



*Anthony Ruys is Chairman of the Executive Board of Heineken, one of the largest brewers worldwide. Headquartered in The Netherlands, Heineken operates in over 170 countries, employs around 60,000 people, and produces over 109 million hectoliters of beer annually. Its main international brands are Heineken and Amstel.*

*Net sales in 2003 were 9.3 billion euros, which is 9.1 percent higher than in 2002. Organic growth accounted for 5 percent of that total growth. Net income in 2003 was 806 million euros, which is 1.4 percent higher than in 2002. Organic growth in net income was 7 percent. Between 1996 and 2002, net income grew at an average rate of 13 percent per annum.*

*Anthony Ruys started his career within Heineken in 1993 as a member of the Executive Board. He became Vice Chairman in 1996. He has been Chairman of the Executive Board since April 25th, 2002.*

*He is a member of the Supervisory Board of Robeco Groep N.V., Gtech Holdings Corporation, Sara Lee/DE International B.V., and several non-profit organisations.*

*Before joining Heineken, Anthony Ruys worked at several companies of the Unilever group, where he started his career in 1974. He held positions in Colombia, Italy and The Netherlands. In his latest position at Unilever, he was Senior Regional Manager Food Executive within the North Europe Region.*

*Anthony Ruys holds a Commercial Law degree from the University of Utrecht. He also attended the AMP Postgraduate Course at Harvard Business School.*

*Anthony Ruys is married, and has two sons.*



## Smart Growth at Heineken – Managing a Global Brand for Local Relevance

*Anthony Ruys talks to Hans Smits*

**Smits:** When we set up this interview a few weeks ago, we could not foresee that on this very day Interbrew and Ambev would announce their intention to merge and create the world's largest brewer in volume terms ...

**Ruys:** Oh, it is not really a surprise. You could see it coming. For one thing, it is a logical and courageous move, even though I cannot fathom all the synergies yet. Also, Ambev generates a lot of cash. Therefore, much depends on the price you pay. At the end of the day, it is all about value creation. As in any acquisition, the jury is out.

**Smits:** How important a role do acquisitions play in Heineken's growth strategy?

**Ruys:** For Heineken, autonomous growth is much more important than growth by acquisition. We are convinced that autonomous growth is a much better guarantor of sustained profitability. What drives our growth strategy is the power of our brand. If you know how to appeal to your consumers, the brand has limitless potential.

**Smits:** But Heineken is not shying away from acquisitions altogether?

**Ruys:** Of course we make acquisitions when they are strategic. A strategic acquisition can be one which gives you real leadership in one or more countries simultaneously. If you already have a healthy export position in a market, and you get the chance of buying the number one on that market, and that number one has a brand that is also healthy in its own right, that's a smart acquisition. That's what we have done in Spain, Italy, Poland. Well-fitting add-on acquisitions that strengthen our regional position can also be strategic. For example, we managed to buy within the space of a few weeks one company in Lebanon and another one in Egypt. Combined with our import position in the Gulf states, they gave us a stronghold for the entire region. And finally, of course, we have the large strategic acquisitions, such as that of BBAG,

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that give you the opportunity to become the number one in eight out of thirteen central European countries. No one ever cast doubt on the strategic rationale of that acquisition.

**Smits:** In a number of global industries – pharmaceuticals for example – we hear a growing number of CEOs wonder whether there is a size beyond which it no longer makes sense to grow even bigger. In other words, that there may well be an optimal company size. Are there such “limits to growth” in the beer business?

**Ruys:** Very fair question. But if you manage two things well, you can go a long way. First, if you keep your ear close to the ground, both within the company towards young employees and outside towards consumers, there’s much you can do with a powerful brand. What it comes down to is to manage your global brand image in such a way that you offer local relevance. Secondly, in addition to keeping your ear close to the ground, you have to keep all noses in the same direction, all 60,000 of them.

