Lite since the introduction. Anheuser-Busch took the same strategy from a long-term viewpoint as Miller did when it attacked Budweiser. At the same time, Anheuser-Busch continued to spend the largest amount of money for its flagship brand, Budweiser. Even after the introduction of Bud Light, they increased Budweiser advertising exposure in order to sustain its growth momentum (Exhibit 29, 30). In 1980’s "Popular Beer" segment had grown greatly under the unfavorable overall economic situation in the United States. Many brewers started to introduce "Popular" price products, such as Meistersbrau and Milwalkee by Miller. Anheuser-Busch quickly addressed this situation by increasing the marketing expenditure of Busch (Exhibit 28).

As a result of "Expansion" strategy, Anheuser-Busch achieved market share growth in the growing "Premium", "Popular" and "Light" segments. They lost market share in "High Price" segment due to the decrease of Michelob sales, but the growth of that market had been flat during the period (Exhibit 37, 38). The market share gains in the fast and large segments more than made up for the loss of Michelob.

At this phase Anheuser-Busch established its full-product line strategy based on each brand family at respective price category, Budweiser family for "Premium", Busch family and Natural Light for "Popular" and Michelob family for "High Price" segment. They seemed to have determined that if the market went toward "Light" or whatever beer type, Anheuser-Busch would not hesitate to introduce a new product line under the existing brand names in order to sustain the total market share of the brand families. In fact Anheuser-Busch introduced a "Dry" beer for the first time in the U.S. market in 1990 promptly after "Dry" beer was successfully introduced in Japan two years before. They also introduced Busch Light in 1990. It took six years for Anheuser-Busch to outsell
Miller in “Light Beer” segment and it took nine years for Bud Light to outsell Miller Lite. This long and tough experience to catch up with the market initiator made Anheuser-Busch responsive to the market trend. Anheuser-Busch learned the modern “Market Segmentation” from Miller. While the teacher was suffering from its original “Market Segmentation” game, the good student established the new rules and became the master of the game. The rules of the games were “Listen to the market.” and “Don’t miss the bus.”

3) Push Marketing

Before I discuss Anheuser-Busch “Push Marketing”, I would like to overview U.S. beer industry especially from its distribution system. There are three tiers in the U.S. beer industry, brewers, wholesalers and retailers (Exhibit 39). Retailers consist of off-premise outlets such as liquor stores and supermarkets, and on-premise outlets such as bars and restaurants. These tiers are protected and regulated by each state. The Federal Government and each state impose excise tax on beer. These are good revenues to them and that is one of the reasons why they regulate the industry. Although many consumer product companies are doing business directly with retailers, brewers cannot sell beer directly to consumers or retailers.

Under this legal situation, Anheuser-Busch is doing its “Push Marketing”. It sells beer through its wholesalers to retailers and consumers. Its sales volume (barrels sold) is that to wholesalers. Anheuser-Busch calls this as shipment to wholesalers (STW), or “input”. Shipment from wholesalers to retailers (STR) is called as “throughput”. Shipment or sales volume from retailers to consumers (STC) is called as “output”. Anheuser-Busch strictly distinguishes these sales volumes and it pays close attention to its “output” because this is one of the most important market information. Anheuser-Busch “Total Marketing” focuses its strategy on this particular point of sales in each market. Although it can reach consumers sending brand messages directly to them by advertising, wholesalers are the primary and direct players of “Push Marketing” for Anheuser-Busch. For wholesalers promote Anheuser-Busch brands, take orders, deliver them to retailers and maximize their exposures to consumers at storefront. If distribution and exposure of the brands are low, Anheuser-Busch cannot capitalize on its “Pull
Marketing”. Therefore how it manages wholesaler relationship is a very critical issue to them. I would like to study in this section Anheuser-Busch “Push Marketing” mainly from a standpoint of “Wholesaler Strategy”.

I mentioned in the earlier section that Anheuser-Busch had a strong distribution network even before Busch III started to manage the company. Although this was already a competitive advantage against competitors, Busch III reinforced its partnership with wholesalers. The whole picture of “Push Marketing” contains many programs (Exhibit 40), however, the key words were “Exclusivity” and “Wholesaler Commitment”.

New Wholesaler Agreement

In 1970’s there were approximately 950 Anheuser-Busch wholesalers in the United States. They were mainly food and beverage distributors. Although Anheuser-Busch products contributed more and more to their total sales and profit, Budweiser, Busch and Michelob were part of their promising products.

In 1982 Anheuser-Busch decided to revise “Wholesaler Equity Agreement”, granting its wholesalers “Exclusive Territory” for the first time in its history. This was a tremendous privilege to an Anheuser-Busch wholesaler because they could do business of Anheuser-Busch products exclusively with retailers in a specific territory. No other wholesalers could bother its Anheuser-Busch products business. Moreover the business was highly possible to grow in the future.

However, this deal was also highly risky to Anheuser-Busch because once they granted this privilege the market share of the territory would be greatly determined by the wholesaler’s sales performance. If a wholesaler were lazy enjoying only the privilege, there would be no gains for Anheuser-Busch. I would like to describe how “Exclusivity” leveraged “Wholesaler Commitment”.

First, in return to grant “Exclusive Territory”, Anheuser-Busch included “Sales Goals Agreement” in the “Wholesaler Equity Agreement”. Anheuser-Busch prevented lazy wholesalers from enjoying only the privilege. For Anheuser-Busch had a right to terminate “lazy wholesalers”. Wholesalers obtained “Exclusive Territory” but also an obligation to achieve sales objectives of Anheuser-Busch products.
Second, they also included “Warehousing Environment Agreement”. By this agreement wholesalers had to stock Anheuser-Busch products in a warehouse with equipment that controlled temperature and humidity. The objective was to keep Anheuser-Busch product quality from being damaged by heat and humidity. Anheuser-Busch viewed that if beer was stocked in proper environment it could remain good quality for some time of period. However, there was another serious reason why Anheuser-Busch had to implement the “Warehousing Environment Program”. At that time Anheuser-Busch was struggling with capacity expansion. The demand toward their products continued to increase. They invested huge capital expenditure by opening new breweries and modernization of existing plants. The problem was low capacity utilization during off-season. Beer is highly seasonal product. But if they could increase inventories at wholesaler warehouses gradually towards high season, they would be able to increase capacity without spending additional capital investment. But the problem was excess inventory would possibly hurt product quality. In order to overcome the problem, Anheuser-Busch had to persuade its wholesalers to build a warehouse with equipment that controlled temperature and humidity. “Exclusive Territory” was so attractive that wholesalers were willing to spend capital investment for new warehouse equipment.

