Thirst for growth
Helping companies to compete in the rapidly changing beverage sector
In the current uncertain economic environment, beverage businesses need to stay sharp if they are to generate the growth and profitability on which their future depends.

“As consumers and retailers demand ever-greater value, volumes and pricing are under severe pressure in mature markets, while emerging markets appear to offer growth opportunities. Consolidation will continue as companies seek to gain scale, reduce cost and drive efficiency in line with rising stakeholder expectations.”

Howard Martin
Co-Global Beverage Leader, Consumer Products
Ernst & Young LLP
Stagnant developed markets, volatile commodity prices, value-seeking consumers, tightened regulations and increasingly powerful retailers are just some of the challenges facing beverage companies in today’s complex global marketplace.

Businesses are coming under the spotlight from analysts, investors, regulators and environmental organizations like never before. The pressure to conceive, articulate and execute a distinctive, market-winning strategy is the strongest it’s been. However, demand uncertainty and volatility is making strategic investment and operational decision-making increasingly complex.

We believe that to stay ahead, successful companies will need to:

► **Find new routes to growth** – prioritizing the right markets, reshaping the portfolio to target growth segments, leveraging consumer insights and creating new usage occasions.

► **Increase adaptability and responsiveness** – optimizing business structures to boost competitiveness, enhancing the supply chain, centralizing procurement, matching innovation to the pace of demand and inventing new products and price points.

► **Deliver margin improvement** – improving performance across business functions, managing costs sustainably, driving working capital improvement, understanding cost to serve and managing pricing effectively.

► **Sharpen execution** – improving consumer insight, brand and marketing effectiveness, rebalancing the relationship with retailers, transforming the finance function and revitalizing risk control and compliance.

► **Enhance corporate reputation** – embracing sustainability, both in the individual enterprise and the wider environment and shaping smart regulation.

Whether your interests are domestic, regional or global, we have on-the-ground professionals in developed and ‘rapid-growth’ emerging markets and can bring the resources of a global team, coordinated through a single point of contact. Our strong commitment to the sector means we can offer in-depth knowledge, practical experience, strong industry relationships and genuine global reach to help you fulfill your objectives. Please get in touch with us if you want to find out more.

We very much look forward to having the opportunity to work with you.
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Did you know?

Ernst & Young works with the world’s leading beverage companies:
► We work with 19 of the 21 beverage companies in the S&P Global 1200
► We work with 20 of the 26 beverage companies in the Forbes 2000

Our beverage team is part of our worldwide Consumer Products network, which numbers approximately 10,000 professionals.
Maximizing growth opportunities

Beverage companies are looking at a number of areas in order to maximize growth: leveraging consumer insights, focusing on rapidly expanding emerging markets and looking for acquisition opportunities.

“Beverage leaders are talking about regulatory and environmental concerns. But their biggest issue is demand and the impact that’s having on volume growth. That’s why so many companies are focusing on two areas – innovation and emerging markets – to plug the gap.”

Steve Wills
Co-Global Beverage Leader, Consumer Products
Consumer Products, Ernst & Young LLP

In developed markets, where the age profile is rising and population levels are in decline, global beverage companies have been looking to increase scale, leverage purchasing and operational synergies, fill portfolio or market gaps and generate efficiencies. In emerging markets, the search for growth is accelerating, driven in part by the booming population and the rapidly expanding middle class. The increasing prominence of digital media is a factor everywhere.

Leveraging consumer insights to reignite growth

To grow, companies need to understand the changes in the consumer landscape and bring greater focus to their marketing efforts.

New demographic groups are being identified as companies try to capture changing consumer behavior. In the developed world, companies are targeting the ‘bifurcated consumer’ – split between cash-poor value-seekers and richer purchasers interested in innovative premium products. But age is also becoming a more significant factor. While young, fast-adopter consumers who live online gravitate toward products that reflect their values,
the more numerous older and richer demographic is demanding quality, but in smaller quantities, at different times and from different outlets.

The challenge for beverage companies is to leverage these insights to identify the core brands which have the greatest relevance and maximize growth opportunities at every level across economy, mass and premium markets. While some companies are reworking the same core product across different market segments, others are focusing on emerging entry-level products to draw in new consumers, or adapting existing brands into new geographic territories. This includes widening product appeal by identifying new drinking occasions or tailoring products to the needs of specific consumer segments.

Focusing on rapidly-growing emerging markets

Emerging markets are seen as holding the key to future growth for beverage companies: of the one billion people projected to enter the middle class by 2020\(^1\), two-thirds will come from emerging economies such as the BRIC grouping (Brazil, Russia, India, China) and other fast-expanding territories including Bangladesh, Indonesia, Mexico, Pakistan, Turkey, Vietnam and Africa.

“India, which has seen a rapid proliferation of city bars and nightclubs in recent years, is fast shedding its inhibitions about alcohol. This has caught the attention of the global players with multinational alcohol beverage companies, redeploying from shrinking markets in the developed world, having identified India as one of the most attractive markets for investment.”

Ashish Nanda
Supply Chain, Consumer Products
Ernst & Young India

Key takeaways

► Consumer shopping habits are changing. Beverage companies need to capture those insights to maximize growth opportunities across all market segments.

► Emerging markets present significant opportunities — and complexities. Companies need to adapt products to suit local tastes, wallets and buying preferences.

► Acquisitions or joint ventures allow companies to enter or strengthen their position in emerging markets. At the same time, emerging market companies are establishing themselves as global players in their own right, looking for opportunities to acquire local competitors and developed world businesses.

