

## Brahma versus Antarctica: Reversal of fortune in Brazil's beer market

*Efficiency and low costs are the best insurance you can have in a turbulent environment. We always say that when the storm comes and everyone else is drowning, we want to hold our breath longer. If everyone else drowns in three minutes, we want to be able to survive two minutes longer. Operational efficiency lets you do that. We have to hammer and hammer on cost savings and efficiency all the time. Sometimes when the business is going great, people start looking at you and ask why are we pushing for so much hardship? The answer is simple. This is our insurance for unexpected things in really hard times.*

Marcel Telles, Chairman and CEO, Companhia Cervejaria Brahma

It was June 1999 and Marcel Telles, Chairman and Chief Executive Officer of Companhia Cervejaria Brahma (Brahma) – the largest brewer in Brazil – was caught in traffic in downtown São Paulo. As he peered out the window at the gridlocked cars, his thoughts turned toward a possible merger with the Antarctica Group (Antarctica), the second-largest Brazilian brewer. If the merger were to be completed, the combined firm would control over 75% of Brazil's beer market and forecast pro forma revenues of over \$2.8 billion (all financial figures reported in US dollars at exchange rates at end of year unless otherwise noted).

Telles knew that Brahma would be the dominant partner in any merger, a position that would surprise many people. For most of the preceding century, the São Paulo-based Antarctica was the largest and most successful brewer in Brazil. Until the 1990s, Antarctica generally led Brahma in terms of market share, profitability, new product introductions and management innovations, although the two brewers were roughly comparable in size.

Under Telles' leadership, however, Brahma had pulled ahead of its rival. (**Exhibits 1a-1g** provide historical financial data for the two companies). In 1999, Antarctica had \$600 million in unhedged, dollar-denominated debt on its balance sheet and faced a loan repayment of \$400 million that year (including the current portion of long-term debt). When the Brazilian currency was freed of its peg to the US dollar in early 1999, the value of the Real fell from 1.2 to 2.0 per dollar, increasing Antarctica's effective debt burden by two-thirds – beyond the company's ability to pay.

As Telles nudged ahead through traffic, he pondered the advantages and disadvantages of a potential merger. On the one hand, he realised that a merger between Brazil's two largest brewers would create a company with sufficient scale to compete with global leaders such as Anheuser-Busch and Heineken. Moreover, if Brahma did not merge with Antarctica, Telles believed that one of the global leaders would, leaving Brahma in a tenuous position in its home market. On the other hand, Telles knew that most large mergers failed to achieve their

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Professor Donald N. Sull prepared this case study with Martin Escobari of Orange Advisory. London Business School cases are developed solely as the basis for class discussion and are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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