Marketing Munchies Podcast Transcript

Season 2, Episode #2

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Announcer: Welcome to the Marketing Munchies Podcast series hosted by Dr. Bridget Behe. Each week Bridget and her guests will share information, insights, research-based findings, and her 30 years of experience to help your horticultural business connect better with current and future customers. Now, let's join our host, Dr. Bridget Behe.

Dr. Bridget Behe: Hi, and welcome back to the Marketing Munchies Podcast. I'm your host, Dr. Bridget Behe. Today, I am happy to have returning as guest co-host, Dr. Trey Malone, from Agriculture, Food, and Resource Economics. We are happy to have with us today, Dr. Phil Howard. Phil is an associate professor in Community Sustainability which is a Department here in the College of Agriculture and Natural Resources at Michigan State. Welcome, Phil!

Dr. Phil Howard: Yeah, thanks for having me.

Dr. Bridget Behe: Welcome back, Trey! Good to have you as co-host again.

Dr. Trey Malone: Thrilled to be here.

Dr. Bridget Behe: Yeah, so I was happy when, Trey, you said, "We ought to have Phil on as a guest, because he has been doing some work in mergers and acquisitions. Do you want to lay a little ground work before we start pelleting some questions?

Dr. Trey Malone: I got here a year ago. I had heard about somebody in Community Sustainability who had been working in craft beer which is kind of my wheelhouse. It just so happened that I got a paper to review of his about a week after I heard about this guy. The paper was fantastic. What he was really covering in the paper was how, he called it "stealth ownership." In the craft beer market you have a lot of breweries that at the front end, looked like they are independent, locally owned producers, but if you take a step back, you recognize that they actually are owned or are subsidiaries of certain larger players in the beer market.

So, Phil's work has been all over the place. I gave one of the key notes at the National Food and Agribusiness Conference at West Lafayette. There were three different people who had used one of Phil's slides of these mergers and acquisitions. As soon as I saw that I knew that we needed to have him on to at least talk about what this means for agriculture and horticulture. Thankfully, he accepted.

Dr. Bridget Behe: Yeah, do you want to start maybe by telling the listeners a little bit about why an industry gets in a position where we start to see these mergers and acquisitions?

Dr. Phil Howard: It is really fairly common in a lot of industries. If you go back in history, in the late 1800s in the U.S., there were a lot of mergers and acquisitions. They tend to occur when firms struggle to increase sales within the firm. An easy way to bolt on growth is to go out and acquire a big competitor. That has advantages, not only in those immediate increase in the sales, but also an increase in market power. As there are fewer and fewer firms in the industry, the remaining firms have a lot of power over setting the prices that they pay to suppliers and also the prices that consumers pay at retail.

Dr. Bridget Behe: When we think about the product life cycle, we see more mergers and acquisitions when we start to level off that sales growth and hit maturity.

Another question I have has to do with recessions. When we have an economic downturn, obviously sales are sluggish for a lot of businesses and industries as a whole. Does the research evidence show that there is more mergers and acquisitions during recessionary times?

Dr. Phil Howard: Yeah, it is really a couple of factors. One is the need to increase sales and also the availability of capital or refinancing to acquire other firms. We are in a situation where sales are declining, but there is also a pretty easy access to money to go out and make acquisitions at low interest rates, for example. That is why we are seeing some of the biggest mergers and acquisitions ever—not just food and agriculture but in a lot of different industries.

Dr. Bridget Behe: So, talk a little bit about what you have seen, especially in the beverage industry. I know you looked at a couple other industries, but I think you said you took a look at wine and at cider. What are some of the other beverages?

Dr. Phil Howard: Beer and soft drinks. Beer is really fascinating, because it really illustrates these trends so clearly. You have AB InBev, the world's largest brewer. SABMiller was the second largest. They were both struggling to increase sales, particularly in markets like the United States, Europe. As sales were increasing faster in places like China and Africa. But, one response to those not being able to grow as quickly as other S&P 500 firms is that InBev acquired SABMiller. The number one firm was allowed to acquire number two all over the world—basically, except for the United States. So, the United States, all of those SABMiller brands were passed off to their joint venture partner Molson Coors. We still have close to a duopoly in the United States, but in many parts of the world is a near monopoly with what is now Anheuser Busch InBev. In places like many countries in Latin America and South Africa, for example, most consumers have no choice except for an AB InBev product.

On the other hand, you have the growth of craft beer, particularly in the U.S. That was part of what was driving the slow-down in sales of the mass brewers is the growth of craft beer at their expense. We have more and more smaller brewers that are growing very quickly. Some of those are now being acquired by AB InBev.

Dr. Bridget Behe: Thinking about small to moderate businesses, is there any strategic advantage to them thinking about mergers or acquisitions when an industry is mature or when their sales are going…? I mean, obviously, for the big guys, this has a lot of attractiveness. They have got shareholders to answer to and some other stakeholders they have got to be responsible to. Do you see any strategic advantage to a medium-sized business doing an acquisition?

Dr. Phil Howard: Yes. Sometimes they have no choice but to be acquired when industries become more dominated by larger firms, your choice is to either be acquired or to be driven out of business.

Dr. Trey Malone: Let us circle back from there. We have these local producers and everything else. How should they feel about mergers and acquisitions in their industry? Is that something they should be concerned about or is that something that could be a market opportunity?

Dr. Phil Howard: Well, that really depends on your values. Where I am coming from, if you are trying to bring other ideals into your business such as supporting even taste—something that brings a lot of people into food and agriculture industries—you are going to lose control of that if you end up being acquired by a company. It is really common in the organic food industry, for example, for the commitment to 100 percent organic ingredients to weaken and for the emphasis on high quality ingredients or local sourcing to be weakened. If you want to maintain those ideals in your business, you are better off not being acquired.

An example with the beer industry in Michigan is Bell's. They do not want to be acquired by somebody else, so they have actually bought out some of their original investors and are now back to 100 percent family-owned. A couple of other big brewers in Michigan have taken a different strategy and they have taken partial ownership by big brewers. Like, Schwartz is now about 20 percent owned by Heineken, and then Founders is about 30 percent owned by Mahou San Miguel, a big Spanish brewer. So, those investments allow them to scale up and expand in their distribution, but it also comes with a loss of control. Further down the road, based on what I have seen in other firms and other industries, they may end up losing some control over some of their values.

Dr. Bridget Behe: Can somebody like Bell's hold off being acquired forever?

Dr. Phil Howard: Likely, if they are a family-owned, they are not under the pressure from investors and shareholders that other firms face. Which is a big difference even somebody like Samuel Adams Boston Beer Company is now a publicly traded firm, and their shareholders are unhappy with the growth rates that they have had in recent years. Even though they have been an independent firm for a long time, they may end up being acquired by another firm, because their shareholders demand it—not because the executives want to do that.

Dr. Bridget Behe: Interesting insights. Yeah, I am really intrigued by mergers and acquisitions, because a lot of what I have seen happen, especially in the ornamental horticulture industry, is that stagnant growth that is about the best way for moderate, especially large businesses, to grow. It is interesting to hear some of your research findings and understand how that affects businesses of all size.

I really appreciate you being a guest on the show today. Trey, great to have you back as a co-host. I look forward to having you both back again sometime. Thanks, gentlemen!

Dr. Phil Howard: Thanks!

Dr. Trey Malone: Thank you much!

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Announcer: Thank you for joining us on this week's Marketing Munchies Podcast. For more information or to download the transcript of this podcast, please visit, connect-2-consumer.org. That's C-O-N-N-E-C-T, dash, the number two, dash, C-O-N-S-U-M-E-R, dot, C-O-M.