Asia Pacific Breweries triumphs through ‘small wins’

Nitin Pangarkar

Recent weeks have seen many news headlines devoted to the bidding war from some of the world’s biggest beer makers for Asia Pacific Breweries (APB), best known for the Tiger and Anchor beer brands.

It is indeed interesting that a brewer headquartered in Singapore, with its limited population, has come to command a valuation in excess of US$10 billion (31.2 billion baht).

What factors have made this company an attractive target for interested buyers from countries as diverse as the Netherlands, Thailand and possibly Japan?

The answer lies in some key strategies followed by the company over the last 23 years.

In 1989, the company embarked on a process of regionalisation, motivated by two considerations — at the time all of the markets it competed in either had limited growth prospects due to small populations like Singapore and New Zealand, or a very volatile environment such as Papua New Guinea.

APB decided that true globalisation was not feasible because there were dominant incumbent players already well entrenched in the developed beer markets — among them Heineken, one of APB’s parent companies.

These dominant players also happened to have the deep pockets to undertake acquisitions or fund sustained efforts in market and brand development.

So instead APB opted for regionalisation as its strategy, focusing its efforts on competing in the Asia Pacific market.

Although the neighbouring regional market had obvious advantages because of the high growth it offered, the company’s strong performance — and consequent attractiveness to multiple bidders — is also a result of it following a set of strategies highly appropriate to succeed in this rapidly growing, but sometimes fiercely competitive, market.

Small wins

In my recent book High Performance Companies: Successful Strategies from the World’s Top Achievers in 2011, I argue that some companies can achieve excellent performance by scoring a series of “small wins.”

While each “small win” in isolation may have a limited impact on overall performance, the cumulative performance enhancement because of several small wins can be substantial.

But scoring small wins is not straightforward and implies coming up with a unique recipe for success. This might include identifying less competitive markets and adaptation of standard strategies to suit the context.

APB’s strategy in Vietnam is an excellent illustration of a small wins-based strategy. The company entered Vietnam in October 1993, well before it became a trendy market. It was also able to identify a good partner — a state-owned company.

In contrast, despite also being from Southeast Asia, Philippines-based San Miguel had struggled to find a Vietnamese partner for years.

When the Asian crisis erupted, APB did not abandon Vietnam but maintained its long view and, while it slowed its commitment, it did not give up the market altogether.

As such, when the Asian economies bounced back from the lows of the crisis, APB had the capacity in place to take advantage of the rapidly growing Vietnamese market. Its manufacturing capacity and geographic spread were sufficient to cover both the North and South Vietnam markets.

In the meantime APB’s Vietnamese plants garnered several awards and certifications for quality and the firm’s contributions to the Vietnamese economy.

Expanded portfolio

Over time APB escalated its commitment to and investments in Vietnam by buying out its local partner and converting the joint venture into an acquisition by increasing capacity and acquiring local beer labels to assemble a portfolio of brands spanning the whole price spectrum.

The results were remarkable. For the year that ended in September 2011, the Indochina and Thailand region contributed as much as 45% of APB’s EBIT (earnings before interest and taxes).

The company also commands a dominant share of Vietnam’s beer market — one which forecasters say retains considerable potential for growth in terms of per capita consumption, as well as scope for increased consumption of premium beers.

Vietnam was not a one-off small win for APB. In fact, the company scored a similar small win in Hainan, China. Since these markets were less fashionable — at least at the time — and hence less competitive, APB was able to create a strong competitive position without a pitched battle (as in the case of Shanghai) or heavy investments (as in the case of its attempts to establish a position in Guangdong).

In fact, in Shanghai, despite being present for more than 15 years, APB has been unable to craft a sufficiently unique recipe for success.

APB’s success in Vietnam has also put it in an excellent position to extend into geographically proximate markets such as Laos and it aims to repeat this strategy in more distant markets such as Mongolia and Sri Lanka, both of which share the characteristic of being less trendy and hence not on the radar of larger rivals.

Regional understanding

While few managers build a company with an eye towards eventual buy-out by larger players, the interest of multiple bidders in APB testifies to the brewer’s success in following a strategy suited to its context (specifically its location in the Asia Pacific region).

The strategy also plays to its strengths in terms of the superior understanding of the region and its ability to navigate an uncertain and evolving environment (such as Vietnam in the mid-1990s).

The success of APB’s regionalisation strategy is beyond doubt. Between 2002 and 2011, its sales grew at a compounded rate of 11.7% per year. Profit growth was even faster at a rate of 18.7%.

This success, especially the achievement of dominant positions in markets such as Vietnam and the Hainan, hold several key lessons, among them:

- The adoption of a long-term view is critical, especially in emerging markets.
- APB did not give up its chosen strategic path even in the face of temporary setbacks such as the eruption of the Asian crisis.
- It also crafted a strategy through which it could incrementally build on its prior successes (or small wins).
- Over a period of time the cumulative barrier posed by these successes would be imitators formidable.
- APB’s evolution holds many lessons for companies.

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