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2 Indonesian Middle Class Recycle Wealth Back into Domestic Economy, NowPublic, 1 April 2010 via www.nowpublic.com, accessed 8 August 2011.
"The rising affluence and high levels of aspiration amongst Asian consumers is expected to continue to drive the growth of the international spirits segment in the region."

Gilbert Ghostine
President of Asia Pacific
Diageo³

Targeting growth through acquisition

Developed world companies are looking to enter or strengthen their position in emerging markets with acquisitions and joint ventures. At the same time, emerging market companies are establishing themselves as global players in their own right, looking for opportunities to acquire local competitors, and developed world businesses.

In spirits, there is significant scope for further consolidation. The new trend is a major focus on brand. Companies are less likely to go shopping to fill a gap in their portfolios – such as buying a gin or a bourbon. Instead, they are targeting valuable or iconic national and global brands. In contrast, the wine subsector offers less scope for consolidation and many beer companies are looking at divestments to help reduce debt. In non-alcoholic beverages there is increasing bottler consolidation and global soft drinks companies have been making acquisitions to extend their portfolios into perceived ‘healthy’ segments which offer value added growth opportunities.

What attracts beverage companies to emerging markets?

- 82% of the world’s population live there
- 92% of the world’s births occur there
- GDP growth is 4%-5% higher than developed markets
- One billion people will enter the middle class by 2020: two-thirds will come from emerging markets
- 70% of global GDP will come from emerging markets in the next 10 years

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³ Diageo brings world’s best bartenders to India for its World Class final as Asia luxury booms, Diageo, July 2011, www.diageo.com, accessed 8 August 2011.
Thirst for growth  Helping companies to compete in the rapidly changing beverage sector
Ernst & Young’s strong industry knowledge positions us well to help clients execute on their growth strategies. We have a proven record of helping businesses all over the world to create opportunities for growth – and knowledgeable local teams to support strategic moves in all key markets. We can advise on:

- Market prioritization and market segmentation
- Growth opportunities in emerging markets
- Transaction due diligence
- Transaction tax
- Merger integration and valuation
- R&D program management and innovation
- Monetizing assets

**Transaction support**

Ernst & Young is a leading advisor on beverage transactions, with a network of 6,500 transaction professionals in more than 90 countries. We have been involved in many of the largest consumer products M&A deals in recent years. We offer in-depth understanding of beverage industry issues, businesses and local dynamics to boost our clients’ competitive edge on deals.

“Our investment in the beverage sector underlines our position as a Big Four organization with great subject-matter insight in this area and enables access to a market-leading global network of sector professionals. This investment has been key in enabling us to win engagements and to deliver market-leading services and insights.”

Simon Gillings
Beverage Sector Specialist, Transactions and Due Diligence
Ernst & Young LLP

Our closely integrated teams are highly experienced in serving clients across different cultures, languages and regulatory systems. We are ready to advise on the full transaction lifecycle including:

- Pre-transaction feasibility and structure
- During-the-deal due diligence and valuation, including brand valuation
- Negotiations and closing
- Post-acquisition support, including post-purchase price allocation
- Tax structuring and capital markets transactions
- Internal audit effectiveness
- Legal entity rationalization
Maximizing a beverage growth strategy for India

Our client wanted to fine-tune its growth strategy for India to operate more effectively within its commercial, regulatory, political and cultural environment. Our work included assisting the multinational brewing company in reviewing the overall Indian environment, with a specific focus on cultural and regulatory trends. Recommendations for improvements included several key suggestions that would enable the client to optimize its investments in India, such as rationalizing its production facilities to match future growth, and working on improving the effectiveness of its marketing campaigns.

Changing the game through collaboration and know-how commercialization

We worked with a global consumer products company to determine whether it could boost growth by monetizing its business know-how, in particular its approach to maximizing manufacturing productivity. Given that a typical plant for this company generally runs at 80%-85% reliability compared with the industry norm of 50% or below, both company management and Ernst & Young professionals were convinced it should be possible to licence the knowledge to non-competitors very profitably. Ernst & Young invested two years in the project and saw the client and the first licensee realize value two or three times greater than anticipated levels. The team has now evolved the concept to learn from the licensee’s experience to further improve the product.

Supporting a strategic acquisition in South Asia

We worked with a consumer products company to help ensure the smooth acquisition of a significant local company in South Asia that would help provide a platform for future growth. We provided financial and due diligence services to support the purchase price – mobilizing a cross-border team including transactions support, transactions tax, financial reporting and valuations. Local market transactions and accounting knowledge was vital to the successful conclusion of the deal – providing comfort around the financials and essential support to the business development team.
Increasing adaptability and responsiveness

As beverage companies seek to succeed in an increasingly complex climate, adaptability and responsiveness to challenging market conditions are prerequisites for success.

“Commercial demands are putting pressure on the supply chain to be increasingly efficient – offering faster stock replenishment, more variety of product or ranges tailored to individual shops or market areas. Companies need to improve the integration of the supply and demand sides of their businesses in order to manage these pressures.”

Howard Martin
Co-Global Beverage Leader, Consumer Products
Ernst & Young LLP

Ongoing volatility in the global economy means companies are operating in an environment that is increasingly unpredictable. Consumers are changing, becoming value-focused across all product categories, more connected and ‘in control.’ To compete globally companies must reinvent their approach: becoming swift and agile, seizing opportunities to innovate and establishing greater control over their supply chains.

