



IS BIGGER BETTER? BAVARIA N.V. BEGS TO DIFFER...

LESSONS FROM THE WINNER OF THE 2015 IMD-LOMBARD ODIER GLOBAL FAMILY BUSINESS AWARD

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Receiving one of the most prestigious accolades for “excellence in family business” was a memorable moment for the five cousins from the Swinkels family who gathered in Montreux on 16 October 2015. As executive members of the seventh generation of the brewer family that owns and runs Bavaria N.V., the second largest brewery in the Netherlands, they steered the business which was founded well before 1680 through the ups and downs of the tumultuous beer industry.

Western beer markets have been stagnating for years at best, some even declining, and competition is best described as ferocious. Over the past decade, the competitive landscape has changed considerably, mostly through heavy consolidation. AB InBev’s recent nearly completed acquisition of its largest competitor SABMiller is proof of the dominating role of the “Big Four” brewers (AB InBev, SABMiller, Heineken, Carlsberg) which together control 47% of the global market volume and 60% of its value.

In 2014, over 70% of Bavaria’s sales came from Europe. With a turnover of about €500 million, Bavaria symbolized fierce independence and a high degree of entrepreneurship, balancing legacy with innovation. For a mid-sized, family-owned brewery like Bavaria N.V. ensuring sustainability is priority #1, requiring a great deal of courage and a lot of persistence. To stay relevant and continue to thrive, Bavaria constantly needs to identify new growth niches and maintain excellence in product quality while optimizing its manufacturing and entire value chain.

Fresh management

The “freshness” of their beers also applies to the leadership at the top. Since 2007, five cousins from the seventh generation of Swinkels family brewers and owners have been at the helm of business operations. They are proud of their heritage, share the same values and vision and speak with one voice while having clearly defined roles. The executive directors are a relatively young and enthusiastic bunch.

“We consider it a plus to have a relatively young management board – when you are in your early thirties and early forties you are full of energy! It is better to stop early, when it is the right time for the business and the family to bring in fresh views and perspectives.” Jan-Renier Swinkels

A solid governance model has been put in place and non-family expertise is valued on the supervisory as well as the family holding and council boards. As a matter of fact, both boards are chaired by non-family experts and the supervisory board currently has more non-family than family members.

Innovating in recipes and regions

The Swinkels family fascination with the whole brewing supply chain is reflected in a number of patented technological breakthroughs that are the envy of its much larger competitors. For instance, Bavaria was the first company able to brew a true non-alcoholic beer. Traditionally, non-alcoholic beers were produced by adopting a standard alcoholic fermentation process, and then removing the alcohol by evaporation. Unfortunately, the process also destroyed some of the more complex beer flavors and did not find much credence among beer aficionados. Researchers at Bavaria developed new strains of yeasts able to ferment without producing alcohol; the fermentation process is stopped after the yeast has generated the required flavor but before it produces alcohol. A major advantage is that it allows for full “halal” labeling, opening up sizable opportunities in Muslim countries.

This opened new segments and markets where Bavaria launched several non-alcoholic beers. For example, in Iran – the second largest malt drinks market in the world (representing about 4.5 million hectoliters in volume) – Bavaria was present even before the Islamic revolution in 1978/79. In the early 1980s the company started introducing alcohol-free beers and despite the many difficulties with regulations and sanctions in this market, it managed to maintain a presence in the country. Resilience paid off with Bavaria holding a commanding market share of approximately 75% in the imported beer segment by 2014.

Smart branding

The Swinkels were always smart about marketing and branding. In 1925 the first beers were brewed under the brand name Bavaria. The name Bavaria, with its links to the German province, created a few headaches over the years. Its use was fiercely challenged by Bavarian beer brewers who claimed the name infringed on their rights and potentially confused customers in the European Court of Justice. After 13 years of legal proceedings, the judges finally ruled that the Bavaria brand has been long established and was protected before the Bavarian brewers had attempted to protect theirs with a regional trademark in 2001, freeing Bavaria to use the brand name in all the countries where it registered before the protection of “Bayerisches Bier” became effective.