Third, Anheuser-Busch also included “Wholesaler Operations Standard” in the agreement. The most important item was on wholesalers’ obligation to control freshness of Anheuser-Busch products. According to this agreement wholesalers must control it not only at wholesaler’s warehouse level but also at retailer’s level. If a product was older than some certain days, wholesalers must buy it back from retailers at his expense. This agreement also prevented bad quality beer from being purchased by consumers.

Anheuser-Busch succeeded in controlling its product quality from brewery to retail level by “New Wholesaler Equity Agreement”. By granting “Exclusive Territory” to wholesalers, Anheuser-Busch gained “Quality” and saved “Money” in return.

Anheuser-Busch Wholesaler Support Program (Dimensions of Excellence)

The “New Wholesaler Equity Agreement” enhanced “Wholesaler Commitment” to sales of Anheuser-Busch products and to product quality control in the whole marketplace. However, this was the fundamental strategy. Anheuser-Busch introduced
many wholesaler support programs to improve wholesalers’ every operation. The most important job of Anheuser-Busch sales people then was to introduce, implement and monitor wholesaler support programs as well as monitoring sales performance. How well wholesalers do business in the territory was also a critical factor for success to Anheuser-Busch. I will study major "Wholesaler Support Programs" in this part.

Anheuser-Busch introduced “Dimensions of Excellence” in 1979 when it changed the brand strategy from “Contingency Strategy” to “Budweiser Focused Strategy”. In order to revitalize Budweiser sales performance Anheuser-Busch needed more wholesalers’ pressure to customers. The objectives of “Dimensions of Excellence” were to modernize wholesaler’s operations from a long-term perspective. Busch III tried to transform Anheuser-Busch from “Family Owned and Less Modernized Company” to “Sophisticated and Modernized Company”. As a partner of such modernized Anheuser-Busch, he wanted to transform his wholesalers in the same way.

Anheuser-Busch selected “Modernized” wholesalers who were involved in planning the program. They discussed on which operation items were critical to long-term success as a wholesaler. They finally picked up 85 items and also gave some points to each item according to priority. They were wide-ranged such as community involvement, appearance of delivery trucks, warehouse size and appearance, sales staffing and training, computerization, retailer service and so on. In 85 items sales performance was also included but its weight was small. They emphasized the importance of activities that would bring about sales performance.

Anheuser-Busch rewarded the wholesalers who achieved the standards by giving them “Gold Medal, “Silver Medal” and “Bronze Medal” at Anheuser-Busch wholesaler convention. Anheuser-Busch also invited wholesalers to an executive European tour with Anheuser-Busch senior people. They rewarded them by “honor” as well as “money”.

Anheuser-Busch wholesalers did not compete with each other thanks to “Exclusive Territory”. But Anheuser-Busch created an internal competitive program that made wholesalers compete with each other in the game of “Excellence”. There were many good teachers inside “Anheuser-Busch Family Companies”. They stimulated each other, learned a lot and Anheuser-Busch succeeded in modernization of wholesaler operation.
Evaluation of Anheuser-Busch Sales Forces

According to the survey in 1989 handled by Sales & Marketing Management, sales executives picked Anheuser-Busch as America's best sales forces in Food & Beverage industry. They evaluated seven sales functions, such as "Recruiting Top Salespeople", "Ability to Keep Top Salespeople", "Quality of Training", "Opening New Accounts", "Holding Accounts", "Product/Technical Knowledge" and "Reputation among Customers". The competitors in this survey were Coca-Cola (No.2), Kraft (No.3), Pepsico (No.4) and other big companies. Anheuser-Busch was ranked as No.1 in five functions and No.2 in the rest two functions.

In 1982 Anheuser-Busch dramatically changed the policy of wholesaler management. But in return it gained wholesalers' stronger commitment to sales and product quality. Moreover Anheuser-Busch continued to push its wholesalers to modernize their operations. This whole strategy realized the reputation as America's best sales forces, followed by the beverage giants, Coca-Cola and Pepsico.

4) Target Marketing

I studied in the previous sections how Anheuser-Busch established its competitive "Pull Marketing" and "Push Marketing" mainly from a national viewpoint. However, as Busch III mentioned, it was very difficult to succeed in gaining market share in every marketplace by "National Pull Marketing" and "National Push Marketing. This strong conviction made Anheuser-Busch develop and implement "Target Marketing". In a way, "Target Marketing" represents the essence of Anheuser-Busch "Total Marketing". In this section I will study the positioning of "Target Marketing" and the process how Anheuser-Busch implemented it.

Anheuser-Busch "National Pull Marketing" and "National Push Marketing" were so powerful that they achieved considerable competitive advantages against competitors in many areas. However, there still remained several markets where the competitor's marketing integration and marketing expense level were beyond those of Anheuser-Busch. In order to defeat them Anheuser-Busch implemented "Target Marketing" that was "More Integrated" and "More Powerful" than that of a strong competitor in that specific market (Exhibit 41). Anheuser-Busch formed a cross-functional team to develop
“Target Marketing Plan” in order to integrate marketing mix. It also spent approximately $100 million for “Target Marketing” every year. Total MG&A in 1987 was $900 million. Anheuser-Busch allocated substantial human resources and money to “Target Marketing”. Anheuser-Busch first selected five “Target Markets” and later expanded up to 60. But that does not mean they continued to allocate the same level of marketing resources in each “Target Market”. Anheuser-Busch made use of this powerful but costly strategy to give a quick upward momentum in “Target Market”. After achieving satisfying goals they moved to new “Target Market”.

Exhibit 42 shows the process of “Target Marketing”. Firstly they selected “Target Market” through sales analysis at Planning Department. “Target Market” was determined by “Market Size”, “Market Share” and “Future Market Growth”. Anheuser-Busch selected California, Texas, Ohio, Florida, Michigan, New York City, Chicago and other markets.

Secondly, a task force team was formed. In order to integrate every marketing element into a plan, this team was cross-functional. From Planning Department, experts of Sales Analysis, Marketing Research, New Product Development and Finance became a member. From Brand Management, experts of Creative-Making, Media-Buying and Promotion also became a member. All these members worked closely and communicated with salespeople of the Regional Head Office.

Thirdly, this team executed detailed local market research and sales analysis. In this process they found key factors for success in “Target Market”.