Getting the right operating model to boost competitiveness

Optimizing the operating model is critical and this means striking the right balance between local autonomy and global scale and efficiency. Strong, empowered local leadership to help ensure a relevant and rapid response to evolving market needs, while a globally consistent strategic direction gives the ability to draw on capabilities and resources from anywhere in the world.
The opportunities to improve competitiveness are multifaceted, including:

► Clarifying which functions should be in-country and which should sit above market
► Driving global business services
► Creating the right level of understanding of customers and consumers – ensuring the model understands who they are and what is needed to serve them
► Creating a tax-efficient supply chain
► Buying and selling the right assets

Enhancing the supply chain
As companies look to reduce the volatility caused by demand uncertainty and cost increases, they are seeking to exert greater control over the supply chain to help deliver organizational agility and enhance speed to market. In addition, by focusing on building an organization that is sufficiently flexible and adaptable to succeed in today’s economy, companies are also keeping a watchful eye on the bigger picture. In the next few decades there is increasing risk of a shortage of natural resources, especially water. Companies are looking at how they can improve efficiency and reduce water consumption, as well as locking in access to natural resources to protect the supply chain and gain a competitive advantage.

In developed markets, the last 10 years has forced a closer focus on operating model and in particular the establishment of above-market hubs to avoid duplication of functions and costs across a range of local country markets, and to enable companies to centralize people and decision-making, increase standardization and benefit from tax advantages.

Key takeaways
► As companies expand in new geographies, optimizing operating models becomes critical. As a result, they need to strike a balance between local autonomy and global scale and efficiency to boost competitiveness.
► Exerting greater control over the supply chain helps deliver organizational agility and enhance speed to market.
► Innovation is a key driver of volume growth – and market share. The creation of new usage occasions presents opportunities with target groups including the emerging middle class, women and the youth segment.
► Technology adoption is accelerating and the declining effectiveness of traditional media is pushing companies to embrace social networks.

“This new business model will allow us to create synergies and streamline our supply chain. We’ll also be quicker, more agile and better able to meet the changing demands of today’s consumers.” Eric Foss, CEO, PepsiCo, commenting on the news that GEUPEC, Empresas Polar and PepsiCo were teaming up to create a nationwide beverage company in Mexico.4

In emerging markets, supply chain operations need to be geared towards keeping up with the demands of high but volatile growth rates, while in more developed economies the emphasis is increasingly on removing costs and improving customer service. By re-examining their supply chain networks, companies are also getting a wider overview of key political, economic, and environmental risks and how they may affect operations.

**Matching innovation to the pace of change in consumer demand**

As beverage companies seek to drive volume growth and seize market share, innovation is a key decision point – in terms of product, packaging and promotion. Changing consumer needs and tastes, rising costs, changing technology, shortening product lifecycles and heavier domestic and overseas competition all increase the pressure to innovate. Businesses need to renew their offerings and business models constantly – and get innovations to people quickly – to protect existing markets and develop new ones.

**New products, packaging and usage occasions**

In spirits, companies are tapping into the consumer trend for exclusivity, experience, quality and provenance. For example, Diageo has positioned a number of vodka brands at different premium price points. In US brewing there has been an upsurge in the production of craft beers while health and wellness remains a focus for certain soft drinks companies. The Coca-Cola Company has founded the Beverage Institute for health and wellness, to respond to this trend.

A focus on health is also a factor driving innovation in packaging. In the US, where soft drinks have for the last two decades been served in increasingly large servings, the trend is starting to reverse as calorie-conscious consumers seek smaller sizes and younger consumers seek to consume on the move. Smaller sizes also enables manufacturers to position products at lower price points. Environmental factors are also driving new packaging types: both The Coca-Cola Co. and PepsiCo have developed ‘green’ recyclable bottles that are made from plant-sourced materials.  

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Promotion innovation through new technology

Technology adoption is accelerating. Businesses now face a far faster business cycle where they have to react rapidly ‘in real time.’ Companies need to experiment quickly and cheaply, and focus on relevant contact with the consumer, as well as content. By 2013, it is estimated that two billion users will make purchases using mobile devices such as smart phones.

“Social media is a living, breathing marketing tool that forms a vital part of a healthy integrated marketing strategy.”
Spokesperson for Beam Global Spirits & Wine6

“Using social media is a key way of engaging with target consumers, especially in the younger age groups.”
Spokesperson for PepsiCo UK & Ireland7

“We use Facebook, YouTube and Twitter channels to broadcast our corporate news on top of our traditional methods.”
Spokesperson for SABMiller6

It is not only the scale of the opportunity that is compelling; low effectiveness of traditional media is pushing companies to embrace social networks. Only 18% of traditional media campaigns generate positive recommendations, while messages sent from a brand via a social network can have a much greater impact.

Effective utilization of social media plays a key role in another significant marketing innovation – the migration of product to experience. Increasingly consumers are not looking to buy products – they want to purchase experiences and companies are realigning their brand attributes to try to deliver that.

Energy drink Red Bull has expanded beyond simply sponsoring or endorsing events and has moved into ownership of content that now includes sports teams, a record label, its own magazine, video games and TV content.9

6 Jonathan Thomas Social Media – Part I: The Landscape from Facebook to Twitter, Just Drinks, 26 July 2011.
7 Ibid.
8 Ibid.
We have a proven record of helping beverage businesses to stay fit and adaptable. Issues we can help with include:

► Redefining organizational structures and business models
► Introducing common regional and global processes
► Supply chain transformation
► Tax-efficient supply chain management (TESCM)
► Identifying and executing on new strategic relationships
► Improving the effectiveness of R&D program management in emerging markets new products
Examples of successful projects

**Transforming the supply chain operating model to enhance efficiency**

We developed a tax-effective business model to help a client underpin its European growth and efficiency priorities. The model was based on a centralized organizational structure and was implemented across the commercial, supply chain and finance functions. We successfully helped the client with all aspects of the transformation, including designing and implementing the changes, transfer pricing model redesign and the development of direct tax solutions. These changes are driving operating efficiencies that are leading to increased growth rates, increased trading margins and a reduced effective-tax rate.

