Interview with Jean-Francois van Boxmeer

Christine Tan
Welcome to Managing Asia. I’m Christine Tan. It was a battle royale of a year, all for this! Asia Pacific Breweries, one of the biggest in Asia and the company behind Singapore’s Tiger Beer. Today we speak to the man who was at the centre of the fight, Jean-Francois van Boxmeer, of Heineken. The CEO of Heineken and his managers have plenty to celebrate, having won an intense fight for full control of Asia Pacific Breweries, the biggest brewer in South East Asia. Jean-Francois van Boxmeer was also behind the Dutch beer giant’s high profile accusations of UK’s Scottish & Newcastle and Mexico’s FEMSA in recent years, in the race to brew up an even bigger Goliath.

Jean-Francois van Boxmeer
Asia for our industry is the future because you multiply demographic growth, economic growth, high urbanisation rates and so on.

Christine Tan
What do you like here in Asia? What do you see that looks promising to you?

Jean-Francois van Boxmeer
The dynamism I would say, the fact that people take their destiny at hand and they do something with it, that is what is very much impressive for us.

Christine Tan
Van Boxmeer will be working more closely with APB’s boss Roland Pirmez, to bolster its presence in Asia Pacific. For a start, it is pumping twenty million Singapore dollars to upgrade this plant in Singapore. The world’s third biggest brewer has been turning to emerging markets for growth and control over APB will give it full access to 30 breweries and some of the fastest growing beer markets in Asia, which will help to offset the sluggish growth back in Europe.

Jean-Francois van Boxmeer
The Eurozone is not so much plagued by economic depression and all of these problems, which affect us of course, but more fundamentally it’s a demographic problem; we have no demographic growth in Europe.

Christine Tan
In an industry where bigger is perceived to be better, where the wave of consolidation continues, the stakes are getting higher. Its biggest rivals, Anheuser-Busch InBev and SABMiller have also been stepping up the game in Asia but analysts say APB and its brands will give Heineken a shot in the arm in developing markets, although the acquisition didn’t come cheap.

You spent two months this year in an intense battle to gain control of Asia Pacific Breweries, all APB, was it stressful? Are you relieved it’s over?

Jean-Francois van Boxmeer
Well, I guess the answer on both of your questions is yes, it has been stressful at some times and I am relieved that it is over but essentially we are very happy of the outcome. For us it is fantastic to be able to integrate APB today within the Heineken company. You have to realise that before the takeover of APB, the amount of profits that was coming out of Asia accounted for roughly about 6% for our company and now is close to 17% after the takeover of APB. That just underlines the importance of Asia for us going forward.
Christine Tan
How stressful were the two months?

Jean-Francois van Boxmeer
Quite stressful at times.

Christine Tan
Did you get any sleep!?

Jean-Francois van Boxmeer
A little, obviously - because of the difference of the time zones, obviously when Singapore wakes up, it’s still two o’clock in the morning in Europe and a lot of times I was called up very early in the morning when I was in Europe for sure.

Christine Tan
You didn’t have much of a summer vacation, I heard.

Jean-Francois van Boxmeer
No, I didn’t, but I didn’t regret any moment of it. Seeing the outcome, I think it was worthwhile I crossed out the holidays - with the blessings of my family obviously!

Christine Tan
You had to jostle with Thai billionaire Charoen Sirivadhanabhakdi, to gain control of Asia Pacific Breweries and there were so many twists and turns that one analyst even described it as a ‘Tom Clancy spy novel’. Did you ever imagine things would get so messy and so complicated?

Jean-Francois van Boxmeer
Well, they were at times complicated for the public to understand. I think the battle was not so much about the control of APB. Nobody else than ourselves could have taken over the control and the full control of APB. The matter was whether Charoen will be able to take the control of Fraser & Neave and hence becoming the partner of Heineken for the larger Asia Pacific region; whilst our desire was to take our destiny in Asia into our full hands and seeing, I would say, the prospects of the future here in Asia for us.

