



July 12, 2008

St. Louis economy faces change

By Tim Logan

ST. LOUIS POST-DISPATCH

Anheuser-Busch draws a lot of water in this town.

So how would St. Louis fare with a new hand at the tap?

The economic impact of the increasingly likely purchase of this city's iconic brewer by Belgian firm InBev would take a long time to shake out. But it would be substantial, several analysts said Friday.

From McDonnell Douglas to A.G. Edwards, the list of big St. Louis names that have been bought out in recent years is long. And the region hasn't always been a loser.

In some cases, like TWA, the deal was followed by massive job cuts as the newly merged company struggled to stay afloat. But in others, like the purchase of Ralston Purina by Nestle, S.A., the impact was relatively small.

An InBev-Anheuser merger would link up two relatively healthy companies with little overlap in their markets. That could mean a gentle transition, which would be welcome in a town where A-B employs some 6,000 people full time and pays more than \$500 million in wages.

But in any merger, "efficiencies" are key. And InBev is renowned for its efficiency.

While pitching the deal in recent weeks, InBev chief executive Carlos Brito has said that he is "committed to the city of St. Louis" and that changes here would be minimal. Given his company's light presence in the United States, that would make sense, industry analysts say. InBev would need a North American headquarters, and St. Louis is a logical choice.

That would position the city well, said Glenn MacDonald, an economics professor at Washington University.

"You're taking two industry leaders here and trying to create a real beer juggernaut," he said. "This fundamentally could be a very good thing."

Others are skeptical.

In a letter this week to Brito, Jack Cipriani, who heads the beverage workers division of the International Brotherhood of Teamsters, states that to make the deal work in a tough economy, InBev would have to cut costs either in marketing or staffing. He suspects staffing would get the ax.

"We are concerned that InBev's intention to maintain A-B's existing core infrastructure could be short-lived," Cipriani wrote.

Those cost pressures would grow more sharply if InBev pays a higher price for A-B. A deal at \$70 a share, instead of the first offer of \$65, would add roughly \$3.5 billion to the original \$47.5 billion tab. That's money InBev would have to recoup through better sales or lower costs.

SLASHING LABATT

InBev has shown willingness to cut before.

After the InBev-creating merger of Belgian Interbrew and Brazilian AmBev in 2004, Brito headed up the company's North American operations from Toronto, home of Canadian brewing giant Labatt. In his time there, he closed a brewery and laid off 20 percent of Labatt's white-collar work force. Then he was promoted to run the whole company.

Labatt and Anheuser-Busch, of course, are different circumstances. But this merger would definitely have an impact here, said Don Phares, professor emeritus of economics at the University of Missouri—St. Louis.

"The odds that the effect is going to be negative are very high," Phares said. "I just don't see any way around that."

It's unlikely, Phares said, that InBev would keep a headquarters operation in St. Louis at the scale that A-B does today. That would mean fewer well-paying professional jobs. It's also possible that InBev would eventually cut back on brewing here, eliminating blue-collar jobs, too.

The region would have to work to keep those skilled workers, and help them find opportunities in faster-growing fields, said Bob Lewis an economic development consultant and president of Development Strategies in St. Louis. They're the kind of people who start companies and help others grow.

"We want those people to stay," Lewis said. "The economy is people, anyway."

To create jobs for those people, both Lewis and Phares said, the region needs to focus on growth industries where it is strong: health care, biotechnology, financial services, transportation. There's more opportunity there than in mature industries like manufacturing, or beer.

"The global economy is changing, and in some cases we're going to get hit on the bad side of it," Phares said. "We've got to flip it around and say, 'What are our strengths and in what areas do we have a competitive advantage?'"

A merged InBev-Anheuser would still be a part of that, said Patrick McKeenan, executive director of the Leadership Council Southwestern Illinois. It would be the kind of company that's well-equipped to compete in a global economy, and it would almost definitely have a large presence in St. Louis. The region's leaders should focus on making that presence as large as they can, he said.

"It's definitely incumbent upon the mayor and other public officials to work very closely with the incoming owners," McKeenan said. "Go on the offensive, instead of trying to be defensive."