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SABMiller

The cost–benefit analysis of beer

By James Geary

Statistical analysis of how its business affects developing countries has delivered valuable insights for SABMiller

Ethan Kapstein is tired of hearing about all the great things corporations are doing in communities. And he isn't a big fan of all those pictures of smiling locals in corporate social responsibility reports, either. "The previous phase of CSR consisted mostly of 'happy face reports'," Kapstein says, Paul Dubrule professor of sustainable development at Insead business school. "Now, we want to get a data-driven perspective. The question is, how to provide the relevant data?"

Kapstein has an answer: a methodology designed to estimate a corporation's social, environmental and economic impact on the countries in which it operates. Kapstein's technique sets out to measure what to date has remained largely unmeasured – the specific costs and benefits resulting from doing business in specific markets.

He recently completed one such study for SABMiller, the world's second largest brewer. "This is a relatively new thing," Kapstein says, "reflecting the demand from stakeholders for hard data on corporate impact."

If Kapstein's method catches on, this kind of statistical analysis could help companies put hard numbers behind their corporate responsibility efforts, enabling them to determine what delivers the biggest bang for their bucks in national and regional markets.

The SABMiller study focuses on the firm's Ugandan subsidiary, Nile Breweries, a small part of SABMiller's global portfolio, which includes well-known brands such as Grolsch, Miller and Peroni Nastro Azzurro. SABMiller's revenue for the year ended March 31 2009 was $25.3bn, and roughly 10% of that revenue came out of Africa.

In Uganda, Nile Breweries is the second largest brewer by market share. It directly employs just 430 people, but one of the most startling facts turned up by Kapstein's research, which focused on 2007, was that an additional 44,000 jobs depended directly or indirectly on Nile Breweries activities. That represents a multiplier effect of about 100.

Robust metrics

SABMiller decided to approach Kapstein because it wanted to take a more coherent approach to its sustainable development work. "We wanted a robust system to measure how sustainable development connects with our core business," says Andy Wales, SABMiller's head of sustainable development. Uganda is a difficult market, according to Wales, and by understanding the impact of factors such as distribution and sourcing, SABMiller wanted to learn lessons it could use in Uganda and other markets.

"Seeing numbers like the employment multiplier is hugely powerful internally," says Wales. "It gives managers an understanding of the important role the company has in sustainable development, and the difference we can make in the places where we do business."

The difference Nile Breweries makes is not limited to employment multipliers. Kapstein's study also finds that the firm and its employees directly or indirectly generated value added of $92m – in the form of salaries, company profits, household savings and dividends. Nile Breweries, Uganda's fourth largest taxpayer, also contributed government tax revenues by $55m.

Many firms reflexively do global sourcing without calculating all the advantages of local suppliers

SABMiller invests in traditional corporate responsibility initiatives in Uganda, too, such as responsible alcohol consumption campaigns and health care programmes for HIV/Aids. But Kapstein argues that corporations should talk more about the social and economic upsides of simply doing business as usual. He says: "Companies need to say more about the link between business and development. Bill Gates talks about the wonderful things his foundation does, but never about the wonderful things Microsoft does. But the impact of the private sector is much greater than the impact of Bill Gates or his foundation could ever be."

Kapstein did a similar study for Unilever South Africa last year. The company came to him, Kapstein says, to quantify its economic impact in South Africa, where it has been active for more than a century. Kapstein ran 2005 data from Unilever South Africa and the South African government through his software to estimate everything from the firm's effect on employment to its contribution to tax revenues.

The findings show that for every person directly employed by Unilever (in 2005, that was roughly 4,000), 22 more depended on the company in some form for their livelihood, a figure representing 0.8% of total South African employment. The direct and indirect contributions of Unilever to the South African government's tax revenues in 2005 totalled $500m, almost 0.9% of all government revenue.

The Unilever South Africa project was the first to use Kapstein's methodology and, so far, it and the SABMiller report are the only published studies of their kind. "It takes courage for a firm to do this kind of study," Kapstein says, "to say to an outside academic, 'Come up with something that we can't spin to our advantage.'"

For Wales, the non-spin nature of the exercise is part of the point. "Transparency is key," he says. "You have to do this in an open way. And you get a better quality insight if you have an outsider challenging views. That analysis is only useful, though, if it helps us make better business decisions."

Home brew

Eagle Lager has been one business decision that has definitely turned out for the better.

Traditional pilsner lagers are made from plant materials – barley, hops, rice – that are difficult to grow in many African countries. And beers made from, say, imported barley are more expensive, putting them out of financial reach for many African consumers. More affordable products are made from local materials, such as banana, pineapple, and palm. According to SABMiller estimates from nine African countries where it does business, this informal African alcohol market has a sales value of more than $3bn.

Looking for a way to expand its market share while also helping local farmers, Nile Breweries introduced Eagle Lager, made from locally grown sorghum, in 2002.

Local sourcing for Eagle Lager

Eagle Lager now accounts for half of Nile Breweries' sales in Uganda, while the brewer's sorghum orders support 8,000 local smallholder farmers. The success of Eagle Lager has led SABMiller to pilot sorghum and barley projects in Zambia and Tanzania, and to trial beer made from cassava plants in Angola, where cassava is common.

"The business strategy is to create more affordable products," Wales explains. "That's good for Ugandan farmers since it expands the market for their products, and it's good for SABMiller because we sell more beer. It shows how we can grow our business while creating local economic benefits."

