Unease Brewing at Anheuser As New Owners Slash Costs

By DAVID KESMODEL and SUZANNE VRANICA

ST. LOUIS -- Construction crews arrived at One Busch Place a few months ago and demolished the ornate executive suites at Anheuser-Busch Cos. In their place the workers built a sea of desks, where executives and others now work a few feet apart.

It is just one piece of a sweeping makeover of the iconic American brewer by InBev, the Belgian company that bought Anheuser-Busch last fall. In about six months, InBev has turned a family-led company that spared little expense into one that is focused intently on cost-cutting and profit margins, while rethinking the way it sells beer.

The new owner has cut jobs, revamped the compensation system and dropped perks that had made Anheuser-Busch workers the envy of others in St. Louis. Managers accustomed to flying first class or on company planes now fly coach. Freebies like tickets to St. Louis Cardinals games are suddenly scarce.

Suppliers haven't been spared the knife. The combined company, Anheuser-Busch InBev NV, has told barley merchants, ad agencies and other vendors that it wants to take up to 120 days to pay bills. The brewer of Budweiser, a company with a rich history of memorable ads, has tossed out some sports deals that were central to marketing at the old Anheuser-Busch.

The changes have been tough for workers to swallow. Some are grappling with heavier workloads, anxious about job security and frustrated with the emphasis on penny-pinching, say people close to the brewer. Former executives say workers feel less appreciated in a no-frills culture with fewer perks.

InBev's response: It's more effective to make "sweeping, dramatic changes" than incremental ones, said a spokeswoman for the Belgian company, which has a history of many past mergers and acquisitions. Asked if morale in the U.S. is suffering, Dave Peacock, a 40-year-old Anheuser-Busch veteran who heads the U.S. division, said, "I think there's probably some truth....Some people react very well, some people struggle with it." Returning to the issue later in an interview, he said the newly merged company "is like a start-up....That excites some people and turns off others."

It isn't yet clear how well the megadeal will pan out. The combination created the world's largest brewer by sales. But the tumult could offer an opening for MillerCoors LLC, which is exhorting its people to exploit the transition by trying to grab more shelf space at large retailers.

Anheuser-Busch has nearly half of the U.S. beer market. It got a stronger challenger last summer, however, when SABMiller PLC and Molson Coors Brewing Co. linked their U.S. divisions in the joint venture called MillerCoors, with 29% of the U.S. market. "The next chapter in American beer is being written," MillerCoors President Tom Long said at a conference last month.
Market-Share Gain

But it was Anheuser-Busch InBev that logged a market-share gain the first quarter of this year, an increase of about three-quarters of a percentage point at sales at retail stores excluding Wal-Mart Stores Inc. The figures, from Information Resources Inc., show Anheuser-Busch InBev lifting its U.S. beer sales 5.7% in dollar terms from a year earlier. Bars and restaurants aren't included.

The U.S. market is holding up well despite the recession, Anheuser-Busch InBev Chief Executive Carlos Brito said Tuesday. "In tough times, it's a great market to be exposed to," Mr. Brito, 48, said at a news conference after the company's annual meeting in Brussels. He declined to be interviewed for this article.

InBev emerged as a beer heavyweight five years ago through the linkup of Brazil's AmBev, known for Brahma beer, and the Belgian producer of Stella Artois, Interbrew SA. Though it was based in Leuven, Belgium, the Brazilians' culture came to dominate. That approach stresses a sharp eye on costs and incentive-based pay structures.

InBev eschews fancy offices and company cars, and groups of its executives share a single secretary. It uses zero-based budgeting -- meaning all expenses must be justified each year, not just increases. The company says it saved €250,000 ($325,000) by telling employees in the U.K. to use double-sided black-and-white printing, spending the money to hire more salespeople.

"We always say, the leaner the business, the more money we'll have at the end of the year to share," Mr. Brito, the CEO, said in a speech last year to students at his alma mater, Stanford University business school.

Anheuser-Busch took a different path, spending amply on everything from top beer ingredients to the best hotel accommodations. Executives didn't just have secretaries -- many also had executive assistants, who traveled with their bosses, took notes and learned the business in a kind of apprenticeship.

Most employees, even those at the company's Sea World and Busch Gardens theme parks, got free beer. Once the owner of the St. Louis Cardinals, the company continued to shell out heavily for tickets to Cardinals games, used in marketing. Employees who wanted the company to donate beer or merchandise for community events faced little red tape. The St. Louis company often made "best places to work" lists.

Heavy ad spending on sports events, often as the exclusive beer advertiser, helped Anheuser-Busch become the U.S.'s dominant brewer. But its growth and stock performance turned sluggish in recent years as U.S. sales of imports and small-batch "craft" beers rose faster than the St. Louis giant's brands.