Fourthly, based on findings from research and analysis, they developed “Target Marketing Plan”. For example, in Texas people preferred less filling taste and therefore Miller had been extremely strong with Miller Lite. The team decided that it was very difficult to fight with Miller Lite by Budweiser. So they planned to put “Spot Light” campaign of Bud Light as a primary strategy in Texas. The team developed original Bud Light advertising in which many people in Texas appeared in a bar and a restaurant. The team even changed the graphic designs of packages and stressed Bud Light as their “Local Beer”. This approach increased Anheuser-Busch market share dramatically up to 43% today. Another example was California. It is the largest beer market in the U.S. followed by Texas. Coors used to be the largest market share holder. Anheuser-Busch
found that in this area Hispanics represented a critical portion of the market. So the team studied the way Hispanic people consumed beer and they obtained critical findings. First Hispanics listened to the radio much more than the average. So the team used radio as media of Budweiser aggressively. They even created “Local” Budweiser advertising featuring Hispanic people and communicating in Spanish. The team also got the information that Hispanic people preferred “Big size bottle”, so they launched Budweiser Big bottle in California. Anheuser-Busch market share in California in 1997 was 47%.

Fifthly, “Target Marketing” was often headed by Anheuser-Busch senior executives. Busch III was “Super Manager” in charge of California. Dennis Long, President of Anheuser-Busch, Inc. from 1979 to 1987, headed the team in Charge of Texas. These senior executives not only committed themselves to “Planning” but also visited California and Texas very often to encourage wholesalers and monitor the progress of “Implementation”.

As I explained, “Target Marketing” was a critical component of Anheuser-Busch strategy of “Total Marketing”. Through “Target Marketing”, it improved its marketing skills tremendously and sent constant pressure to marketplace because the team worked jointly close to “Market” and gave positive feedback to “National Marketing”.

3. Cost Control Program

1) Framework

Anheuser-Busch tried to achieve “Volume Up” and “Price Increase” by “Total Marketing”. Another critical goal of “New Growth Strategy” was “Cost Down” by “Cost Control Programs”. “Planning Department” played another important role in the programs. For in order to reduce cost, huge capital investments were essential. The “Planning Department” collected all kinds of information, not only market information but also operations information, to find the best way to plan “Cost Control Programs”.

Exhibit 43 shows the framework of “Cost Control Programs”. Anheuser-Busch implemented three “Cost Control Programs”. The first program was “Brewery Expansion and Modernization”. The second one was “Materials Cost Reduction” through “Vertical Integration”. The third one was “Productivity Improvement” at plant
level without capital investment. I will study in this section how Anheuser-Busch tried to achieve “Cost Down” through these programs.

“Cost of Goods Sold” consists of three parts, “Materials Cost”, “Labor Cost” and “Overhead Cost”. “Materials Cost” consists of packaging costs, such as the bottle, can, crown, label and cartons, and raw materials cost for brewing, such as malt, hop, rice and corn grits. As of 1977 “Materials Cost” represented 70% of “Cost of Goods Sold”. “Packaging Cost” occupied the largest portion. “Labor Cost” is a cost of direct labor for production. “Overhead Cost” consists of indirect labor, utility, depreciation of plant and equipment, maintenance, transportation and other production related indirect cost. As of 1977 “Labor Cost” and “Overhead Cost” represented 12% and 18% of “Cost of Goods Sold” respectively.

“Materials Cost” is like “Variable Cost” and the other two costs are like “Fixed Cost”. Theoretically speaking, if breweries are expanded with state-of-the-art equipment and sales volume goes up at the same time, economies of scale will work and “Fixed Cost” per unit will be down consequently. And if “Productivity Improvement” works at plant level and achieves operation efficiency, it will also reduce “Fixed Cost” per unit. However, “Variable Cost” will not be influenced by “Brewery Expansion and Modernization”.

As I mentioned in the earlier section, Anheuser-Busch suffered from the terrible increase of “Materials Cost” in 1970’s. Also “Materials Cost” represented the largest portion of “Cost of Goods Sold”. Therefore how to control this cost was the priority of Anheuser-Busch.

2) Vertical Integration

In 1970’s “Materials Cost” continued to increase seriously. If Anheuser-Busch could have raised “Price” more than this “Cost Push”, there would have been no immediate problem. Actually Anheuser-Busch succeeded in “Net Price Increase” in late 1970’s. However, this situation was very vulnerable because competitive environment was so intense due to Miller’s powerful marketing and also “Price Increase” had a risk to decrease total sales volume of the company or to force consumers to trade down from
premium beer to less premium one. Under this critical circumstance, Anheuser-Busch decided to implement “Vertical Integration”.

In 1974 Anheuser-Busch formed Raw Materials and Transportation Division to address this issue. Next year this organization was reformed into Materials Acquisition Division, that was responsible for not only agricultural raw materials but also packaging materials and other commodities such as fuel and supplies in order to develop the most efficient procurement strategy of the company. Patrick Stokes, President of Anheuser-Busch, Inc., was appointed as Vice President in charge of the new division. Before these divisions were formed, Anheuser-Busch had already started “Vertical Integration”, however, this division integrated every piece of works from a viewpoint of total optimization.

Anheuser-Busch established many “Vertically Integrated” subsidiaries. The most significant business was “Can Manufacturing”. The second significant was the formation of “Busch Agricultural Resources, Inc”. But “Busch Agricultural” was established mainly for “Stable Procurement of High Quality Ingredients” not directly for “Cost Down”. Also “Packaging Cost” was much higher than “Raw Materials Cost”. Therefore I would like to study mainly how Anheuser-Busch managed “Can Manufacturing” and realized “Cost Down”. Before I discuss “Cost Down” in detail, I would like to overview the steps Anheuser-Busch took to execute “Vertical Integration”.

First, Anheuser-Busch acquired relatively small “Can Manufacturing” companies, such as Lianco Container Corporation and Apache Container Corporation. This is “Educational Acquisitions” to Anheuser-Busch because it did not have technical expertise in this area despite its heavy use of cans. This was one of the largest reason why Anheuser-Busch had to accept “Price Increase” demanded by its suppliers.

Second, the company established a wholly owned subsidiary, Metal Container Corporation (MCC), in 1973 and started to build plants close to Anheuser-Busch breweries, adopting to them what it learned from the acquired companies. “Can Manufacturing” was a very capital-intensive industry and capacity utilization was a critical factor for success. In this case MCC did not have to worry about capacity utilization because its parent company was the buyer. It did not have to worry about capital investment, either. Therefore Metal Container Corporation could focus its energy
and resources only on "Research & Development". With assured demand, rich capital and improved "Research & Development" capability, MCC begun to supply its parent company with competitively priced but high quality cans.

