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EUROPEAN BUSINESS NEWS

AB InBev Suppliers Feel Squeeze

Smaller Companies Complain of Brewing Behemoth's Newfound Muscle

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BRUSSELS -- Suppliers are feeling the pressure of doing business with Anheuser-Busch InBev NV, as the brewing giant tries to negotiate new contract terms as part of a cost-cutting effort to help pay for last year's purchase of Anheuser-Busch.

Those efforts are crucial to help AB InBev pay down its debt of about €40 billion ($52.89 billion) -- most of it taken on last year to buy Anheuser-Busch -- and minimize its substantial interest payments. The company aims to cut $2.25 billion in annual costs by 2011.

Holding about a quarter of the global brewing market with heavyweight brands such as Budweiser and Stella Artois, AB InBev is expected to wield new power over suppliers. The brewer said in March that it expects to save $110 million this year just from "procurement scale" -- the advantage in buying from suppliers that arises from its bigger size.

But AB InBev's hard-charging style has sparked a backlash from some suppliers, who say the company is using its size to muscle much smaller companies into accepting its terms. Some also complain that AB InBev's new management, led by Carlos Brito, has upended the long-standing relationships they had with Anheuser Busch.

"All of our members have seen huge changes since InBev took over AB," said Ruth Evans, chief executive of the U.K.-based Brewing, Food & Beverage Industry Suppliers Association.

In January, AB InBev told suppliers world-wide of a new policy: Payment for


InBev bought Anheuser-Busch, whose St. Louis brewery is above, last year. *ASSOCIATED PRESS*

goods can occur as late as 120 days after AB InBev gets an invoice from a supplier. Existing contracts call for payment in as little as 30 days, suppliers said.

While AB InBev has said it wants to help its suppliers transition to the new system, "we may have to consider an alternative supplier if the revised standard terms and conditions of payments would not suit the current supplier," the brewer said in an emailed statement. The move is aimed at reducing AB InBev's working-capital needs, analysts said. If the brewer can more closely align its payments to suppliers with the cash coming in from sales, it can reduce the cash it needs to operate the business, a major benefit amid the current financial crisis, when short-term financing is expensive.

InBev took on average about 60 days to pay suppliers, according to ING analyst Gerard Rijk, while Anheuser-Busch took even less time to pay. Extending average payment by an additional 30 days could free up an additional €800 million in working capital, Mr. Rijk said.

Suppliers are resisting the changes. "It's unacceptable," said Elisaveta Kinsey, commercial and procurement director at MaltEurop, one of the world's largest malt producers.

Other malt producers say AB InBev is going further. German malt producer Avangard Malz, a subsidiary of Avangard Bank, and Belgium-based Boortmalt claims AB InBev is refusing to take contracted deliveries of their product.

AB InBev said the economic crisis has prompted the brewer to renegotiate contracts with its European malt suppliers. "No contract has been unilaterally canceled," AB InBev said in a statement. "They are being renegotiated to align the supply and demand reality we are facing. We are doing this while maintaining a reasonable volume with all" suppliers, the company said.

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