**Improving effectiveness in performance management**

In order to maintain market leadership, a fast-growth consumer goods company in China needed to improve the Board’s effectiveness in driving the performance of key group functions including financial reporting, HR and IT. In order to facilitate better decision-making, we worked with the company to develop more effective Board performance measures and to revise the group’s approach to new business decision modeling.

**Streamlining a complex business model**

We worked with a soft drink company’s European business to help identify and restructure time-consuming processes. Our team worked to a three-phase plan, reviewed four sites across Europe and provided a detailed analysis of three working capital cycles. We were able to pinpoint several key opportunities for our client which involved the realignment of a range of core processes in rebate, invoicing and inventory. From these the Ernst & Young team was able to hand over to the client actionable, practical plans and metrics which significantly evolved its reporting tools and cash flow forecasting.
Delivering margin improvement

Managing margins successfully is critically important for beverage companies. With input costs soaring and growth slowing, companies need a strategically aligned response across a number of areas including performance and productivity improvement, sustainable cost management and pricing and promotion optimization.

“Beverage companies are concerned about rising input costs for raw materials and the substantial amounts of energy they use to process them. Now is the time to turn cost-cutting into an opportunity and maximize productivity and operational effectiveness.”

Andrew Cosgrove
Global Consumer Products Lead Analyst
Ernst & Young LLP

Analyzing cost-to-serve

Beverage companies are increasingly focusing on cost-to-serve (CTS) to better understand the cost impact of service requirements and the opportunities for joint value creation with customers. With a proper understanding of CTS, manufacturers can negotiate on the areas that may be impacting profitability, such as order size or delivery requirements, to reduce costs and enhance returns.

“Because the cost structure is vast and complex, it is critical that supply chain and operational leaders understand it and work together to drive efficient behavior and avoid inadvertently rewarding value-destructive retailer behavior.”

Fabian Wehren
Supply Chain, Operating Model Design
Ernst & Young LLP
Working capital review

Working capital is a key area of focus for beverage companies. Brewing has reported a massive improvement in working capital levels since 2002. Cash-to-cash (C2C) is down 88%, or 35 days, driven by progress in both receivables and payables. Despite this progress, a high-level benchmarking analysis suggests that up to US$33b is still unnecessarily tied up in the working capital of the largest 20 consumer products companies, equating to 5.3% of sales.  

“Our global working capital team has extensive experience working within the beverage sector. We know where to look to understand, quantify and deliver the savings inherent in the peculiarities of portering and distribution, packaging deposits, and on-trade finance, as well as in mainstream payables, receivables and inventory. Without exception, our projects have delivered in excess of 5% turnover in incremental, sustainable cash improvement.”

Julian Ramsey  
Cash and Working Capital Management  
Consumer Products  
Ernst & Young LLP

The next generation of cost cutting

Cutting costs is never easy. Beverage businesses have two fights on their hands. First, running the business as a whole in a cost-efficient manner, including effectively managing fixed overhead costs. Second, dealing with rising input costs, resulting from raw material and energy price inflation. Most companies hope to mitigate the impact of rising input costs through a combination of pricing, short-term hedging, and extending further their existing cost-saving programs.

However, concerns still remain. The impact of price rises varies hugely between individual commodities and from month to month, raising the question of whether companies can hedge at the right time. Also, companies have already pushed cost-saving initiatives to get through the recession. What we are seeing now is the second or even third generation of cost savings, which are inevitably proving more difficult. The big challenge is deciding how and where further cuts can be made – either temporary or permanent – without damaging future growth.

Key takeaways

► Getting a grip on CTS is fundamental to effective negotiation with retailers.  
► Companies can unlock significant value by optimizing their working capital structure.  
► Companies need to explore new areas to cut costs while ensuring that these strategies do not hinder future growth plans.  
► Amid concern about raising prices in a value-sensitive environment, companies are being careful to minimize consumer shocks by linking rises to innovation or reduced pack sizes.

Cash on the table: consumer products companies and working capital management 2011, Ernst & Young, 2011.

10
We believe that reducing cost must be a way of life for us to be competitive long term in this industry.”

Stewart Glendinning
CFO
Molson Coors Brewing Company

Centralizing operations

Bringing together procurement operations is a natural starting point as it is unlikely to be challenged by internal resistance. If a company buys centrally with leveraged purchasing power, there should be a benefit for the group as a whole.

“We’re working closely together to leverage our combined scale … to best manage our system-wide procurement, purchasing, and also commodity input costs.”

Muhtar Kent
Chairman of the Board and Chief Executive Officer
The Coca-Cola Co.

Big brewers have historically cut costs by buying or merging with local brewers in emerging markets to gain access to their all-important distribution chains, as AB InBev did in its US$52b tie-up with InBev. Spirits companies have largely struggled to cut costs as their operations were already fairly lean, but wine companies have had more success. Leading wine company Constellation Brands reported a 52% jump in fiscal first-quarter profit in 2011 due to its continued heavy focus on cost-reduction.

Heineken and SABMiller already operate centralized procurement models; they have created trading companies in tax-effective locations and consolidated procurement strategy and sourcing decisions above market for key commodities. Elsewhere, AB InBev and PepsiCo collaborate on indirect procurement. Additionally, AB InBev, PepsiCo and Bacardi each have cross-market planning hubs that manage end-to-end supply chain flows from suppliers to customers.

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12 “Constellation Brands Q1 profit jumps 52%; revenue falls,” Wall Street Journal online, June 2011.
Managing pricing effectively

With a period of prolonged low growth prospects in developed markets and competition in emerging markets likely to increase, pricing pressures are unlikely to diminish. Consumers expect more and want to pay less – as do customers, putting pressure on trade investment and cash flow.