Fourth, after MCC obtained capability to produce "High Quality" and "Low Cost" cans, it started to sell to outside companies such as Pepsico. As of today, 60% of MCC sales are to Anheuser-Busch, 40% to outside companies. MCC has become the second largest "Can Manufacturer" in the United States.

Fifth, when "Environmental Issues" became critical, Anheuser-Busch established Container Recovery Corporation. This company collected empty cans from the market, scrapped them and sold the scrap to aluminum companies. This was a risk-hedge against "Price Increase" of aluminum. For when aluminum price was high, its scrap price was also high and Anheuser-Busch could offset cost increase by that of scrap sales. This another "Vertical Integration" became another competitive advantage to other can manufacturing companies.

Exhibit 44 shows "Materials Cost Comparison" between Anheuser-Busch and competitors' average. As of 1977, "Materials Cost" of Anheuser-Busch was higher than that of competitors. In 1982 the cost of Anheuser-Busch jumped by 33% compared to 1977 but became slightly lower than that of competitors. In 1987 the cost dropped by 8% reversely and Anheuser-Busch maintained the cost advantage. In 1992 Anheuser-Busch could keep the cost at nearly the same level while competitors suffered from it.

According to the data over time, although it seemed to take more than ten years for Anheuser-Busch to benefit from this "Vertical Integration", it is clear that it did work to reduce "Materials Cost". MCC was said to generate reasonable profit today and if we evaluate it from a consolidation view, its contribution seems still significant.

Anheuser-Busch has been utilizing MCC as a strategic card to its original suppliers. It continues to buy 50% of its demand from outside "Can Manufacturing" companies. Patrick Stokes, then Vice President in charge of Materials Acquisitions Division, explained the objectives of this strategic order placement as follows.

*If we were 100% self-integrated, we would not get the benefits of suppliers’ technology research, their innovation, or even good pricing opportunities.*
Because we are competing with our suppliers, we know what it costs them to make a can or process malt.

For example, Ball Corporation supplied cans to Anheuser-Busch. Its business with Anheuser-Busch accounted for 22% of the company’s packaging business, but that contributed only 14% to total operating profit. Anheuser-Busch used its capacity (the portion of outside companies) as a competitive tool to force its suppliers to give it good prices.

3) Brewery Expansion & Modernization

Anheuser-Busch was the first brewer to expand a brewery outside its territory in the United States. Before Busch III started to manage the company, Anheuser-Busch had already nine breweries to meet the increasing demands (Exhibit 45). However, as I mentioned, “Old Management” took “Conservative Strategy” and expanded its business based on “Sustainable Growth Theory”, spending less capital expenditure and keeping a sound financial position such as debt ratio. “New Management” changed this conservative way of capital investment and its financing because they thought they were missing huge potential gain in the growing market. Product shortage happened almost every year in the first half of 1970’s.

Exhibit 46 shows Anheuser-Busch historical capital expenditure and debt ratio. It is evident that it increased capital expenditure dramatically and financed it by increasing long-term debt as Miller did in 1970’s. This huge capital expenditure was partly used for “Diversification Strategy” in 1980’s, however, most of it was for “Vertical Integration” and “Brewery Expansion and Modernization”. Anheuser-Busch opened another four breweries since Busch III was named CEO. It introduced state-of-the-art brewing, packaging equipment and efficient logistics systems not only to new breweries but also to old breweries for modernization. Theoretically or ideally speaking, “Brewery Expansion and Modernization” could have contributed to cost reduction of “Labor Cost” and “Overhead Cost”. However, it was not smooth as a theory.

Exhibit 47 and 48 show historical “Labor Cost” and “Overhead Cost” of Anheuser-Busch. During 1977 to 1982, both costs jumped critically. During 1982 to
1987, both costs maintained flat. However, during 1987 to 1992, both costs increased again. As a result, “Cost of Goods Sold” soared during 1977 to 1982, decreased during 1982 to 1987 mainly due to “Materials Cost” reduction. But it again increased due to increase of “Overhead Cost” and “Labor Cost” (Exhibit 49). It is difficult to explain the reasons accurately why capital investment did not help reduce “Fixed Cost” (“Labor Cost” and “Overhead”) of Anheuser-Busch. Following is my interpretation.

During 1977 to 1982, Anheuser-Busch suffered “Temporary Overcapacity”. In other words, it invested more than demand during that period. It increased its sales volume by 61% or 22 million barrels. However, Anheuser-Busch invested more vigorously. However, this situation would not be so critical so long as sales volume increased later. This was a kind of “Preceding Investment” for a future return.

During 1982 to 1987, Anheuser-Busch achieved “High Capacity Utilization” pushed by “Expansion Strategy” of brand marketing. (Bud Light was introduced in 1982.) Sales Volume was up by 29% or 17 million barrels. Anheuser-Busch could absorb not only “Temporary Overcapacity” but also additional capacity expansion. Thus, “Fixed Cost” per barrel remained flat, offsetting cost-push by volume.

During 1987 to 1992, Anheuser-Busch suffered again from “Overcapacity”. Although it increased volume by 14% or 11 million barrels, it was clear that it was losing the growth momentum it enjoyed before. Moreover Anheuser-Busch continued to invest high level capital expenditure for “Brewery Expansion and Modernization”. This “Overcapacity” again caused “Fixed Cost” push, especially “Overhead Cost” (depreciation cost increase).

However, Anheuser-Busch managed to increase “Price” of its beers and kept “Labor Cost” and “Overhead Cost” percentage of net sales from going up. They had been stable during 1977 to 1992 (Exhibit 50).

4) Productivity Improvement Program

“Vertical Integration” and “Brewery Expansion and Modernization” have a powerful effect to achieve “Cost Down”. However, they have a very risky part because once demand forecasting deviates from actual sales greatly or other competitors (can manufacturing) supply an innovative can with higher quality at lower cost than MCC, its
damage will be also tremendous. Therefore Anheuser-Busch started a “Productivity Improvement Program” without capital investment in 1979.

The company set up 250 specific cost reduction projects in 1980. The company also started “Employee Suggestion Program” to encourage employees to provide with excellent ideas. In 1982, 1700 suggestions were proposed, such as brewing raw materials utilization, utility savings, line efficiency.