**Smits:** Can you give an example of what you mean by “local relevance”?

**Ruys:** I love to spend a day, initially incognito, with a group of some 15 young adults in large cities worldwide, and brainstorm about what makes them tick. Are they in for achievement, or for enjoyment? In Shanghai, it is all about achievement, of being able to upgrade from a bicycle to a motorcycle to a first car. In Manhattan, it is all about enjoyment – achievement is the language of your grandparents; having a full day’s worth of enjoyment, that is an achievement. But jokes aside, what young adults in Manhattan find fun to talk about is a company’s social responsibility – for example, what Heineken is doing in Africa. In other words, we link our brand to the themes that set young adults in motion. We want to make the Heineken brand attractive to consumers entering into the market for alcoholic beverages at the very moment they are going to determine their portfolio. We want to do that in a responsible way. Our employees too are proud of how we go about corporate responsibility. Finding

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novel ways of reaching out to consumers and your own people is an important way of being innovative.

**Smits:** How important a role does innovation play in Heineken's growth strategy?

**Ruys:** It is crucial, because innovation relates not only to products, but also to systems, processes, consumer approaches, training opportunities. Renewing the taste of your product, that's not innovation, because it's over quickly. Real innovation is about achieving a breakthrough in the minds of your customers. In addition, innovation unites many people behind an exciting common undertaking. What a difference to just being a "boring brewer" supplying the bar around the corner!

**Smits:** Can you give an example of such "breakthrough in the minds of consumers"?

**Ruys:** I'll give you two. The first one was launched just three weeks ago: the BeerTender. It is an appliance that allows consumers to experience a high-quality draught beer, fresh and cool, at home. We co-created it with Groupe SEB (Krupps). It looks simple but it is an ingenious system that we reckon is the greatest innovation for home-drinkers since the invention of the famous bottle. It is a treasure of hidden innovations in packaging, cooling and cleaning. Its development took us seven years – longer than we wanted – but it's real rocket science.

**Smits:** And the second breakthrough?

**Ruys:** That one has little to do with rocket science, but is equally exciting – it's all about getting in touch with consumers in novel ways. In The Netherlands we launched together with media company Endemol our own TV programme called Sixpack, which is broadcasted only after 12 o'clock at night. It very much targets young adults, and within that segment it is extra-ordinarily popular. It's real fun, it's creative, it's Heineken.

**Smits:** In other words, the Heineken beer is a lifestyle product?

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**Ruys:** Of course it is. Look, until a couple of years ago, there were two types of Heineken beer on the UK market. The one was the real premium Heineken beer that is brewed in The Netherlands and sold worldwide. The other one was sold in license. As soon as we could, we pulled the latter off the market. All brewers worldwide asked us in disbelief: “But how can you just scrap 1.5 million hectoliters off your volume?”. Well, we do, because there can be only one premium Heineken beer. I told people we wouldn’t make much of a profit in the UK in the following five years, but that’s the price worth paying. We are proud of the Heineken brand because it is by far the biggest international premium beer brand. It took us over a 100 years to earn this position. It lends us the power and credibility to continue on our growth path, also vis à vis potential partners.

**Smits:** How important a role do partnerships play in Heineken’s growth strategy?

**Ruys:** In China we’re doing business with a healthy partner in the Guangdong province. We found each other as a result of the strength of the Heineken brand. Our partner was interested in upgrading their portfolio through Heineken. So, partnerships are important to us. But you need to handle them with care. You should know when you give others a say over your brand, and when you don’t.

**Smits:** What about growth by broadening laterally into other product areas, or going downstream into distribution?

**Ruys:** We are playing with some ideas there. One could imagine giving licenses to apparel makers. The purpose would not primarily be to make money from such paraphernalia but to contribute to the beer brand image. Again, we would have to apply very strict rules that guarantee that ultimately it is us who determine how the brand is perceived by the public. In terms of forward integration, there are a number of countries where we do have distribution companies that leave the physical part to local transporters in which we may have a share. Even

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if we are not a 100 percent shareholder, it is a way for us to stay in touch with the market and the consumer.

**Smits:** What about ventures? Do they provide a growth platform?

**Ruys:** We are still in the orientation phase there. Corporate ventures could be a way to accelerate a business. For example, in Egypt we have a soft-drinks business that produces some kind of malted drink combined with fruit juices. It is a hugely successful business in Egypt that could be a springboard for international expansion, especially in Muslim countries. To that purpose, we could imagine setting up a joint venture with its management, in which we would have to strike a balance between giving incentives and ensuring control. Both we and they have to get used to that balancing act. Profitability and reporting structures are important to us.