There is concern about the extent to which companies can raise prices in a ‘value-sensitive environment,’ especially with retailers aggressively competing for shoppers on price. Consumers will continue to trade down to private label or discount products unless companies can offer a compelling value proposition. In response, brand owners are working hard – and investing significantly – to win back consumers, in particular through trade marketing advertising and promotion (A&P).

A major challenge is understanding the ROI associated with this spending – many companies struggle to achieve this because they lack the right systems, processes and evaluation techniques.

Many beverage companies found that the pricing algorithms they used to model the impact of price increases ceased to apply amid the uncertainty of the height of the recession, so only now are beverage companies starting to get accurate new models in place. With the imperatives for getting pricing right still very much in evidence, pricing is likely to be a major focus for some time to come.
We have extensive experience helping beverage companies to improve key aspects of business performance to create competitive advantage and position themselves to grow profitably. In fact, we have worked with all the leading brewers on working capital.

Typical aspects of our work include advising on:

► Reducing value leakage through the pricing waterfall
► Sales effectiveness, including:
  ► Working capital
  ► Customer segmentation and trading strategy
  ► Channel strategy
  ► Rightsizing the salesforce to support the customer base
  ► Improving salesforce execution
  ► Performance measurement and evaluation
  ► Review of system-wide strategy to improve brand performance
  ► Analyzing cost to serve, pricing and trade terms
Examples of successful projects

Releasing cash from working capital

We worked with a beverage client which wanted to identify ways in which to release cash from working capital on a sustainable basis over a three to four year period. We completed a major review of the five largest businesses within the company, which meant on- and off-site analysis and root cause testing. We then conducted desk-top analysis and visited some of the smaller sites identified as targets. As a result we identified several key opportunities to help the client achieve its goal in areas including the administration of invoices, procurement terms and rebates, distribution arrangements and much more. Not only did the implementation of our suggestions result in a more streamlined business model, but the company achieved significant cash delivered from Phase 1 reviews (77% of the opportunities identified).

Creating global sales excellence

We supported a major global beverage company to build pricing at the point of purchase so that it matched local market data and insights, and leveraged skill and capacity at a local, regional and central level across the global organization. We also created an evaluation platform to utilize and develop the promotional activity analysis already being conducted. As part of this project, we were able to help our client understand the price positioning of its large portfolio of brands across the markets. This was a timely intervention as the beverage sector was under increasing pressure to recognize changing consumer tastes, pricing legislation, competition and supply constraints. Through econometric modeling coupled with qualitative analysis of the markets in which they operated, we were able to summarize the price interaction between our clients’ brands and their competitors. This also led to a full evaluation of promotional effectiveness, a suggestion of optimum pricing structures and an assessment of future market changes. Our contribution delivered a 2% gross profit improvement.

Maximizing margins by managing procurement costs down

An international brewer needed to unify its group procurement activities in one entity, based in a tax-effective location, to improve efficiency and reduce costs. Ernst & Young helped the client to analyze the feasibility of using a global procurement model, which started with a pilot of point of sales material. We also helped design and implement the model around the world – achieving significant cost savings for the client, and improvements to processes and systems.
Sharpening execution

Sharpening execution in developed and rapid-growth markets is a theme beverage companies return to frequently. The ability to execute in the on- and off-trade markets is a critical success factor for their businesses, so those companies getting it right will achieve significant competitive advantage.

“Really getting it right – particularly in emerging markets – comes down to understanding your consumers. Those beverage companies that acknowledge that consumers differ not just across countries, but also across regions and increasingly by demographic splits related to age and income, will be best placed to compete in these fast-moving markets.”

Emmanuelle Roman
Global Consumer Products Markets Leader
Ernst & Young LLP

Understanding consumers in every market

Beverage brands need to develop deep insights into their consumers in order to really deliver a compelling value proposition – in every market that they operate in. Those that don’t are unlikely to survive. A major shift from on-trade to off-trade also has to be factored into companies’ planning – consumers in developed markets are increasingly buying alcohol to consume at home, rather than buying drinks in bars and restaurants. Much smaller profit margins on off-trade products spell problems for beverage companies, unless they can change the way they work and turn the challenge into an opportunity.

In response, some companies are replacing category management with ‘demand chain management.’ This seeks both to understand current, latent and emerging demand and also how to reach the consumer more effectively by focusing on the most profitable consumers. The aim is to increase loyalty and profitability by tailoring the brand and innovation to their needs. Whereas supply chain management acts to reduce waste, demand chain management puts organic growth into a company by reducing wasted opportunities.
Evolving from competition to collaboration

In developed markets, retailers continue to exert heavy pressure on beverage producers, especially when it comes to negotiating on prices and supply terms, which can be a real issue for those companies that are not well integrated. To counterbalance this risk to their businesses, beverage companies are moving away from traditional, purely adversarial relationships and seeking increased collaboration with customers. Typical initiatives include working together on promotions to create overall category growth, and exploring mutually-inclusive benefits associated with the customer experience.

Transforming the finance function and increasing rigor of accounting practices

The need for improved management information to support business decision-making is a recurring theme in our discussions with beverage companies. There is a need for more, better integrated information, faster – for example, in areas like pricing and forecasting.

Many of our clients are also focusing on opportunities to reengineer the balance sheet and cash flow to boost profitability. Boards want assurance that the finance team is sweating maximum value out of assets such as shared service centers or SAP systems, and they are increasingly open to considering options including partnership models.

Revitalizing risk control and compliance

Beverage companies have significant new challenges to sharpen risk management practices and ensure internal controls are effective – for example:

- Managing pricing pressures, in particular mitigating the effect of rising commodity costs.

