

# Intellectual currency rates

**Anders Hummer** is vice president of international consultancy Alectia Brew

Illustration by Sophie Alsopp



**Brewers who recognise the true value of intellectual exchange will reap bottom line benefits, explains Anders Hummer**

The current financial turbulence in the global economy is naturally having a noticeable impact on the global brewing industry. Previously, it has been a standard saying that “cash is king” but it could seem like the king has been upgraded, so the saying has changed to “cash is god.”

The cost for financing investment projects has risen and the simple availability of cash has been reduced with the consequence of an increased focus on current operating conditions. When it is windy some people build wind breaks, others build wind mills and unfortunately some are forced to go fly a kite.

Nevertheless, the only currency which is not being devalued during a financial downturn is intellectual currency, which is being traded globally. The importance of continuously developing the intellectual currency system cannot be overstated: some of the strongest levers for this could be by amalgamating various facets of international brewing competence in conjunction with competences from outside the brewing industry. The winners in the brewing industry today are those who are troubled by a fear of not being up-to-date, and who speculate upon what can be learned from other industries.

Some years ago, I was in close contact with about 20 procurement managers from large brewing groups who all believed that they were the best and achieving the best prices in the industry. It goes without saying that only one could be the best, and therefore 19 were wrong. Personally, I would put my money on the one who was most in doubt whether he was best and was therefore observing all parameters around him.

As a generalisation, as global industry consolidation continues and multinational players grow in size,

these groups will, either by force of circumstance or by design, look inwards. Initially there are ideas to exchange, process variations to note and consider. After all, for example, you as a Western European-based brewer may suddenly have access to new counterparts in distant lands, be in South America, Southeast Asia, or South Africa.

Multinational groups will develop a new culture all their own: there are systems to harmonise and best production practices to agree, and then implement. So far, so good, but at some point there are decreasing returns on the intellectual exchange rate within brewing groups. The biggest threat is the risk that success leads towards inward looking contentment and complacency. The demand for this particular currency will disappear, with a drop in value as a natural consequence.

The best in class brewers, then, will be those that also continue to interact with their peers, at well-established international conferences, and at trade shows, the latter with the adding bonus of insights on offer from suppliers, with their product and service innovations increasingly important as brewers strip out centralised support service costs.

## **Predicting the winners**

The breweries who take advantage of the current situation by increasing focus on new operating procedures and technologies will for sure be the winners when the weather has stabilised. By combining the accumulated industry technical know-how with robust financial arguments, breweries should be able to contribute value growth of their companies which could exceed the budgeted expectations to profit contribution deriving from volume growth. In this way those breweries

will be able to deliver at least the budgeted profit expected for the next fiscal year.

Experience of focussing on all costs that can be ‘compressed’ – normally characterised as all production costs minus the raw and packaging material costs, adjusted for costs related to material losses – shows that compressible costs can be reduced by 20-25% over a short period of time.

This is often achieved by creating a window where all internal ideas are blended with global best practise, with all opportunities being carefully discussed, financially analysed, and lastly prioritised according to the difficulty of implementation. The excellence in combining different types of competences is of paramount importance when looking for drivers that can support a strong compression of operating costs in combination with an open attitude to accept changes to yesterday’s best practises.

In the brewing industry where intellectual currency is being traded, the request for know how regarding sustainability is often on the lips of the active traders, who may not be in a position to specify their perspective in greater detail. It seems that sustainability know-how regarding how various energy systems impact on operating costs in combination with raw water, treated-water and waste-water, could be the essence of these sustainability discussions.

I personally believe that breweries who combine the focus areas mentioned above with aspects relating to health and safety conditions will become role models for other brewery groups. The exchange rate for intellectual currency is being optimised when it is protected by cross-functional competences based upon a strong platform for social responsibility.