According to Anheuser-Busch, “Productivity Improvement Program” along with “Employee Suggestion Program” saved a couple million dollars. As a result of this program, Anheuser-Busch was awarded “Excellence in Productivity Award” by the Institute of Industrial Engineers in 1985. Williamsburg brewery also received the U.S. Senate Productivity Award in the same year.

4. Financial Results

Busch III introduced his management philosophy. Busch III and Policy Committee changed Anheuser-Busch strategy from “Conservative Strategy” to “New Growth Strategy”. In order to achieve “Volume Up” and “Price Increase” they created “Total Marketing”. In order to achieve “Cost Down” they reinforced brewery expansion and modernization, vertical integration and productivity improvement programs. I studied specific strategies in detail in the earlier sections. In this section I would like to evaluate “New Growth Strategy” of Anheuser-Busch according to an analysis of financial results.

The way I analyzed is to look at “Net EBIT (Earnings Before Interest and Taxes) Change” for three five-year periods. The first year is 1977 when Anheuser-Busch started “New Growth Strategy”. I break down “Net EBIT Change” into six effects, such as “Volume” effect, “Price” effect, “Materials Cost” effect, “Overhead” effect, and “Marketing/General & Administrative Cost” effect. This analysis provides us with the information which effects contributed or did not contributed to “Net EBIT Change” during respective periods (Exhibit 51).

During 1977 to 1982, EBIT increased by $363 million. Although Anheuser-Busch increased “Volume” from 37 million barrels to 59, the positive effect of “Volume Up” was relatively small ($188 million) because of low gross margin in 1977.
Anheuser-Busch succeeded in doubling "Price" and this "Price Increase" effect was huge, $1.4 billion. However, "Cost of Goods Sold" increased greatly ($865 million) too, especially "Materials Cost" ($543 million). MG&A increased by $315 million. During this period "New Growth Strategy" worked well but on only "Price" and "Volume" side. These two effects absorbed cost-push and increase of MG&A. However, this structure dramatically changed during the following period.

During 1982 to 1987, EBIT increased greatly by $727 million. This time "Cost of Goods Sold" changed into positive effect, especially "Materials Cost" contributed $194 million to "Net EBIT Change". "Price" effect continued to be substantial, $721 million, and "Volume" effect also contributed $283 million. Other two costs, "Labor" and "Overhead" negatively contributed but they were trivial. In other words, Anheuser-Busch succeeded in holding cost-push of "Labor" and "Overhead" during this period. MG&A increased greatly by $449 million but this was easily absorbed by "Price", "Volume" and "COGS" effects. Anheuser-Busch achieved its "New Growth Strategy" beautifully. Despite the downturn of the market in 1980's, Anheuser-Busch alone expanded its volume and market share by powerful "Total Marketing".

However, during 1987 to 1992, the ideal structure seemed to be damaged by negative "COGS" effect, especially "Overhead" effect. EBIT increased substantially again by $488 million but "Net EBIT Change" started to diminish compared to the previous period. "Price" and "Volume" continued to contribute greatly ($756 million, $304 million, respectively). But "MG&A" increased little in this period and it seemed that "Total Marketing" with more marketing expense had come to the point of saturation in 1990's.

In 1970 the ratio of EBIT to net sales was approximately 15%. Before Busch III started to manage Anheuser-Busch this ratio dropped critically by half due to materials cost increase. Busch III and Policy Committee established "New Growth Strategy" since 1977. At first stage "Total Marketing" led the strategy. At second stage "Total Marketing" and "Cost Control Program" realized the ideal performance of "New Growth Strategy". At third stage although it seemed that "New Growth Strategy" started to show diminishing curve, Busch III finally restored EBIT ratio to net sales up to 15%, which was the same ratio as that of 1970 (Exhibit 52). However, in the course of the two
decades strategy, Anheuser-Busch solidified its market position and financial position as "King of Beers".
V. Conclusion

I studied in the previous pages how Anheuser-Busch overcame Miller’s competitive challenge in 1970’s as well as the internal and external crises. I would like to conclude my thesis with an attempt to extract pure lessons from this case study that may be applied to other companies that are suffering from a similar competitive challenge.

First, “Strategy Reforms” under a severe competitive situation should be “Full-Packaged”. “Full-Packaged” means to recreate a whole new value chain of a company through reinforcing existing core competences and adding new ones. If a company is under a favorable situation, it does not need to recreate it entirely because many components are still working well on the existing “Platform”. However, if a crisis is severe, it is often difficult to turn overall negative trend by “Collections” of “Strategy Reforms” of components. It should be implemented on “New Platform” which integrates all pieces of “Strategy Reforms” of components. It also provides with “Long-Term Perspective”. In Anheuser-Busch case, Busch III’s “Management Philosophy”, his “Management Team Development” and “New Growth Strategy” they created with “Planning” people formed a “New Platform” of Anheuser-Busch. On this “New Platform”, specific strategies such as “Total Marketing” and “Cost Control Programs” were developed and implemented successfully. The most critical factor to create “New Platform” is a strong bond between “Top Management”, “Senior Management” and “Planning Department” and concentration of important information to “Planning Department”.

Second, “Professionalism” throughout organization of a company contributes to “Full-Packaged Strategy Reforms”. Busch III hunted and positioned “Professional Planning Staff” in “Planning Department”. He also hired “Professional Marketing Staff” and “Professional Sales Staff” in “Brand Management” and “Sales Department”. He demanded brewing people to be “Brewmaster” and packaging people to be “Professional Engineers”. Busch III demanded his management team to be “Professional Officer” in charge of both “Corporate” and “Operation”. And he demanded himself to be “Professional CEO” who has capabilities to be Chief Financial Officer, Chief
Brewmaster, Chief Marketing Officer, Chief Sales Officer, Chief Packaging Officer and Chief of every other operation! The higher one's position is in Anheuser-Busch, the more expertise of broader areas he or she must have.

Busch III often goes out to marketplaces and breweries. He said in an interview with Industry Week in 1982 as follows.

_You have to stay out in the marketplace. You learn more from a fellow running a packaging operation in Los Angeles than you do reading reports tenfold. They face problems daily, and I want to be with them – right out in the middle of the operation, learning the problems firsthand._

As “Professional CEO” with multi capabilities, Busch III discusses the problems with people in the marketplace, headquarters staff and officers “Professionally”. If “Top Management”, “Senior Management” and “Planning” people do not know about each function “Professionally”, “Professionalism” will only hurt the company. But if they know very well, the distance between “Headquarters” and “Front” will get closer and closer and this will grow “Professional Implementation” tremendously.