Key takeaways

- Category management is being replaced by demand chain management to boost organic growth.
- Beverage companies are increasingly looking at strategic alliances to drive growth, save costs and improve sustainability.
- Collaborative partnerships can counterbalance increasing retailer power and help grow sales.
- Finance teams are having to work harder to deliver better integrated financial and forecasting information and to sweat organizational assets.

Diageo has invested in its retail relationships with the launch of a permanent Customer Collaboration Centre. The aim is to provide a space in which Diageo can work with retailers to reinvigorate the drinks aisle by identifying new ways of presenting the spirits category in store using the latest 3D virtual reality technology and physical layouts.20

20 “Diageo’s virtual drinks aisle,” The grocer, 10 September 2011.
Complying with regulation: in emerging markets, complexity and unpredictability are the chief cause of problems; in both rapid-growth and developed markets, companies need to influence the regulation agenda.

Getting corporate governance right: many companies moving into emerging markets are finding this a major challenge. Pernod Ricard’s approach is to operate a flexible organizational model based on decentralization and control of distribution. The global holding company is responsible for group strategy, shared services, and investor relations whilst autonomous and responsive operating subsidiaries are responsible for operating decisions – close to consumers and to the individual cultures of each brand.

Another key focus is compliance with local laws. Alcohol sales and pricing are locally regulated – and act as an important source of income for governments via tax and duties. The US has different rules in different states, which makes compliance very complex. In countries such as Russia, China, Turkey and Brazil (one of the world’s most complex tax jurisdictions) rules can change overnight – and sometimes apply retrospectively.

“2010 was marked by beverage segment consolidation and a notable amount of legislative activity, including the new law on trade, which directly affects beverage companies. Despite the overall complication of tax and trading law, Russia still remains a very attractive market for premium beverage products. Further expansion of the market would require more dedicated strategies.”

Dmitry Khalilov
Consumer Products and Retail Leader
Ernst & Young Russia

How Ernst & Young can help

We support beverage companies on a wide range of initiatives to sharpen execution across the business, from driving down costs to making processes more effective, structures more efficient and use of information more insightful. Our work includes:

- Finance transformation
- Customer collaboration and customer relationship management
- Effective brand management
- Risk management and compliance
- Controls optimization: control function outsourcing and co-sourcing; internal audit
- Enterprise performance management – improved planning and reporting capabilities
- TESCM
Examples of successful projects

Improving the purchase-to-pay program

We worked with a world-leading drinks business with a large collection of premium beverages across a variety of alcoholic categories. Our client identified several critical issues in the purchase-to-pay (PtP) process and needed actionable advice with immediate impact in improving the efficacy of its key performance indicators. Our team worked alongside the client to provide project management in order to coordinate, review and monitor the project end-to-end. Ernst & Young conducted a structured analysis of incoming payments affected by A-type blocks, and we were able to make key recommendations for short- and long-term solutions, which also meant drawing the client’s attention to the risks related to due dates and proper resource allocation.

Enhancing audit effectiveness globally

Our client is the second largest global brand in its segment, and is rapidly expanding by venturing into a variety of non-alcoholic beverage sales. The client acquired multiple brands and companies which are involved in manufacturing, sales and marketing their key products, and have operations across the globe. We were asked to conduct audit operations for the newly acquired global subsidiaries which involved helping the client to benchmark processes and business practices; deploying experienced and knowledgeable resource and training within internal audit projects; assisting integration of Control Self Assessment with Internal Audit; and helping to develop global reporting.

Implementing SAP system in Europe

We worked with our client – a leading international beverage manufacturer – as it was in the process of implementing a global SAP system on a country-by-country basis. When implementing this system in Germany, our client was faced with considerable operational and financial risk. To mitigate this we were called in to conduct a pre-implementation review in order to help ensure compliance with these local rules. We were able to conduct testing and reviews to identify the extent of the localization of the program, and legal and tax issues. We recommended a major change in the IT control environment that required the performance of certain audit procedures. The final implementation was adopted as the basis for the global template and used in other countries globally.
Enhancing corporate reputation

Companies need to be acting in an ethical and responsible manner in order to attract increasingly issue-savvy consumers. Consumers want to know that organizations are not negatively impacting communities or the environment, and beverage companies are coming under pressure to promote healthy lifestyles and responsible drinking. Ultimately, firms will profit – taking steps such as reducing water usage will bring down costs, encourage innovation and generate positive exposure.

“...we believe that in order for any business to be run responsibly and profitably for the long term, key business-related social, environmental and economic impacts need to be managed and built into the core business strategy. Because the manufacture of beverages is so naturally resource-dependent, we are finding that beverage companies are starting to investigate the business implications of climate changes on the availability and price of clean water and essential agricultural commodities.”

Doug Johnston
Climate Change and Sustainability Services
Ernst & Young LLP

Climate change and the impact of global population trends have the potential to be major constraints to growth. By 2030, global population will exceed eight billion people, increasing the demand for food and energy by 50% and fresh water by 30%. Resource scarcity will drive innovation of both products and processes.

Local depletion of water resources may become a major supply-side risk. Water tables are falling and it is possible that peak water might have been passed before peak oil in some markets. Saudi Arabia, for example, was forced to shift to importing wheat after aquifers were exhausted. Irrigation and food production require a huge amount of water: food production consumes 500 times as much water as we drink and 2,000 litres a day of water are used in the production of food for one person.

