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Roadmap to Success – Bringing a Local Focus to a Global Enterprise

Canadian Club Speakers' Series

Roadmap to Success – Bringing a Local Focus to a Global Enterprise

Good afternoon everyone ... and thank you for this invitation and a very nice introduction.

It gives me great pleasure to be able to address such an esteemed group from Canada's business community.

Yes ... after being at Cadbury-Schweppes for 20 years, I decided it was time to move from soft drinks ... and take on a somewhat "stronger" portfolio. And ... Interbrew certainly "serves up" that opportunity.

Before I begin, I'd like to say what a pleasure it is to be here in beautiful Toronto. As some of you may know, Interbrew is holding its Board of Directors' meeting here this week where some 16 million visitors come annually for business or pleasure. Clearly, with concerns over SARS, it was important for Interbrew to investigate the situation and come to our own informed conclusion on the advisability of gathering in Toronto. With the diligent work and outstanding dedication of this community's health authorities and professionals, we believe Toronto remains one of the world's great destinations and we're pleased to be here.

However, there is another, overriding reason we are here – to show tangible support for our many loyal Labatt and Interbrew hotel, restaurant and pub customers who are feeling the economic consequences of a much misunderstood – albeit serious – disease. When you consider that Toronto plays host to a collective visitor group that is more than "six times" the population of the city each year, it's easy to see how a "crisis of misperception" could have a significant, negative impact on business.

So, on behalf of the Interbrew Board of Directors, I'll just say that we're here ... and we are happy to be here!

What I'd like to do now, is ... invite you all ... to the world of beer.

(INTERBREW VIDEO)

I hope that our Interbrew video helped you understand our organization and its positioning as a global company with a local focus – one that successfully does business all around the world by forming and maintaining strong, local relationships that work!

But, we'll explore that concept in more depth later.

What I'd like to do first is:

- Comment on the effects of Globalization and how it is changing the way business is conducted around the world...
- Then ... tell you a little about Interbrew, it's history and its evolution...
- Next ... I'd like to relate some of the challenges we face as a global company and explain how our strategy is unique among many multinational companies operating in today's highly competitive business arena.
- Finally ... I'd like to tell you how Interbrew companies such as Labatt Breweries of Canada operate effectively within Interbrew and the parameters of its strategic imperatives ... while still maintaining their autonomy and decision making powers.

In today's global economy, I've heard that Canadians, like some others around the world, are expressing concerns over what seems to be an inevitable march towards consolidation through Globalization. I think, however, one has pause in that mode of thinking ... and recognize that Canadian industry is often playing a leading role in an increasingly borderless economy.

Indeed, we can all bear witness to this as we see the results of globalization taking place before our eyes. As people around the world are more connected to each other ... and information, goods and services flow more freely and more quickly across borders ... opportunities are unfolding at a tremendous rate for the industrialized nations of the world.

But opportunities are also unfolding that help the poorest countries. In many cases, Globalization is bringing jobs and financial stability to workers who ... up till now ... have been among the world's poorest. And with these jobs come opportunities for education that help enlighten people, strengthen democracy and improve the human condition.

Globalization, however, is also enabling companies, such as Interbrew, to leverage their international resources and strengths to help local companies around the world ... and thereby help local economies as well.

At Interbrew, we recognize the realities of global initiatives as well as the business opportunities they afford. We also recognize that there are "self-evident business truths" that hold true in just about any corner of the world. I'll tell you about three that we practice with due diligence.

Number *one* at Interbrew ... is to stay close to customers and consumers ... and make sure we understand local traditions, local taste preferences and specific needs on a very personal level. This ties in with Interbrew's positioning as being the *World's Local Brewer*. By doing so, we have the satisfaction of strengthening local consumer-product relationships ... and increasing customer loyalty.