Third, “Co-Existence of Mutually Conflicting Corporate Cultures” also gives a company “High Level Flexibility” to both “Planning” and “Implementation”. In Anheuser-Busch organization, some strange cultures exist. For example, Anheuser-Busch loves “Science” but also respects “Common Sense”. It loves “Detailed” but also seeks “Simple”. It loves “National” but also pays attention to “Local”. It emphasizes on “Planning” but never forget about “Implementation”. It is clear Anheuser-Busch is an “Owner Company” but aims to be a “We Company”. We are often forced to compromise between two conflicting values. But in Anheuser-Busch they do not compromise. They respect “Science” uncompromisingly when it is suitable. If “Science” does not make sense, they switch to “Common Sense”. Both are important to Anheuser-Busch.

Anheuser-Busch expanded its business in 1970's and 1980's through reforming its strategy under the strong leadership of Busch III and his management team. However, in 1990's the market environment is changing dramatically and Anheuser-Busch is losing its growth momentum. The diversification strategy it pursued in 1980's resulted in
failures. In 1990's Anheuser-Busch decided to refocus on its businesses that it knew very well. International market is now growing rapidly but Anheuser-Busch is not a leading brewer in international market. Inside the United States, import beer and micro brew beer market are growing dramatically and becoming a big threat to Anheuser-Busch. Whether Anheuser-Busch will be able to meet the new challenge successfully or not will be another interesting theme to study.
Exhibit 1

US Beer Market vs Anheuser-Busch

- Industry Total Shipment
- AB Market Share

Source: R.S. Wienberg & Associates (Industry consultant in St. Louis)
Exhibit 2

US Leading Brewers in 1970's

- AB
- Miller
- Coors
- Stroh
- Heileman
- Pabst
- Schlitz

Source: R.S. Weinberg & Associates
Exhibit 3

Impact of Age on Malt Beverage Consumption

Index of relative per capita consumption (average=100)

Source: R.S. Weinberg & Associates
Exhibit 4

US Beer Market by Price Category 1947-1974

- High Price
- Premium
- Popular

Source: R.S. Weinberg & Associates
Exhibit 5

US Beer Market by Package 1947-1974

- Can
- Non Returnable Bottle
- Returnable Bottle
- Draught

Source: R.S. Weinberg & Associates
### Exhibit 6

**New Marketing Strategy of Miller Brewing**

<table>
<thead>
<tr>
<th></th>
<th>Before Philip Morris</th>
<th>After Philip Morris</th>
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<tr>
<td>Management</td>
<td>Conventional Management</td>
<td>Tobacco International Marketing Executive</td>
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<tr>
<td>Capital Expenditure</td>
<td>Low, not modernized brewery</td>
<td>High, modernized brewery</td>
</tr>
<tr>
<td>Brand Marketing Strategy</td>
<td></td>
<td></td>
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<tr>
<td>Brand Mix</td>
<td>One-Brand Marketing</td>
<td>Multi-Brand Marketing based on Market Segmentation</td>
</tr>
<tr>
<td></td>
<td>Miller High Life</td>
<td>Miller High Life</td>
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<tr>
<td></td>
<td>Merchant Malt</td>
<td>Miller Malt</td>
</tr>
<tr>
<td></td>
<td>Miller Ale</td>
<td>Miller Ale</td>
</tr>
<tr>
<td></td>
<td>Miller Lite</td>
<td>Miller Lite</td>
</tr>
<tr>
<td></td>
<td>Lowenbrau</td>
<td>Lowenbrau</td>
</tr>
<tr>
<td>Advertising</td>
<td>Average Expenditure</td>
<td>Astonishing Expenditure</td>
</tr>
<tr>
<td>Miller High Life Repositioning</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brand Concept</td>
<td>Champagne of Beers</td>
<td>Hard work, Hard play, then beer as a reward</td>
</tr>
<tr>
<td>Positioning</td>
<td>Premium Beer</td>
<td>Premium Beer</td>
</tr>
<tr>
<td>Marketing Area</td>
<td>Nationwide</td>
<td>Nationwide</td>
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<tr>
<td>Actual Drinkers</td>
<td>Women/Upper-Income People</td>
<td>Real Beer Drinkers (Baby-Boomers)</td>
</tr>
<tr>
<td>Package</td>
<td>Normal Package Line-up</td>
<td>Normal Package Line-up + 7-oz Pony Bottle</td>
</tr>
</tbody>
</table>
Exhibit 7

Net Income Comparison
Anheuser-Busch vs Philip Morris

Source: Anheuser-Busch Annual Reports. Philip Morris Annual Reports from 1970 to 1980
Exhibit 8

**Miller Market Share vs Voice Share**

- **→ Share of Market**
- **■ Share of Voice**

Source: R.S. Weinberg & Associates
Exhibit 9

Advertising Expenditure by Brewer

- AB
- Miller
- Coors
- Schlitz
- Pabst

Source: R.S. Weinberg & Associates
Exhibit 10

Miller Market Share Contribution by Brand

- High Life
- Lite
- Lowenbrau
- Others

Source: R.S. Weinberg & Associates
Exhibit 11

Miller Brewing Performance in 1970's

- sales volume
- operating income

Source: Philip Morris Annual Reports from 1970 to 1980
Exhibit 12

Anheuser-Busch Cost Structure

- Cost of Products Sold
- Operating Expenses
- Operating Income

Source: Anheuser-Busch Annual Report from 1970 to 1980
Anheuser-Busch Barrels Sold vs Profit

Source: Anheuser-Busch Annual Report from 1970 to 1980
Exhibit 14

Anheuser-Busch Per Barrel Cost Analysis

- Net Sales
- Cost of Products Sold
- Cost of Materials*
- Depreciation
- Total Payroll

*Cost of Materials: For this data of Anheuser-Busch is not available, industry average data is used for reference.