“Beer commercials all tend to be the same nowadays. Bavaria is a challenger brand so we need to be a little bit more challenging, a little bit more courageous. It is about dreaming, daring, being disciplined and doing it.” Frank Swinkels

Guerrilla marketing appeals to Bavaria since it enables the group to create awareness with limited but “impactful” resources and methods – a way to challenge the Big Four and their astronomical advertising expenditures.

Unexpected, unconventional and creative guerilla marketing campaigns help promote the brand in a unique, engaging and eye-catching way, creating social media buzz and leading to high awareness among the brand’s target audience. For instance, at the 2006 FIFA World Cup in Germany, Bavaria introduced the so-called Leeuwenhosen.

These trousers were a pun on the traditional Bavarian “Lederhosen” (leather pants). But because the official sponsor, Budweiser, did not appreciate these marketing activities, spectators wearing the Leeuwenhosen were ordered to remove them and watch the game in their underpants. In response, Bavaria handed out orange underpants. The whole campaign generated an amazing amount of buzz and free publicity around the globe. Guerrilla marketing however is, to a large extent, about courage. Keeping the “spark momentum” over time continues to be a challenge, so is securing the “legal accuracy” of the various creative ideas. It helps that the cousins’ decision-making processes are fast and lean.

Off the beaten path

Another example of the team of cousins daring to tread off of the beaten path was their African market entry in 2012 - an untapped market, considered to be the “final frontier” in the battle to sell beer. The potential for growth seems to be huge: GDP has been growing fast on the continent and with higher incomes consumers have started to switch from their local home brews to factory-made beer. The average consumption of beer per capita in Africa was estimated at about 8.8 liters per year, compared to 72 liters in North America and 55 in Western Europe.

Bavaria leveraged its entrepreneurial heritage and seized the opportunity to acquire a significant stake in an Ethiopian start-up business, Habesha Brewery SC. For Bavaria, this represented a new model for doing business in emerging markets: The business was started by a group of local investors committed to building a local brewery with a local brand for local people. The brewing knowhow and some of the ingredients such as hops and yeast would come from Bavaria but the water and raw materials such as barley and cassava would be sourced locally. About 8,000 direct local backers co-invested with their family members and friends via a share coupon system, similar to an early crowdfunding effort. The brand Habesha refers to a term Ethiopians and Eritreans use to refer to themselves. It is a uniting term that describes the region's different tribes and cultures as one.

The forecast for Ethiopia was positive, with solid economic expansion expected over the next decade. The country's estimated population of 93.9 million is sub-Saharan Africa's second-largest. The current annual consumption of 4 liters of beer per capita is projected to grow to 20 liters per capita over the next 10 years. A new investor-friendly regulatory environment combined with relatively high security levels and political stability makes the country attractive. On the other hand, it still has a very rural profile, with little infrastructure and roads that make distribution slow and costly. Scale is key in order to control the distribution costs since brewers need to regularly serve remote point of sales.

“We want to begin modestly, but it is a beautiful story that fits well with our tradition. That brewery is a cooperation; actually also a large family business, with 8,000 local ambassadors who help us to sell beer.” Stijn Swinkels

By May 2015, Bavaria has increased its ownership stake to 60% and Habesha's new production plant was inaugurated in Debre Birhan, around 120 kilometers (72 miles) north of Addis Ababa. The owners are committed to working as much as possible with local managers and employees. Habesha Breweries' supervisory board includes three Ethiopian and two Bavaria representatives, with an Ethiopian CEO. The management board also reflects a mix of cultures and skills, confirming the company's mission of being a “global brewer with local roots”.

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The IMD-Lombard Odier Global Family Business Award was created in 1996. The aim of the award, which provides a unique platform for sharing best practices and analyzing the economic backdrop, is to promote family businesses by highlighting the exceptionally high standards they are capable of and the many forms they may take. The 2015 award ceremony took place during the 26th Summit of the Family Business Network International (FBN-I) in Montreux.

The next upcoming family business programs at IMD are: “[Leading the Family Business](#)” in Lausanne, from October 25 to 29, 2015; “[Leading the Family Business](#)” as part of IMD's [Orchestrating Winning Performance](#) in Singapore, from November 16 to 20, 2015; “[The Next Generation](#)”, from March 7 to 17, 2016; and “[Leading the Family Office](#)” in Lausanne, from May 9 to 11, 2016.

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