Number *two*... is that we recognize the success of our company is totally dependent on the contributions of our employees. It is their ideas, hard work and innovative initiatives that have brought us this far. At Interbrew, we value individual excellence as well as teamwork ... and we're working hard to give our people more opportunities, more support and more encouragement to continue to step up to the plate and make our organization an even better one.

Number *three*... is that none of our entities can do it alone. For instance, Labatt Breweries of Canada proactively leverages the resources of Interbrew to bring the strengths of a *global* organization to benefit a *locally-focused* organization. In other words, they take advantage of a vast storehouse of knowledge, expertise and resources ... and in turn ... share ideas, information, expertise and ... a passion to win ... across our international organization.

These three "beliefs" or "truths" ... call them what you will ... are what help us orient ourselves so that ... we make sure that everything we do on a daily basis ... supports them. In this way, we can capitalize on mutual strengths while remaining strategically aligned on a corporate and local level.

Now let me tell you a little more about Interbrew's strategy. Interbrew today is the third largest brewer in the world, but it didn't achieve this status by positioning itself as the same global giant in every market where it operates.

On the contrary, Interbrew's success has come from positioning itself as the "*world's local brewer*" – effectively tailoring its approach to the conditions of each individual locality. And we came by this strategy honestly.

You see ... Interbrew traces its origins to 1366 and a local brewery called Den Hoorne in the city of Leuven, just outside Brussels. More than 350 years later, in 1717, a master brewer by the name of Sebastien Artois purchased that brewery and changed its name to Artois. Interbrew, as we know it today, was formed another 270 years later – in 1987 – as a result of a merger between Belgium's two leading brewers. These two were Artois, and another longstanding brewer called Piedboeuf.

By 1992, Interbrew was the world's 16th largest brewing company – a collection of local breweries, operating mostly in Belgium, but also in Holland, France, Italy and Africa. We had a solid portfolio of local beers in each of these regions, but Interbrew had little or no visibility elsewhere in the world.

At around this time, Interbrew embarked on an ambitious growth strategy – one that was based on building a stable of successful *local* brewers, all around the world.

Since 1992, it has recruited beer companies from some 15 countries. A “key recruitment” came in 1995 when Interbrew purchased 100% of the Labatt Brewing Company. Acquiring Labatt also paved the way for Interbrew to enter the huge United States marketplace, and to subsequently build its presence in Mexico and Cuba ... and make Interbrew the truly global brewer that it is today.

What started as a regional operation has become a relatively autonomous network of 65 breweries in 21 established and emerging markets on all five continents. Together, these breweries produce 200 brands that are marketed in some 120 countries around the world.

All told, Interbrew produced 102 million hectoliters of beer in 2002. It's also about ten times Interbrew's production volume of 11 million hectoliters in 1991. A hectoliter, by the way, is a thousand liters.

Now let me back up and tell you a little more about what it means to be the world's local brewer. Essentially, it involves leveraging Interbrew's worldwide expertise to tailor our product offering and marketing approach to suit the unique conditions of every locality where we do business. While Interbrew certainly takes advantage of its size and geographic reach to benefit from knowledge sharing and economies of scale, the individual companies that make up the Interbrew family still enjoy a high degree of autonomy. Every operation is encouraged to apply their local knowledge and expertise to best serve their local market.

There's good reason for this. Despite the immense popularity of global brands – including our own Stella Artois and Beck's – 90 percent of beer sales worldwide are attributable to domestic brands. This is quite unlike many other consumer product industries, where mega-brands like McDonald's and Nike and Coke dominate in every geographic region.

For instance, although Labatt has been a member of the Interbrew family since 1995, it remains squarely rooted in the Canadian market. And within this Canadian national market, Labatt's success has always been derived from understanding, appreciating and respecting grass-root traditions, tastes and needs at a very local level. And, this strategy includes locally-focused programs that support local communities from both a corporate and an employee standpoint. For instance, Labatt employees' have a long history of community volunteerism ... and our corporate programs and policies support a wide range of these charitable and social initiatives.

