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The Things Suppliers Do to Build *and Destroy* Value

By Lamont Seckman

The market for beer products is developed through a combination of push and pull marketing strategies. Many of the "*push*" activities are provided by distributors and retailers. In contrast, suppliers provide most of the "pull." In the broadest sense, another way of looking at this concept is to think of "push" as primarily sales while "pull" is primarily marketing.

And in this respect, suppliers must really be given their due. Beer producers on the whole have been exceedingly successful in developing unique images and brand identifications for products which, in reality, have little inherent differentiation. Obviously, the successful implementation of "pull" strategies has significant impacts on beer brand values.

Brand value, however, is an elusive concept which is difficult to quantify. Typically, there is no attempt to even measure it until brands are bought or sold. It is during transactions at the distributor level that those of us working in the field wonder if brewery sales management undermines the efforts of its marketing brethren.

The Dilemma of Transactions

Beer producers are forced to walk a fine line when beer brands and distributor operations change hands. In such business transactions, suppliers must delicately balance their own strategic interests in the outcomes with the not-so-quaint idea that distributor owners should be able to sell assets into a free and open marketplace. Unfortunately, in many cases, these concepts seem mutually exclusive. And while every deal is certainly unique, proposed transactions going against the gram of supplier sales management pose the most challenges.

It should be of no surprise that consolidation fever has produced transactions unpalatable to brewery strategists. While enthusiasm for consolidation has been created in part by suppliers wishing to manage fewer distributors, it is also fueled by the economic realities of a low-growth industry with declining margins. The economic realities of many markets and the ongoing dynamic of free and fair negotiations between independent business people result in solutions contrary to the desires of brewery sales management.

There are no easy answers to address the inherent conflict between a supplier's strategic interest in an outcome and a seller's objective of value maximization. One can hypothetically identify with both positions.

After working almost an entire lifetime to build a business or investing good money to develop a brand, an owner is surely entitled to optimal returns. On the other hand, a change in ownership is one of the few times suppliers have significant leverage to positively impact a market in a lasting way.

Supplier Actions Reducing Value

Unfortunately, I believe the actions of many brewery personnel only exacerbate this natural conflict, resulting in a slowing of consolidation activity and an erosion of brand value. In recent transactions I have experienced brewery representatives who:

1. Refuse to meet with or talk to qualified buyers who have executed letters of intent with sellers.

2. Disapprove transactions without reading the buyer's application or market plan or discussing the transaction with the seller. (In one example, a deal was vetoed supposedly due to inadequacies in the buyer's market plan. It was later discovered the plan had been lost in the brewery bureaucracy before anyone in sales management had seen it.)

3. Do not return or are particularly slow in returning phone calls concerning proposed transactions.

4. Tell sellers they have only one buyer and must accept the price offered.

5. Encourage distributor owners to sell real estate without having an appraisal.

6. Encourage distributors to avoid seeking outside financial expertise to review deals they have proposed.

7. Continue to promise assistance in locating buyers without exerting any apparent effort to do so.

8. Refuse to put verbal promises in writing.

9. Believe distributors should subsidize unprofitable territories with their current, profitable operations.

10. Discourage potential buyers by questioning their approvability or merely dragging out the approval process.

Some transactions have fallen apart simply due to frustration with the length and process of brewery approval. Surely, owners deserve better from their business partners of so many years.

Summary

To successfully address the dilemma created by the transaction process, suppliers and distributors need to be sensitive to the concerns of each other.

Unfulfilled promises, unreturned phone calls, lost documents, and made-up excuses to justify slow or no progress reduce supplier credibility in the process. This behavior also limits suppliers' abilities to consolidate their distribution systems and erodes their brand values. After all, why would a prudent businessman choose to invest in the brands of a company whose dog apparently eats its homework?

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