

Analysis: SABMiller gives new meaning to home-brewing in Africa

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SABMiller's African division is planning to increase the number of farmers contracted to supply it with raw material inputs from 20 000 to 45 000 by 2012.

The plan is part of the group's multibillion rand expansion into Africa, which is aimed at developing markets in a region that has been "the star performer" in terms of growth in gross domestic product since 2000 across the globe.

Through its ties with local farmers SABMiller is attempting to reduce the industry's hefty reliance on imports. Currently about 82 percent of the raw materials used in the final product are imported.

Mark Bowman, the managing director of SABMiller Africa, said at a press briefing earlier this week: "The long supply chains offer opportunity to localise and to take out costs."

And increasing local content also offers opportunities to reduce excise on the final product. A few years ago the Ugandan government agreed to reduce excise if the company used local inputs.

But SABMiller chief executive Graham Mackay stressed that the company was not buying any farming land.

"We are terrified of farming so we are not buying land, we try to act as central facilitating agents for farmers and can either help to fund their inputs or provide them with guaranteed prices for their sales to us. We also encourage the use of professional advisers."

In Uganda, where the group has 8 000 farmers supplying sorghum, the average size of the farms is less than an acre. This means that the major challenge is organising the farmers. To do this SABMiller applies what it calls a prescriptive "hub-and-spoke" model, in which the hub is a reasonably large commercial operation and the spokes are the surrounding subsistence farmers.

In Uganda the system has assisted in substantially increasing the local supply of sorghum from 1 600 tons in 2003 to 11 600 tons in 2007.

According to a commissioned report written by Paris-based business school Insead, Nile Breweries, SABMiller's operating unit in Uganda, is now that country's fourth-largest taxpayer. This calculation takes into account the direct, indirect and induced effects of the brewery's operations on tax revenues.

The report calculated that Nile Breweries, which employs 430 people directly, supports about 44 000 jobs throughout the Ugandan economy.

"For every job directly based at Nile Breweries, about 100 farmers and workers depend on the company for some part of their livelihood," said the Insead report. Many of these jobs are located in the retail trade sector of the economy.

The 100-to-1 multiplier effect in Uganda compares with the 12-to-1 effect in South Africa.

Mackay describes the group's involvement with the farming community and the commitment to what it terms "enterprise development" as "enlightened self-interest".

"The process is very fragmented, there are challenges but it allows us to stabilise our supply chain and governments are very supportive."

Many of the challenges facing SABMiller in Africa relate to how it deals not only with the considerably different scale of operation but also with the extent of informality in many of the economies.

In southern Sudan, where the group has employed 150 people to work in a brewery that it is building, Mackay said, "we are the only formal business in the country". He added that the company would be helping the government to develop systems of governance.

According to Mackay, about half of the alcohol consumed across the globe is done so in illegal or informal circumstances. "In Africa the figure is 70 percent, which means that 70 percent of alcohol consumption is informal, unrecorded, untaxed or illegal in some way or other."

SABMiller's multibillion-rand capital expenditure programme is an ambitious attempt to formalise this market. Much of its marketing efforts, at individual country level, attempt to draw low-income consumers who are traditionally home-brew drinkers into consumption of "affordable" lager beer.

At the higher end SABMiller is pushing premium beer brands in a bid to capture as much as possible of this higher-margin business.

In addition to its beer range, the group has non-alcoholic beverages, including bottled water and Coca-Cola, in its product portfolio.

The average brewery in Africa produces 500 000 hectolitres a year, which is quite small and compares with the average 2 million hectolitre breweries in South Africa.

The cost of brewing capacity is very important for SABMiller, which means that capacity utilisation is critical.

"It's a matter of scale," said Bowman. "Because of the relatively small volumes it is difficult to get efficiencies with just beer. We need to bulk up our business in ways that make sense. We very much like the model of beer and Coke in Africa and we have replicated it in many countries."

The group also bulks up with water, which Mackay stresses is a basic low-margin product. Growth in demand for water is expected to continue to enjoy double-digit increases for the next 10 to 15 years.

Just three years into its more aggressive African strategy SABMiller seems confident that the continent's contribution to group earnings will increase progressively.

"It has the potential to outperform the organic profit opportunities of the group as a whole," said Mackay.