Drinkers are returning to cheap brands, says SAB
Jenny Wiggins

SABMiller, the UK brewer that owns Miller Genuine Draft and Peroni Nastro Azzurro, said consumers were returning to mainstream beer brands and homemade spirits to save money as incomes fall.

Graham Mackay, SAB-Miller's chief executive, said the speed at which European consumers were changing their behaviour was "surprising".

"They seem to have taken the brunt of the global crisis on the chin ... consumer spending growth has slowed materially."

The spending fall reflected new declines in consumer confidence as well as high levels of household debt, Mr Mackay said, adding that he did not expect the global economy to rebound for at least two to three years.

In recent years, brewers have benefited from consumers "trading up" to more expensive premium brands. But this trend appears to be ending.

"We see the shift to premium halting," Mr MacKay said, adding that people in developed markets like the US were switching back mainstream beer brands, while others in developing markets such as Latin America were returning to homemade alcohol.

In South Africa, consumers are already "trading down" to mainstream brands such as SABMiller's Castle due to the tougher environment, he said, while in Peru, the brewer has introduced a cheap beer brand, Trujillo, as "a commodity price fighter" after competitors undercut it on price.

The decline in consumer spending, combined with high costs for core raw materials such as aluminium and glass, is hurting SABMiller's profit margins as sales volumes growth slows.

A drop in European and Latin American profit margins yesterday dragged down the group's overall profit margins in the first half of its fiscal 2009 year, even as it reported a 28 per cent increase in pre-tax profits to $2.02bn and a 4 per cent rise in sales to $ll.2bn.

Trevor Stirling, beverages analyst at Bernstein Research, said while SABMiller's first half results were "reasonably solid", the drop in European margins was "most unexpected".

Mr Stirling said the margin decline was partly linked to SABMiller's practice of hedging raw materials forward for up to 24 months, which has made it difficult for the brewer to take advantage of the recent drop in some commodity prices like aluminium.

Although the prices of many agricultural raw materials have fallen, the brewer is also still paying high prices for glass.

This is partly because of high energy costs, and partly because some glass manufacturers, such as the South African group Consol, have been bought by private equity companies that have been "choking off supply" to increase prices, Mr Mackay said.

SABMiller's shares rose 16.5p, or 1.8 per cent, to 922p in late afternoon trading.

Fonte: Financial Times, London, November 14 2008, Companies & Markets, p. 17.