In fact, we ensure that where possible, we have similar programs in other countries where we do business.

Now, you might be wondering how it's possible to retain a strong Canadian identity and local focus as a key operating arm of one of the largest brewers in the world. Especially at a time when companies in many other industries are centralizing their operations and decision-making powers to assure consistency throughout their organizations.

In effect, how does Labatt...

- Operate autonomously at the local level while being a part of a global enterprise that markets its products in more than 120 countries around the world?
- How does it face and deal with local challenges while carrying out a worldwide corporate vision?
- How does it synchronize operations to leverage common efficiencies, ideas, innovations and information so that it is not constantly re-inventing the wheel ... but, instead, sharing and capitalizing on the ideas and strengths of our own and sister operations?

It all boils down to that key word again ... "strategy." All of this is possible simply by being connected via a common strategy that is rooted in a set of values and beliefs that are aligned to support this strategy. One that can cascade down from the international ... to the national ... to the regional ... and to the local levels. And this includes the authority to make decisions at the local level to effectively carry out our local mission and achieve our goals ... ones that are directly tied to the enterprise goals.

One way we do this is to ensure employees everywhere are involved and engaged so that we can tap into their vast wealth of talent, knowledge and expertise. We have put a structure in place to encourage innovation, capture ideas, ensure they are implemented and then replicated across the company ... and internationally

But to understand the rationale in a little more depth ... let me briefly tell you more about how Interbrew became the *world's local brewer*. We've done it through building brands – brands with distinct characteristics and personalities acknowledging and complementing local tastes and traditions – and then expressing their local positioning through advertising.

For instance, Labatt offers a broad portfolio of local brands to strike a personal chord with consumers across Canada. In 2002, it produced 67 different brands. These include a few national brands like Labatt Blue and Blue Light, as well as Budweiser and Bud Light – which are brewed under license from Anheuser-Busch – but our portfolio is largely comprised of local brands that, for the most part, are specific to local markets. You'll find the same situation at other Interbrew business units all around the world.

Still, Interbrew also leverages established local platforms to introduce Stella Artois, our flagship brand, in every market where we operates. But, unlike typical megabrands, Stella is positioned as an authentic European heritage beer to *augment* – rather than *replace* – local brands.

I've brought some brand advertisements that will bring to life, not only the brand personality and positioning, but will also paint a picture of our portfolio and how we execute positioning around the globe.

Let's begin by first looking at Stella Artois, which transcends borders by positioning it in local markets as a premium brand ... something a little different ... that consumers should try.

(STELLA ARTOIS ADVERTISEMENT)

So you can see that Stella is positioned as a unique experience – a premium beer possibly playing to those with discerning and adventurous tastes.

Let's look at how we are building a brand in a market that is relatively new to Interbrew – Russia!

In our industry, few places on earth offer as much growth potential as Russia. A consumer society is still very new to Russia, and there's a lot of catching up to do. Over just the last five years, the Russian beer market has doubled in size. Yet per capita consumption of 40 litres per year is only about half of that consumed in Western Europe. Factor in a population of nearly 145 million, and you can see why Interbrew was keen to enter the Russian market with the acquisition of Sun Brewery in 1999.

Russia has huge potential, but it also poses unique challenges. It's a vast country that spans 11 time zones, and the newness of its consumer society is evident everywhere. For example, at the time of its acquisition, one of Sun's operations had a yeast collection system that consisted of 75 surplus bathtubs. We've had to bring modern brewing practices to Russia, and we've also brought modern marketing practices – to build sustainable brands. TV ads might seem pretty conventional to Westerners, but they're an exciting new phenomenon in Russia. So far, our approach is striking the right chord with consumers.

