

Brahma VS Antarctica



the Autonomous Management School of
Ghent University and Katholieke Universiteit Leuven

Part-time International MBA
PT IMBA-G 2007-2008

Brahma Vs Antarctica

International Management

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2008-03-13

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Overview:

When considering the merger several aspects have to be taken into account. Table 1 provides an overview of these aspects.

Merger	
Reasons for	Reasons against
A global player could potentially merge with Antarctica	75% of home market, there is a chance for regulatory actions
Combined, there is sufficient scale to compete globally	Merger of large companies is always a high risk
Antarctica also has 1 large new factory	Low Real, can it compete against global players
Both companies have a similar strategy. Telles can focus on the execution	The recent price war might have eaten the reserves
	Low brand preference, making the actual brand value of Antarctica low
	Antarctica has a lot of small not so productive factories
	High debt of Antarctica

Table 1 : Advantages and disadvantages of merger

Financially:

The depreciation of the Real makes Antarctica ripe for takeover, but one must not forget that compared to the observer outside of Brazil the depreciation has a double benefit. The current financial assets of the company have decreased and the debts in \$ have not increased. Therefore, before Brahma considers a merger with Antarctica, due diligence is needed not only for Antarctica but also for Brahma. There is possible risk that the merger of both companies might weaken both and prepare the new merged company for a hostile takeover from another global player. As the recent price war (15% between 1997 and 1999) has weakened Antarctica before the inflation of the Real, it cannot have left Brahma completely unharmed.

Operationally:

Another important aspect is that Marcel Telles has successfully guided the company through a lot of changes in the last 10 years and is Brahma ready now to merge with Antarctica. Are all the procedures routine enough to port it to a new environment? Will the recently improved distribution chain be of benefit to the Antarctica profits? The overhead of managing already two distribution chains will increase with the addition of more products and distribution channels. As such, basically after the turbulent changes of the last 10 years is Brahma operationally ready to take the burden.

Social factors:

Also the fact that in the home market the consumer has not got a very high brand preference, what is then the value of the Antarctica brand? Would it not be better for it to just “disappear” instead of buying it. Although as Marcel Telles points out, not merging with Antarctica will open a gate in the 4th largest beer market, Brazil, to a non-domestic global player. Because of the high tariff on imported beer (23%) a merger with a domestic brewer would indeed smooth the way in the Brazilian Market for a global player, a rather dangerous global player with a strong currency.

I do think the successful formula of Marcel will also work in the merged company, as he stated the strategy of both companies is similar. There is only the need for more focus on the execution of the strategy.

Strategic

The possibility of a merger cannot be investigated as an isolated item. It has to be framed in a wider strategic view. What is the move after this? If indeed the merger will happen or Antarctica would “disappear” either way Brahma could have 75% of the Brazilian beer market within their control. This leaves them only a few possibilities to grow. They could develop their soft-drink market (see Pepsi) or they could grow outside the Brazilian borders. If the target of Brahma is to grow further in the non-domestic market, merging with Antarctica could be interesting to enable a further increase in volume.

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Appendix 1: timeline

