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Two-barrel approach for Anheuser

By Mure Dickie

Like most foreign companies hoping to conquer the Chinese market, US brewing giant Anheuser-Busch had a choice of working through a venture controlled by a local partner or building its own business.

Unlike most overseas investors, however, An-heuser's response has been to do both.

By acquiring 27 per cent of the shares of Tsingtao Brewery, Anheuser has taken a major punt on the fortunes of China's most internationally famous beer brand.

At the same time, Anheuser has developed its own large brewery in Wuhan city to produce Budweiser beer for the Chinese market and in 2004 splashed out $700m to wrest ownership of China's Harbin Brewery from international rival SABMiller.

The combination of wholly owned operations and the Tsingtao alliance means Anheuser is best positioned to benefit from the expansion of the "largest and fastest-growing beer market in the world", the company said last year.

But some observers see contradictions emerging in Anheuser's two-pronged strategy. In a research note late last year, investment bank Merrill Lynch justified its "sell" rating on Hong Kong-listed Tsingtao, in part citing competition from the brewer's strategic ally.

Anheuser's move to turn Harbin beer from a regional brand into a national one reflected intensifying competition that meant Tsingtao was likely to "require higher marketing spending to simply defend market share, let alone grow it", the XFN news agency quoted Merrill Lynch as saying.

As if to highlight such issues, Anheuser last month began marketing Harbin beer in the US, offering a potentially potent challenge to Tsingtao's long-standing dominance of Chinese beer exports.

But Stephen Burrows, chief executive of Anheuser-Busch International, waves aside suggestions that there is any downside to the two-pronged China strategy.

While Harbin is joining Tsingtao in the national premium beer market, overall growth of more than 20 per cent in sales of premium beers means the brands can each chase different customers, he says, noting that effective product segmentation is something Anheuser has "built an entire business around".

Tsingtao management has expressed no objection to the push to make Harbin a nationwide premium brand or to sell it to Chinese restaurants overseas, Mr Burrows says.

"It's not as if they own those restaurants," he says. "You've got a growth market and both companies are mature enough to realise that we have brands that we own and we will sell those brands . . . and we will compete for the business."

For its part, Tsingtao is giving no public sign of dissatisfaction over its strategic partner's approach.

The Chinese brewer says that access to Anheuser's brewing experience has boosted competitiveness and that its business partner's purchase of Harbin was "good for promoting dev-elopment of the industry".

But Tsingtao is hardly gushing in its enthusiasm for Harbin's new expansion overseas.

"At the current stage, this is not having any effect on Tsingtao," it says. "Tsingtao Beer still accounts for more than 50 per cent of the volume of China's beer exports."

Certainly, in the crucial domestic market, the most pressing challenge to both Anheuser and Tsingtao comes not from each other but from

China Resources Snow Breweries.

CRSB, a joint venture between industrial group China Resources and SABMiller, has in the past few years turned its previously little-known Snow beer into the country's biggest brand.

This success in the premium beer market, which Mr Burrows says accounts for about 10 per cent of total sales in China, is particularly significant since the mass market is dominated by local brews that sell at prices that leave little room for promotion or profit.

Mr Burrows contests CRSB's claim to be winning market share, even in Harbin's home city in China's hard-drinking north-east and notes that Anheuser is itself enjoying growth of more than 20 per cent in the premium beer market.

But competition continues to intensify. In December, CRSB, in which SABMiller has a 49 per cent stake, announced it would pay Rmb176m ($22.7m) for two northern China breweries. Last month, CRSB agreed to pay $320m to buy out its partners in a 14-brewery joint venture in south-western Sichuan province.

Meanwhile, Japan's Kirin Brewery announced in December that it would pay $38m for a 25 per cent stake in China's Hangzhou Qiandaohu Brewery.

For the moment, Anheuser continues to enjoy profitable dominance of the "super premium" market segment through sales of Budweiser produced at its Wuhan plant.

While high-end premium beers account for less than5 per cent of the Chinese market, their high price tags allow much healthier margins than those commanded by cheaper brews.

Budweiser's dominance could be threatened as Chinese brewers such as Tsingtao and domestically owned Yanjing gain marketing prowess and generate the sales that could justify heavier promotional spending.

Glen Steinman, president of Hong Kong-based industry consultancy Seema International, says that, in recent years, domestic brewers have begun introducing super-premium products that cannot be lightly dismissed.

"People always underestimate the ability of Chinese companies to provide excellent value for money at all price segments," Mr Steinman says.