After InBev swooped in last fall with a $52 billion takeover, it sacked about 1,400 employees in the U.S., equal to 6% of the U.S. work force before the merger, and 415 contractor positions. These followed 1,000 employee buyouts accepted at Anheuser-Busch just before the merger.

InBev has overhauled the U.S. division's compensation system for salaried employees, as part of what an internal memo called "an increased focus on meritocracy." In the future, the company will pay salaried workers 80% to 100% of the market rate for comparable jobs, "and any increases above that require special justification and approvals," said the memo. That changed a system in which "high performers...might have seen fewer rewards as dollars were spread more evenly."

Anheuser-Busch InBev in November gave a total of 28 million stock options to about 40 executives companywide, as an
incentive to combine InBev and Anheuser-Busch successfully and lower corporate debt. The executives will be able to cash in the options, potentially worth tens of millions of dollars to each recipient, if the company reduces its debt-to-income ratio by about half in five years.

Meanwhile, the company will halt contributions to its pension plan for salaried employees in 2012. And in January, it will stop providing retiree life insurance.

Clamping down on costs, the company says it has cut the number of BlackBerrys for employees to 720 from 1,200. The former executive-suite floor at North American headquarters now resembles a packed trading room, which the company says fosters smoother communication. "My emails are probably down by a third because you are having a lot of quick discussions," said Mr. Peacock, the president of the U.S. division.

He said the company's corporate jets are for sale. Mr. Peacock said he recently reached four U.S. cities in less than three days by flying commercial, at a price of about 10% of what it would have cost to fly a company plane.

The effort to make vendors wait up to 120 days to get paid has left some unhappy, among them St. Louis industrial company Emerson Electric Co., which makes brewing automation technology. Emerson, whose board includes retired Anheuser-Busch CEO August Busch III, will stop buying the brewer's products for corporate events to protest the pay policy, Emerson told its executives in a memo this month obtained by the St. Louis Post-Dispatch.

Mr. Peacock said the brewing company was surprised and disappointed by the memo.

After complaints about the pay policy became public, the government of Belgium this month asked its antitrust authorities to look into whether Anheuser-Busch InBev is using its market dominance to wrest unfair deals from vendors. The initial focus will be on malt suppliers. The beer company says it respects local laws.

Largely spared from the squeeze are independent distributors, key partners in the company's efforts to sell more beer. But the big brewer, which is one of the most prolific U.S. advertisers, has begun making changes in its relationships with another longtime group of allies: ad agencies, sports teams and TV companies.

It now believes changing demographics and media habits no longer require spending as much on mainstream sports events watched most heavily by men aged 21 to 40. Research, commissioned before the merger, has shown American beer drinkers becoming more diverse.

Anheuser-Busch InBev recently told NBC it will spend about 50% less on its coming Olympic ad package, which includes next year's Vancouver Winter Games and the 2012 Games in London, than it spent on the previous Olympic ad package, according to a person familiar with the matter. This person added that the brewer won't seek to be the exclusive beer advertiser on NBC's broadcast of the Vancouver or London Games. Anheuser-Busch InBev says it can't comment on ongoing negotiations.

Rival MillerCoors is now trying to see if it can get into NBC's Olympic broadcast, according to two people familiar with the matter. A person close to MillerCoors said it is now getting first looks at new types of ad deals, such as new kinds of commercials, "something that would have never happened a few years ago."

The Budweiser brewer has dropped ad agencies responsible for some of its best-known past ads, including Omnicom Group's Goodby, Silverstein & Partners. The brewer is reducing the number of new ads created per year to 50 or 60 from...
about 100, said two people familiar with the matter. The company confirmed it will produce fewer ads, which it says is a result of "continually getting better at refining our messages," but declined to disclose specific numbers.

Ad Agencies Hit

For some ad agencies that it's still using, Anheuser-Busch InBev has cut fees, according to people familiar with the matter. They say the brewer has been moving toward a model in which the agencies are paid by the project rather than an annual lump sum. The company confirms changing the model; it says some might get paid more than in the past and others less.

Rocking the boat in the media world is risky, because Anheuser-Busch’s big wallet and close ties with network and cable-television executives have afforded it first crack at the most-desirable shows and events and better ad rates. At this year’s Super Bowl, Anheuser-Busch InBev paid a rate of $2.2 million for 30 seconds of ad time that cost others up to $3 million, according to a person familiar with the matter.

The company said its in-house media-buying arm does an excellent job placing the brewer's ads on network and cable TV and doesn't expect new payment terms to affect that.

Many ad-agency and media owners balked at Anheuser's 120-day payment terms. Several media executives say they are continuing to do business with the brewer on the old terms.

Anheuser-Busch InBev's Mr. Peacock confirmed the pushback but said the company is "moving our suppliers in the right direction on the 120-day goal." Some vendors, he said, including ad and media agencies, are "requesting more time to make the transition, and we're working with these companies to help them reach our goal."

—Matthew Dalton contributed to this article.

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