

Marketing Munchies Podcast Transcript
S2 Episode #3: Dr. Phil Howard on Stealth Ownership



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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 to the Marketing Munchies Podcast. I'm your host Dr. Bridget Behe. Today I'm happy to have returning as guest co-host Dr. Trey Malone from Agricultural 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 in the department here in the College of Ag and Natural Resources at Michigan State. Welcome Phil!

Dr. Phil Howard: Thanks for having me.

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

Dr. Trey Malone: Thrilled to be here.

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

Dr. Phil Howard: Beer, soft drinks. Beer is really fascinating because it really illustrates these trends so clearly. You have ABM Bev, the world's largest brewer. SAB Miller is the second largest. They are both struggling to increase sales, particularly in markets like the United States and Europe. Sales were increasing faster in places like China and Africa but one response to those not being to grow as quickly as other SP 500 firms is that M-Bev require SAB Miller, who's the number one firm, was allowed to require number two all over the world, basically except for the United States. For the United States, all those SAB Miller brands were passed off to their joint venture partner Mal's Liquors so we still have close to a duopoly in the United States but in many parts of the world is near a monopoly with what is now Anheuser-Busch and M-Bev in places like many countries in Latin America and South Africa for example. Most consumers have no choice except for an ABM 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 slowdown of 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 and some of those are now be required by ABM Bev.

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? Obviously for the big guys this has a lot of attractiveness. They've got shareholders to answer to and some other stakeholders they have to be responsible to. But do you see any strategic advantage to a medium size business doing an acquisition?

Dr. Phil Howard: Sometimes they have no choice but to be acquired when industries become more and more dominated by larger firms. Your choice is either to be acquired or to be driven out of business. Sometimes that's less of an issue in this new niche that is being created by people. The early days of craft beer that wasn't an issue but some people who are now entering into the craft beer market actually have a what they call an exit strategy. They have to borrow money to get started and those people who are lending the money expect a big payout so really the only feasible exit strategy is to find a Venture Capitalist firm or a big brewer like M-Bev and try and grow in a way that you will become a target of that firm and you'll be acquired by them.

Dr. Bridget Behe: Wow! That's really interesting. So they go into business in that industry knowing that product lifecycle is going to eventually slow down, they'll hit maturity, and then they want to sell. That's really interesting.

Dr. Phil Howard: A great example of this is Honest Tea which was started by Seth Goldman. He had seen the pattern in other parts of the organic food industry and so he got a lot of advice from Gary Hirshberg of Stonyfield and had a strategy to be bought out by a firm which became Coca-Cola. Honest Tea is now a division of Coca-Cola. If you're a consumer, you're not going to see that on the product label.

Dr. Trey Malone: Let's talk about that a little bit. From a consumer's side of things, you've talked about this illusion of choice or something like that. How does that play into a consumer's decision to buy a product? Do they feel burned when they find out that Honest Tea is a subsidiary of Coke or do they just buy Honest Tea just like they did before?

Dr. Phil Howard: It depends on the consumer. Some consumers just want to buy an organic tea and after it was acquired by Coke it was distributed more widely. It's cheaper because they are trying to drive the others out of business. Coca-Cola can cross-subsidize but there are a lot of consumers that are definitely upset when they learn that they are actually supporting a big company like Coca-Cola and not this small organic company. That's why stealth ownership is so common, particularly in the organic industry and the craft beer industry because those are products consumers are very passionate about, supporting local or organic or other values. The marketing departments know this and they go out of their way too... If you really delve into the websites and at the end of these reports of these firms you see that they're not completely hiding

ownership but it's obscured enough at the retail level that most consumers don't know what they are really supporting.

Dr. Trey Malone: Can you think of any examples of a big consumer backlash to one these kind of stealth mergers or acquisitions?

Dr. Phil Howard: The most recent is probably Wicked Weed was acquired by ABM-Bev. M-Bev had acquired a number of other craft beer firms before that and received criticism because it was Wicked Weed that specialize in sour beers. It was really an artisanal product that was kind of a tipping point for a lot people once you had bars were moving all their M-Bev products from their tap and Wicked Weed from their taps. You had festivals where people that were sponsored by Wicked Weed people were pulling out of. That was one example but there are a lot of others as well.

Dr. Trey Malone: On the flip end though there are certain examples that people don't have this extreme backlash. The one I'm thinking of is Virtue Cider here in Michigan that was purchased by ABM-Bev and nobody talks about it. There's hardly an article on the internet about this purchase. People buy Virtue Cider I think just like they did before. What do you think it is about that case versus the Wicked Weed case that really created this explosion and fury of consumers?

Dr. Phil Howard: I think it was just mostly visibility. People who are reading craft beer magazines and websites found out about Wicked Weed and there was a lot of discussion on social media about it whereas Virtue Cider kind of flew under the radar. It's interesting about Virtue Cider, it was actually started by someone affiliated with Consilient which had already been acquired by M-Bev. No one was really surprised when Virtue was eventually inquired by M-Bev. It's one of those examples of a clear exit strategy. Also, hard cider right now is a smaller market than craft beers so there aren't as many people who are as passionate about it as there are craft beer.

Dr. Trey Malone: Can you talk a little bit about hard cider? We're here in Michigan so that's definitely one of those things that people are very interested in.

Dr. Phil Howard: Craft cider is growing very rapidly. It's really mirroring the trend of craft beer. There are more and more cideries starting up. What is also interesting is the mass segment of the really big cider companies have experienced a leveling of sales already, even though it is a fairly new market for the U.S. It's something that used to be very popular drink in the U.S. in the 1800s but as a result of prohibition, many orchards with the apples great for hard cider were cut down or even burned and never came back. We don't have the culture like in France and United Kingdom but now more and more people are getting excited about craft cider. More and more in particularly in apple areas like Michigan and Washington state there is a lot of growth. The

Angry Orchard for example, their sales have been leveling. The smaller hard cider makers continue to see really rapid growth because people are interested in supporting a local product and agricultural product and starting to learn about how many different varieties of taste there are for this product.

Dr. Bridget Behe: Interesting insights. I'm really intrigued by mergers and acquisitions because a lot of what I've seen happen, especially in the ornamental horticulture industry is that stagnant growth, that's about the best way for moderate, especially large businesses to grow. It's interesting to hear some of your research findings and understand how that affects businesses of all size. Really appreciate you being a guest on this show today. Trey, great to have you back as a co-host. Look forward to having you both back again sometime. Thanks gentlemen!

Dr. Phil Howard: Thank you.

Dr. Trey Malone: Thanks a bunch.

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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.

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