Companies need to consider the potential impact of prioritization of water use, ensure their supply chains are flexible and build contingency plans should local access become limited.
Raising profitability of local businesses, sustainably

‘Making more beer but using less water’ is one of SABMiller’s ten sustainable development strategic priorities as it aims ‘to constantly raise profitability of local businesses, sustainably.’ SABMiller targets a 25% reduction in water usage per hectoliter of beer by 25% by 2015 and is a member of the WEF Water Project and the Water Footprinting Network, as well as partnering with the World Wide Fund for Nature to understand and quantify water related risks within operating countries and to develop appropriate action plans.21

Sustainability as a growth driver

Customers and consumers want to know that beverage companies are not damaging the environment or the communities they operate in. Additionally, companies are also able to view sustainability as a source of value and cost.

As beverage companies manufacture locally, they place a significant demand on local water and energy resources. Many companies are focusing on working with communities to minimize pressure on local resources and ensure that their operations provide tangible value to the communities in the form of support for local suppliers and assistance in introducing efficient modern practices, jobs and access to training and education.

Whilst the recession is leading some businesses to withdraw funding into research and development, our belief is that it is more critical than ever to invest. Significant improvements in water and energy efficiency will only be achieved if we continue to commit resource and capital to driving the necessary degree of change.”

Graham Mackay
CEO
SABMiller22

Key takeaways

► Corporate social responsibility, sustainability, and health and wellness are moving higher up the corporate agenda for a wide range of stakeholders.
► Companies are increasingly of the view that doing good is good business.
► Sustainability is becoming part of a licence to operate – offering cost and efficiency savings and reinforcing brand attractiveness with younger consumers.
► Water scarcity will drive product and process innovation.

21 www.guardian.co.uk/sustainable-business/sabmiller-sustainable-water-use.
22 “Brewers pour £3m into a Notts lab looking for a greener beer”, Nottingham Evening Post, 20 May 2011, via Dow Jones Factiva.
Putting sustainability into practice

Embedding sustainability requires transformational change and real commitment across a range of beverage-specific issues:

► **Water scarcity** — beverage companies are seeking to make a larger volume of drinks using less water. Using the key performance indicator of average water consumption per hectoliter of production, ABInBev reduced water usage by 8.5% to 4.3 hectoliters of water in 2009, with a goal of 3.5 by 2012, and many other companies are making substantial efforts in this area.23

► **Packaging and recycling** — beverage companies are identifying sustainable ways to lower packaging costs and reduce packaging to address environmental pressures such as carbon reduction, while maintaining the quality, attractiveness and safety of their products. Between 2003 and 2008, Nestlé reduced the weight of its plastic drinks bottles by 22%.24 Coca-Cola and PepsiCo introduced bottles made from plant-derived plastics.

► **Sustainable farming and agriculture** — beverage producers need high-quality raw materials — at acceptable prices — to operate efficiently, and in turn, farmers must be paid fairly and supported. In 2010, SABMiller helped 28,500 smallholder farmers to improve farming practices and the quality of their yields.25

► **Labor practices** — poor health and safety (often resulting in fatal accidents) or the use of child or forced labor (for example, in the sourcing of fruit from emerging countries) are issues that have the potential to cause significant reputational damage to a company.

► **Energy efficiency** — a recent Ernst & Young study revealed 82% of global executives plan to invest in energy efficiency, and this is a key area of focus for beverage companies.

► **Economic value and community investment** — beverage companies create economic value by turning raw materials into products that consumers want and, in return, make significant payments to suppliers, staff and governments.

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Leading beverage companies are starting to build integrated sustainability programs to address all of these issues as they start to overcome internal pressures to keep down spending on sustainability.

“As a leading brewer, we recognize that water is a finite resource and is a relevant issue that affects everyone, regardless of industry or geographic location.”

Kim Marotta
MillerCoors VP
Corporate Social Responsibility26

“Easy access to safe drinking water is critical for the economic development of Africa. The Diageo ‘Water of Life’ program aims to bring water to one million additional people in vulnerable communities across Africa every year.”

Nick Blazquez
President
Diageo Africa27

Health and wellness

Changing consumer and government attitudes also mean that beverage products are in the spotlight and companies need to be seen to be acting ethically. Companies selling alcoholic beverages are being encouraged by government and societal pressure to promote sensible alcohol consumption. Consequently, responsibility messaging is becoming a standard packaging feature and some manufacturers are even running campaigns on the subject. In one example, Carlsberg ran an award-winning advertising campaign targeted at underage drinking in Finland.28

Soft drinks manufacturers are not getting off lightly either, with frequent negative publicity about the effects of carbonated drinks on weight and overall health. In some markets vending machines containing soft drinks are restricted near schools.


Ernst & Young brings many years of experience of working with many of the largest beverage and consumer products companies on their sustainability programs.

Our Climate Change and Sustainability Services (CCaSS) professionals help clients to align their business with climate change and sustainability opportunities. We take a view across the business to understand what will work for you – from creating a more sustainable supply chain to establishing clear sustainability programs, through to supporting transformational change and measurement of business benefits.

Our CCaSS group offers services that include:

► Sustainability governance, risk management and strategic direction
► Sustainability program design and management
► Review and audit sustainable supply chain
► Regulation and tax efficiency
► KPI definition, performance measurement, reporting and assurance, financing and transactions advice
► Cleantech advisory services

How Ernst & Young can help
Examples of successful projects

Supporting a leading consumer products company with its sustainability agenda

A leading consumer products company needed to understand where it was heading in terms of sustainable development. We performed a current state and gap analysis to provide a detailed view of what was being done within the group and compared this against a snapshot of the current, competitive sustainable development landscape. To populate the landscape we benchmarked the company against leading reporters in the industry to understand and quantify gaps. We then highlighted examples of leading practices to enable our team to begin to formulate a focused sustainable development strategy.