Source: Anheuser-Busch Annual Reports from 1970 to 1980
Productivity: Barrels Sold per Employee

- AB Barrels Sold
- Industry Barrels Sold
- AB Productivity Index
- Industry Productivity Index

Source: Anheuser-Busch Annual Reports from 1970 to 1980, R.S. Weinberg & Associates
Exhibit 17

Cost of Products Sold in 1990

Source: Impact Magazine 1997
Exhibit 18

Capital Expenditure: Anheuser-Busch vs Philip Morris

Source: Anheuser-Busch Annual Reports from 1970 to 1974, Philip Morris Annual Reports from 1970 to 1974
Exhibit 19

Anheuser-Busch Shipping Capacity

Source: Anheuser-Busch Annual Reports from 1972 to 1979
**Exhibit 20**

**Member of Anheuser-Busch Policy Committee**

<table>
<thead>
<tr>
<th>Name</th>
<th>Age as of '77</th>
<th>Notes</th>
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<tbody>
<tr>
<td>August A. Busch III</td>
<td>40</td>
<td>Chairman and CEO</td>
</tr>
<tr>
<td>Fred L. Kuhlmann</td>
<td>41</td>
<td>senior officer before 1973</td>
</tr>
<tr>
<td>Dennis P. Long</td>
<td>41</td>
<td>senior officer before 1973</td>
</tr>
<tr>
<td>Orion P. Burkhardt</td>
<td>41</td>
<td>senior officer before 1973</td>
</tr>
<tr>
<td>Henry N. McCluney</td>
<td>41</td>
<td>senior officer before 1973</td>
</tr>
<tr>
<td>Andrew J. Steinhubl</td>
<td>41</td>
<td>senior officer before 1973</td>
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<td>Jerry E. Ritter</td>
<td>41</td>
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<td>Barry H. Berecha</td>
<td>34</td>
<td>Columbia University MBA</td>
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<td>Patrick T. Stokes</td>
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<td>Wharton MBA</td>
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<td>John H. Purnell</td>
<td>35</td>
<td>Wharton MBA</td>
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<td>W. Robert Harrington</td>
<td>48</td>
<td>Wharton MBA</td>
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<tr>
<td>W. Randolph Baker</td>
<td>29</td>
<td>Navy Intelligence Officer</td>
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<td>Stephen K. Lambright</td>
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<tr>
<td>C.B. Lane, Jr.</td>
<td></td>
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<tr>
<td>Stuart F. Meyer</td>
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<td>Raymond E. Goff</td>
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<td>Michael J. Roarty</td>
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<td>Jaime Iglesias</td>
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<td>Aloys H. Litteken</td>
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<td>David S. Leavenworth</td>
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<td>Lee J. Waltemade</td>
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<td>William L. Rammes</td>
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<td>John B. Roberts</td>
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<td>Joseph L. Goltzman</td>
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<td>Donald W. Kloth</td>
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<td></td>
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<td>John E. Jacob</td>
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<td>Gerhardt A. Kraemer</td>
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<td></td>
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<tr>
<td>Thomas W. Santel</td>
<td></td>
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<tr>
<td># of members</td>
<td>12 12 10 10 9 10 10 10 11 10 9 11 12 13 14 15 15 15 15 13</td>
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</tr>
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</table>
Anheuser-Busch Business Strategy Change

Business Threats

1. Volume down threat by Miller's marketing
2. Margin squeeze by materials cost increase

Business Opportunities

1. Volume up opportunities
   - Overall growth trend, especially Premium Beer
   - Existence of weak players
2. Sound financial position

Old Management

Conservative Strategy
- Less Marketing Expense
- Less Capital Investment
- Sustain Bottomline

New Management

New Growth Strategy
- More Marketing Expense
- More Capital Investment
- Expand Bottomline
Exhibit 22

Anheuser-Busch New Growth Strategy

New Management, New Corporate Culture, New Growth Strategy

More Profit

More Margin

Volume Up

More Market Share

More Marketing Expense

Price Increase

More Premium

Cost Down

More Capital Investment

More Cash Flow

Total Marketing

Cost Control Programs

75
Exhibit 23

Anheuser-Busch New Headquarters Organization

Busch III & Policy Committee

Brewing

Packaging

Mission of Planning Department

Sales Analysis & Forecasting

New Product Development

Financial Planning

Logistics & Distribution

Capital Investment

Materials Acquisition

Logistics

Brand Management

Planning

Sales
Exhibit 24
Anheuser-Busch Total Marketing Framework

Constant Pressure, Constant Attention to Marketplace

Planning Department
- Pricing Strategy
- Budget Allocation

Pull Marketing Strategy Planning
- Brand Mix Strategy
- Communication Strategy

Geographic Strategy Planning

Push Marketing Strategy Planning
- Wholesaler Management
- National Retail Accounts Strategy

Brand Management
Implementation of Pull Marketing

Sales Department
Implementation of Target Marketing
Implementation of Push Marketing

Consumers

Customers

Market Place
### Exhibit 25

#### Anheuser-Busch Brand Strategy 1977-1990

<table>
<thead>
<tr>
<th>PHASE 1</th>
<th>PHASE 2</th>
<th>PHASE 3</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Contiengency</td>
<td>Foundation-Making</td>
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<tr>
<td><strong>Total Market Trend</strong></td>
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<tr>
<td>Market Total</td>
<td>Up</td>
<td>Flat</td>
</tr>
<tr>
<td>High Price</td>
<td>Up</td>
<td>Flat</td>
</tr>
<tr>
<td>Premium</td>
<td>Up</td>
<td>Down</td>
</tr>
<tr>
<td>Popular</td>
<td>Down</td>
<td>Up</td>
</tr>
<tr>
<td>Regular</td>
<td>Down</td>
<td>Down</td>
</tr>
<tr>
<td>Light</td>
<td>Up</td>
<td>Up</td>
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<tr>
<td>Others</td>
<td>Up</td>
<td>Up</td>
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<tr>
<td><strong>AB Market Share Growth</strong></td>
<td>High</td>
<td>High</td>
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<tr>
<td><strong>AB Market Share Contributor</strong></td>
<td>Natural Light</td>
<td>Budweiser</td>
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<tr>
<td></td>
<td>Michelob</td>
<td>Bud Light</td>
</tr>
<tr>
<td></td>
<td>Michelob Light</td>
<td>Busch</td>
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<tr>
<td></td>
<td></td>
<td>Natural Light</td>
</tr>
<tr>
<td><strong>AB Share of Voice Trend</strong></td>
<td>Up but not so competitive</td>
<td>Up and competitive</td>
</tr>
<tr>
<td>AB Total</td>
<td>Up but not so competitive</td>
<td>Up and competitive</td>
</tr>
<tr>
<td>Budweiser</td>
<td>Down</td>
<td>Up</td>
</tr>
<tr>
<td>Bud Light</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Busch Total</td>
<td>Up</td>
<td>Down</td>
</tr>
<tr>
<td>Natural Light</td>
<td>Flat</td>
<td>Down</td>
</tr>
<tr>
<td>Michelob Total</td>
<td>Up</td>
<td>Up</td>
</tr>
<tr>
<td><strong>Miller Market Share Growth</strong></td>
<td>High</td>
<td>Flat</td>
</tr>
</tbody>
</table>