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**Smits:** You were mentioning soft-drinks. Aren't they threatening Heineken's growth potential?

**Ruys:** The total portfolio of beverages that is reaching the consumer will always grow. There is continuous renewal, be it low-carb, on a yogurt basis, you name it. And yes, that may take a certain part out of the beer market as a whole. But we don't feel it in the premium segment, which keeps growing. Even in the so-called mature European market, we enjoy double digit growth rates in a number of large countries. For example, in Spain we grew by 12 percent last year.

**Smits:** So far we have spoken mostly about external aspects of growth. But you also referred a couple of times to internal aspects, such as reaching out to young employees. What role do these play in your growth strategy?

**Ruys:** Of the most important factors that we closely monitor within the Executive Board, we have already discussed three: organic growth, Heineken's reputation, and regional strategic acquisitions. Two other ones are equally important. First, it's the consistency and reliability of our policies. The second success factor, which is harder to

manage, is a culture of open entrepreneurship, of an open society, of accessibility, of giving space to people to try out new things, and letting them make mistakes.

**Smits:** Heineken has always been famous for its management development systems.

**Ruys:** You're right but I must admit that we haven't been working as hard on that lately as some other global leading companies have. As part of our ongoing change programme, we are now introducing a 360 degrees evaluation process. This was an absolute taboo. That's why we started with it at the Executive Board level. I can assure you that that sends a strong signal throughout the organisation. We are now cascading it down in a responsible way. Our Heineken University plays a similar role. This morning I was with some 35 people from all over the company who have been with Heineken for some 6 years. If at the end of such session, one of the people asks me: "What do you find you should have learnt by the end of the year?", then I think we are getting there in terms of openness. Or if I can get them to send me an e-mail whenever they really have something – and are surprised to get an answer on top – then I am making real progress.

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### Heineken's Values and Principles

We abide by a number of governing business principles and three core values – respect and enjoyment and passion for quality – that reflect our passion for beer and our respect for our employees, business partners, customers, shareholders and all others who are connected to our company.

#### Respect

Respect for individuals, society and the environment is essential for sustainable business growth. As a brewer, we advocate a policy of responsible alcohol consumption, both for our customers and our employees. As part of local

communities around the world, we cherish a corporate culture that embraces diversity and a business approach that honours local laws and regulations. Recognising that rigorous environmental accountability is essential to our future success, we have implemented programmes to address three key areas of environmental concern: water, waste and energy management.

#### Enjoyment

Beer is all about enjoyment and for us, the social experience is inseparable from the beer. We sponsor music, sport, art and other com-

**Smits:** You have been at the helm of Heineken for two years now. Of all the changes and achievements realised in this period, which are you proudest of?

**Ruys:** My appointment as Chairman was announced to me in a board meeting in the early afternoon of September 11th, 2001. Upon the customary congratulations, I was asked: “But you won’t be changing things too much, will you?” Literally seconds later, someone entered the room, with a panicky face, saying that the Twin Towers had just collapsed. At that very moment, I realised the entire world had changed. You ask yourself: “What should I change, what can I contribute, where should I start?” What I think we have done pretty well since then is to keep both the company and the brand young, and to do that in a responsible way. Contributing in all kinds of ways to the development of those three things – the company, the brand, in a responsible way – and standing by it, that’s what I am most proud of.

*Hans Smits  
... is the Director in  
charge of Arthur D.  
Little's operations in  
The Netherlands.*

**Smits:** Thony, thank you so much for sharing your insights about smart growth with us and our readers. If I may say so, they are real fresh and cool, just like a Heineken!

mercial events because we think they are great ways for people to come together and enjoy themselves. We also try to positively express ourselves and our values in the media, workplace, and in public life.

#### **Passion for quality**

Our business only works if we make great beer, but quality at Heineken goes beyond the products. It touches everything we do, extending, for example, to our social policy and to the significant investment we make in our employees.

#### **Business principles**

We try to impose trends rather than passively accepting, and suffering, from them. We've identified fifteen themes in a worldwide programme on social accountability including anti-corruption, child labour, employee representation, sexual harassment and non-discrimination. We also have special programmes on HIV/AIDS and responsible alcohol consumption. Since 1999, we've been requiring all of our operating companies to develop these programmes in phases as an integral part of their activities.