A brand called Tolstiak provides a good example. Interbrew converted this local favorite into a national brand for regular, everyday Russians by linking it with humorous, everyday moments in Russian life and history. Obviously, this approach would not have been as likely to succeed with a global megabrand. As it was, we increased Tolstiak production volumes by about 75% within the first year. We did it with a very local approach to a very Russian brand.

(RUSSIAN ADVERTISEMENT)

In Canada, I know you're passionate about your brands and spend significant resources to ensure brands remain healthy and relevant to local consumers. I'm going to show you some Canadian advertisements that demonstrate how we support our marketing strategy through national and local brands. We'll start with our flagship brand, Labatt Blue, and then we'll take a look at a local brand – Keith's – that is marketed as a domestic brand in the Maritimes ... yet positioned as a premium brand in the rest of Canada.

For Labatt Blue a campaign was developed we call: "Cheers! To Friends!" The first ad debuted in February during Hockey Night in Canada on CBC. As you'll see, these spots were shot "home movie" fashion and were largely unscripted to capture classic guy moments and the real fun, spontaneity and camaraderie amongst friends. Our target market is typical guys between 19 and 24 years old ... who are into their sports, music and good friends. And response to this spot has been very positive. Let's take a look ...

(LABATT BLUE ADVERTISEMENT)

Now let's look at a brand that is close to Canadian Maritimers. Keith's is a brand reflecting a brewing heritage steeped in a long tradition of quality ... one brewed in our Oland Brewery in the Maritimes. Here's a Keith's ad that many of you might remember.

(KEITH'S ADVERTISEMENT)

In Canada, Labatt has been a part of the landscape ever since John Kinder Labatt brewed his first batch of beer in 1847. Its profile – and its approach to doing business – hasn't changed under Interbrew.

Let me share an interesting story here that shows how attuned we are to the communities that we serve. In August in 1957, one of our sales reps was treating a customer in the Waverley Hotel in Winnipeg when he saw a customer signal a waiter and say: "Hey ... give us another round of *Blue*."

The waiter seemed to know what he wanted because he returned a moment later with a refill of Labatt Pilsener.

"Blue?" the rep asked.

"Sure," the customer answered: "Blue Label ... Blue ... a Great Beer."

We had introduced "Labatt Pilsener" in Manitoba with little fanfare in 1956. Restrictive regulations didn't allow advertising, or large scale product promotion. But we did develop an attractive blue and white foil label that featured a TV tube, to highlight public fascination with current technology – the still-new television screen. As a result our customers rechristened Labatt Pilsener ... Labatt Blue. This new nickname and bright blue label was imported from the Prairies to Toronto in the sixties and the familiar brand we have today – *Labatt Blue* – took off!

If you think back to the point I made at the beginning ... of the Interbrew organization being connected via a *common strategy* that cascades down from the corporate to the local level where *execution* takes place ... this is a perfect example.

In Canada and around the world, it's mostly local brands, local people and local involvement that make it happen in the beer industry.

And this brand-building is backed up by defined sets of values, philosophies and rewards in every country supporting the local vision ... while still being aligned with the global vision of Interbrew.

Interbrew's experience of operating in a global environment has been incredibly challenging, incredibly empowering, and incredibly beneficial. It has allowed us to look at ourselves and evaluate the way we work. It has allowed us to benchmark ourselves against the very best practices around the world. And, it has allowed us to sift, select and siphon off the best ideas, the best processes and the best innovations from an incredible array of brewing companies with diverse cultures and methods.

For all of these reasons, we're confident Interbrew's global positioning as the **world's local brewer** is the right one – for consumers and investors alike. It's allowed us to deliver volume growth, financial performance and an unmatched portfolio of authentic, quality beer. It's also what's going to allow us to achieve our dream of becoming the leading brewer in the world ... in other words – “the” brewer of choice – in the years ahead.

It's been an honor to address you today ... and to have shared the Interbrew and Labatt journey with you. And now ... I look forward to getting out and enjoying some of that famous Toronto hospitality. Thanks for listening.

Cheers!