Helping a global company deliver against stakeholder sustainability expectations

Both in individual companies and the wider environment, good corporate citizenship must be part of business-as-usual. Stakeholders expect high standards of behavior including strict regulatory compliance, ethical sourcing and positive social impact. We worked with a leading global consumer products company to review the company’s sustainability report. We provided constructive challenges to the balance and accuracy of the data. This rigorous approach helped management to feel more confident about the disclosures being made, as well as providing comfort to internal and external stakeholders that the claims were accurate and fairly represented.
Teaming together

In order to successfully understand and counter the challenges that beverage companies face, you need to be able to call on the right people, in the right place, at the right time.
Our 10,000-strong global Consumer Products team is supported by our 152,000-strong global organization. This means wherever you operate we work hard to understand your business, integrate with your people and get the job done by delivering actionable solutions in a timely manner.

► We have established close and effective relationships with many of the leading global and smaller local players
► We work with 19 of the 21 beverage companies in the S&P Global 1200
► We work with 20 of the 26 beverage companies in the Forbes 2000
► We understand the challenges facing the industry and how that can affect your business needs
► We spend the time required to get to know your business, your processes and your needs
► We provide a regular news digest Talking Brewing, offering a timely, succinct and unbiased roundup of key developments in the brewing sector
► We will work with you to help you maximize your shareholder value

► We have Consumer Products leaders at the global, regional and service-line level who have extensive experience in the beverage sector (please refer to the CV insert at the back of this document)

Connecting our people together

We hold an annual meeting for our global Top 30 Consumer Products clients and provide global beverage update calls every two months. We run regular team meetings with clients on a country, functional and global basis. This is done to gain – and share – insights gleaned from the industry on a global perspective.

Connecting with you

We place huge importance on sharing our insights and experiences in order to more effectively support our clients’ decision-making capabilities. We deliver regular insights on beverage issues – for example, through our Talking Brewing publication every three weeks and run regular team meetings with clients on a country, functional and global basis.

Connecting you with your peers

We strive to offer a range of opportunities to help our consumer products clients stay connected with each other. Our peer-to-peer meetings enable our clients to share experiences and compare approaches in a confidential setting. This gathering delivers insights, offers key leadership perspectives and positions companies for positive actions.
Sharing insights

We strive to utilize our global experience in the beverages and consumer products sectors fully, making our insights and intelligence fully available to all of our clients, to help you compete strongly in this challenging sector.

“Our consumer products analysts keep constant track of beverage industry deals. This gives us a unique understanding of transaction trends and drivers, which we use to help our clients anticipate moves and make decisions. Our Consumer Products Deals Quarterly publication focuses on the global transaction landscape on the four CP subsectors: beverage, food, household and personal care, and tobacco. It includes an analysis of the deals over the last quarter, insights on the drivers behind them and views on what the future may hold.”

David Murray
Global Consumer Products Transaction Leader
Ernst & Young LLP

We conduct thorough research, thought leadership and events which engage with industry stakeholders and serve to further develop the services necessary to meet the industry’s evolving requirements.

We also place great emphasis on helping our consumer products clients stay connected. We host CFO networks and issues-based roundtables on hot topics. These peer-to-peer meetings are all confidential, which allows our clients to get the most out of sharing experiences and comparing approaches that succeeded and failed.

Throughout our beverage network, our professionals meet regularly to share leading practice models and the most effective strategies, as well as actively discussing changing sector trends, challenges and insights. This type of activity equips our people to share timely, relevant ideas and insights with clients, to support their decision-making. Our network pools its knowledge to help ensure a transfer of experience and insight, but we manage the flow of information and never exchange client-sensitive information.

Here are some of the publications through which we share our experience and insights on the consumer products sector. For copies please contact:

Lucy Rose
+44 20 7591 0714
lrose1@uk.ey.com

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Feedback on *Talking Brewing*

*Talking Brewing*, Ernst & Young’s regular publication, offers balanced and succinct summaries of all the news and key developments in the beverage sector. Client feedback includes:

“*Talking Brewing* is a great window on the world of brewing, a terrific compendium of events which adds real value. I look forward to receiving each issue. I haven’t seen another industry publication like it.”

“A great, no-nonsense brewery publication.”

“Thanks for the great work you guys are doing on this very insightful publication.”

“It captures information at the right level of detail.”
Meeting our people

We know that beverage companies value relationships with professionals who understand the challenges and needs specific to this sector, and who are therefore always ready to deliver results for them. In order to succeed, how can you connect with the right Ernst & Young people?
Our Consumer Products leaders at the global, regional and service-line level have extensive experience in the beverage sector. During the time that we have been active in this area, we have established close and effective relationships with many leading global and smaller local players.

You can contact any of our leaders direct to tap into the knowledge and support offered by Ernst & Young’s global beverage network.
About Ernst & Young
Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 152,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

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How Ernst & Young's Global Consumer Products Center can help your business
The global recession has reset the consumer products landscape. Value-seeking consumers, intensified competition, increased commodity costs and growth opportunities in emerging markets are driving change. Consumer products companies now need to be leaner and more agile, with a relentless focus on execution. If you lead a consumer products business, you need to anticipate trends, identify implications and make informed decisions that support your business goals.

Our Global Consumer Products Center enables our worldwide network of over 13,000 industry-focused assurance, tax, transaction and advisory professionals to share powerful insights and deep sector knowledge with businesses like yours. This intelligence, combined with our technical experience, can help you accelerate and improve your execution. We can help you to realize the full value of your transactions, improve customer and brand profitability, drive down costs and build an agile and resilient supply chain. If you want to compete powerfully in your market, we'll help you achieve your potential today and tomorrow.