78
Exhibit 26

US Beer Market by Beer Type 1947-1990

- Regular
- Light
- Imports
- Specialty

Source: R.S. Weinberg & Associates
Exhibit 27


Source: R.S. Weinberg & Associates
Exhibit 28

AB Voice Share Contribution by Brand

Source: R.S. Weinberg & Associates
Exhibit 30

AD Expenditure by Main Brand 2

Source: R.S. Weinberg & Associates
Exhibit 32

Budweiser Family Market Share Contribution

Source: R.S. Weinberg & Associates
Exhibit 33

Busch, Natural Light Market Share Contribution

- Busch
- Busch Light
- Natural Light

Source: R.S. Weinberg & Associates
Exhibit 34

Michelob Family Market Share Contribution

■ Michelob ■ Michelob Light □ Michelob Dry □ Michelob GD

Source: R.S. Weinberg & Associates
Exhibit 35

Market Share by Premium Regular Brand

- Budweiser
- Miller High Life
- Coors
- Schlitz
- Pabst

Source: R.S. Weinberg & Associates
Exhibit 36

Miller Market Share Contribution by Brand

- High Life
- Genuine Draft
- Lite
- Meisterbrau & Milwaukee
- Lowenbrau
- Others

Source: R.S. Weinberg & Associates
Exhibit 37

AB Market Share by Price Category

Source: R.S. Weinberg & Associates
Distribution Channel of U.S. Beer Industry

Exhibit 39
Exhibit 40

Anheuser-Busch Push Marketing

1. Exclusive Territory
2. Dimensions of Excellence
3. Wholesaler Business Support Programs
4. National Accounts Department
5. Economic Support for Sales Promotion
6. Wholesaler Advisory Pannel
7. Wholesaler Convention
8. Special Convertible Debentures

Anheuser-Busch

1. Sales Goals Agreement for Anheuser-Busch Products
2. Strict Compliance with Warehousing Environment Program
3. Strict Compliance with AB Wholesaler Operations Standard
4. Market Information

Wholesaler

1. Maximum Distribution & Exposure of AB Products
2. Quality Control of AB Products at Retail Level
3. Integration with AB Advertising Campaign

Retailers

1. Active Participation in Local Community
2. Local Events Sponsoring
3. Local Media Spending

Local Community
Exhibit 41

Anheuser-Busch Target Marketing Positioning

Marketing Integration

Target Area

Competitors

Normal Market

Competitors

Pressure, Attention to Marketplace
Exhibit 42
Anheuser-Busch Target Marketing Process Chart

- Geographic Strategy
  - Target Market Determined by Market Size, Market Share, Future Growth
  - California, Texas, Ohio, Florida, Michigan, New York, Chicago

- Task Force Team Setup
  - Cross-Functional Team
  - Planning Department (Market Research, Sale Analysis, New Product Development, Finance)
  - Brand Management (Advertising, Promotion)
  - Sales Department (Regional Headquarters)

- Market Research & Sales Analysis
  - Consumer Research (Demographic, Racial Composition)
  - Market Structure
  - Sales Trend by Brand/Package

- Target Marketing Plan
  - Total Marketing Plan for Specific Target Area
  - Locally Adjusted Products (Local Package Design, New Package Introduction)
  - Localized Brand Advertising and Promotions
  - Integrated Merchandising Activity by Wholesalers

- Implementation
  - Often Headed by Senior Management
  - Monitoring/Evaluation
Exhibit 43

Anheuser-Busch Cost Control Programs

Planning

Brewery Expansion & Modernization
- Fixed Cost Reduction by Capital Expenditure (Labor Cost, Overhead)
- Transportation Cost Reduction

Materials Cost Reduction
- Variable Cost Reduction by Vertical Integration (Can, Malt and other Ingredients)

Productivity Improvement
- Cost Reduction without Capital Expenditure

Operations Information
Materials Cost Comparison

Source: Anheuser-Busch, R.S. Weinberg & Associates
### Exhibit 45

**Anheuser-Busch Brewery Expansion**

<table>
<thead>
<tr>
<th>Brewery</th>
<th>Date Opened</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 St. Louis</td>
<td>Missouri 1880</td>
</tr>
<tr>
<td>2 Newark</td>
<td>New Jersey 1951</td>
</tr>
<tr>
<td>3 Los Angeles</td>
<td>California 1954</td>
</tr>
<tr>
<td>4 Tampa</td>
<td>Florida 1959</td>
</tr>
<tr>
<td>5 Houston</td>
<td>Texas 1966</td>
</tr>
<tr>
<td>6 Columbus</td>
<td>Ohio 1968</td>
</tr>
<tr>
<td>7 Jacksonville</td>
<td>Florida 1969</td>
</tr>
<tr>
<td>8 Merrimack</td>
<td>New Hampshire 1970</td>
</tr>
<tr>
<td>9 Williamsberg</td>
<td>Virginia 1972</td>
</tr>
<tr>
<td>10 Fairfield</td>
<td>California 1976</td>
</tr>
<tr>
<td>11 Baldwinsville</td>
<td>New York 1980</td>
</tr>
<tr>
<td>12 Fort Collins</td>
<td>Colorado 1988</td>
</tr>
<tr>
<td>13 Cartersville</td>
<td>Georgia 1993</td>
</tr>
</tbody>
</table>
Exhibit 46

AB Capital Expenditure, Debt Ratio

- Capex Ratio
- Debt Ratio

Source: Anheuser-Busch Annual Reports from 1970 to 1990
Anheuser-Busch Labor Cost

Source: Anheuser-Busch
Anheuser-Busch Overhead Cost

Source: Anheuser-Busch
AB Cost of Goods Sold per Barrel

Source: Anheuser-Busch
Exhibit 51

Net Change of AB Beer Operating Income

- Volume
- Materials
- Labor
- Overhead
- MG&A
- Price Increase

In Million Dollars

1982-1977 (+$363 million)
1987-1982 (+$727 million)
1992-1987 (+$488 million)

Source: Anheuser-Busch
Exhibit 52

Anheuser-Busch Financial Performance

- EBIT
- EBIT / Net Sales

Source: Anheuser-Busch Annual Reports from 1970 to 1990
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