Local sourcing is one of SABMiller's biggest challenges; it is also one of its greatest opportunities. Despite initiatives such as using local sorghum, Nile Breweries currently sources about 70% of its raw materials from outside Uganda, including barley and items such as glass bottles. As part of a drive to obtain more raw materials from local sources, SABMiller is now experimenting with growing barley in Uganda instead of importing it from Europe.

Last year, SABMiller commissioned PricewaterhouseCoopers to assess its smallholder farming programmes in Uganda as well as India, South Africa, Zambia, and Tanzania. PwC estimated that, for 2009, almost 17,000 local farmers in the countries surveyed would be involved in the SABMiller supply chain. As a result, many of them will be able to shift from subsistence farming to small-scale agribusiness models. That is obviously good for the farmers themselves, but it's also good for governments, since it moves more rural poor into the official economy, thereby generating additional tax revenues. In his report, Kapstein suggests that SABMiller help the Ugandan government in setting appropriate tax levels.

"It takes courage for a firm to say to an outside academic, 'Come up with something that we can't spin to our advantage'"
Ethan Kapstein, Insead

SABMiller in Uganda

SABMiller's business in Uganda supports 44,000 jobs and generates income of £92m for the country. The brewer does this despite having only 430 employees in the country, at its Nile Breweries subsidiary.

For every person Nile Breweries employs, a further 100 jobs are created in the company's supply chain.

Of the £92m generated for the Ugandan economy, £55m is taxes paid to the government. Nile Breweries pays £28m of that.

Locally sourced Eagle Lager generates 50% of Nile Breweries' revenue, providing 8,000 farmers with 70% of their income.

Source: The Socio-Economic Impact of Nile Breweries in Uganda and Cervecería Hondureña in Honduras; Professor Ethan B Kapstein, Insead; René Kim and Willem Ruster, Triple Value; published June 2009.

The benefit of local sourcing is not just economic, according to Kapstein. Many firms reflexively do global sourcing without calculating all the advantages of local suppliers. He says: "These people are your consumers, so if you grow local businesses you grow your own future consumers, too. But these people are part of your political coalition as well. No government cares if a single company, even a big company like SABMiller, walks in the door and wants something. But if you walk in the door with 10,000 farmers or 50,000 distributors, you have a bigger impact. You have a coalition of support."

Number-crunching

Kapstein's methodology mixes corporate and government data to come up with a snapshot of social, economic and environmental impact. In Uganda, he used national input-output tables and Nile Breweries' own sales and other financial figures to generate estimates of the firm's direct, indirect, and induced effects on everything from private sector investment to household incomes. By looking at direct impacts (those generated by the production of Nile Breweries and its direct suppliers), indirect impacts (those generated by its suppliers' suppliers), and induced impacts (those generated by the consumption decisions of the employees of all the above), Kapstein was able to quantify the value of almost every link along the supply chain.

Kapstein also spent about a week on the ground in Uganda, meeting government officials, touring facilities, and talking to experts. He drove the financials through his software, went back to SABMiller with preliminary results to make sure they looked plausible, then added the first-hand analysis gleaned from his trip. If his method has a flaw, he says, it has to do with the fact that input-output tables are not updated every year. "A lot can happen since the last update," Kapstein says, "so the picture is static. It's a lagging indicator."

Kapstein's study is not just another "happy face report". The impact of Nile Breweries in Uganda is clearly beneficial, but there are problems, one of which is the inefficient use of water. In Europe, it typically takes four litres of water to make one litre of beer. In Africa, it takes nearly eight, a difference partly explained by lower production volumes but also by lower efficiency.

Forward planning is essential when working with smallholders

"Water use in our Uganda facilities is not the most efficient," Wales concedes. He cites initiatives such as the water neutral scheme in South Africa as an example of how SABMiller is addressing the issue. In collaboration with WWF, SABMiller's South African breweries are piloting projects designed to reduce water consumption and offset the water that is uses. The offsets are achieved though investments in initiatives, such as river catchment area clearance schemes, that release equivalent volumes back into the ecosystem.

Lager with bite

Working with the private sector and the government to make environmental policy a priority is, in fact, one of the concluding recommendations in Kapstein's report. He also urges SABMiller to continue to work closely with farmers to ensure they have the technical capability, financial resources and market access needed for growth. Here again, the Ugandan experience serves as a model.

Looking to the future

Last year's PwC review found that forward planning is essential when working with smallholder farmers, who often cultivate as little as four hectares of land, and therefore need to carefully manage their crops. Experience in the Ugandan market highlights the need to match farmers' yields with the brewery's level of demand.

So SABMiller has developed a partnership model that mixes hands-on management with conventional outsourcing to help smallholders integrate into the supply chain. The company also created a smallholder toolkit based on the PwC review and other sources, which it is using as part of its smallholder programmes for maize production in Peru, rice production in Ecuador, and the cassava project in Angola, among other projects. "Genuine partnerships are the most successful from a business and a socio-economic perspective," Wales says. "They benefit local economies and thereafter benefit our business, in part by allowing us to take learning from one market and apply it in other markets."

These lessons are currently being applied in markets such as Angola, where SABMiller will invest $125m in a new brewery and soft-drinks factory, and southern Sudan, where the company started production earlier this year. In both countries, SABMiller is looking to local producers for raw materials, including corn, sugar and barley as well as bottles, crates and labels.

Kapstein hopes the SABMiller Uganda study will encourage executives and shareholders alike to "think more broadly about the impact of their business". Statistical analyses, such as these, show, he says, "just how nested a company is within a society, and how important it is to nurture a broad set of relationships for the long run". ■