Christine Tan
What was it like dealing with the Thais?

Jean-Francois van Boxmeer
I mean, we had some dealings but most of the dealings went through financial offers – we did our offer, the Thai party did its offer and I think that the outcome has been the outcome we all know, except that at the end of the day we have been successful in offering for APB in full, at the price of 53 Singapore dollars per share.

Christine Tan
You make it sound so easy but behind the scenes how hostile did it get?

Jean-Francois van Boxmeer
I think that all deals have moments of tensions obviously and this one is in so far special because it entails dealing with the partner Fraser & Neave, with which we have been associated for over 80 years. So that made it perhaps at some times delicate but with all respect of what we have been creating together in the past, building APB into really a champion here in Asia and certainly a market leader in South East Asia, I don’t regret every moment spent in the summer but I think it was time for us to take our destiny back into our hands and paying to all shareholders of APB, money wise, the recognition of the value that we have been creating so far.

Christine Tan
During those two months did it ever get to a point that you thought you might be close to losing the deal?
Jean-Francois van Boxmeer
Look, I had only one thing in mind, it's to get this thing done and I think that is what you have to be focused on and you come through moments of ups and down obviously (it's always like that) but I think you have to stay focused on the outcome and having it clear for yourself where you want to go and I think that is what you have to do.

Christine Tan
Was there a tipping point, were you prepared to walk away from the 81 Euro partnership, taking your brands with you and destroying value for both sides? Were you prepared to trigger the so-called nuclear option?

Jean-Francois van Boxmeer
Look, look, there are a lot of talks about these nuclear options. We never went so far and I think all parties are very reasonable businessmen, we all know what we are doing - after all, this is all about business and I don't think that nobody of the parties wanted to have a nuclear war, as you were calling it.

Christine Tan
So that thought never crossed your mind? Did you even consider outbidding the Thais for the whole of F&N, was that even an option for you?

Jean-Francois van Boxmeer
Of course theoretically it's an option but I will not dwell into all the options we had at that time. We have pursued a route, which interested us was APB and we have been, I would say, very determined in pursuing that route and making that one successful in its outcome.

Christine Tan
Still, analysts say you paid a hefty price for APB. You don’t think you overpaid for the deal? You think APB’s worth every penny?

Jean-Francois van Boxmeer
We paid the full price but I think we paid every dollar worth of it, certainly if we look at the long term prospects that APB offers to the Heineken Group. In the territories it occupies 14 markets today, where in most markets we have leadership positions but also the prospective of the Tiger brand in Asia but also out of Asia, inside the Heineken Group, I think that all these elements together justify the value we have paid for it.

Christine Tan
Do you think you could have won better if you had moved sooner? For instance, you had plenty of opportunity in 2010, when Japanese brewer, Kirin, bought into F&N, why didn't alarm bells ring then?

Jean-Francois van Boxmeer
I understand fully your question but I won't reply to things that happened in the past and things that were discussed eventually in board rooms and so I’m not going to re-write the history; the history went as it went and we have seized at the moment this year to move and take back APB and integrate APB and integrate APB in Heineken.

Christine Tan
The acquisition has stretched your debt ratio to above 3%, way above what you would like it to be, at 2.5%. What are your plans to bring this ratio back to your desired target? How long will it take?

Jean-Francois van Boxmeer
We have, for somewhere between one and a half and two years, we have been showing that in the past how we leverage our indebtedness rate from 3/3.2/3.3 times EBITDA, back to below the 2/2.5 times EBITDA. We have done it after the acquisition of Mexico back in 2010, we have done it after the acquisition in 2008, of Scottish & Newcastle. So we are very disciplined in our cash management, as to bring back our indebtedness levels to the desired level. Seeing that we have a credit rating which is standing at a Triple B Plus and we’d like to be serious about conserving that in the longer term.

Christine Tan
What sort of timeframe are you looking at to bring this debt ratio down?
Jean-Francois van Boxmeer
Again, it’s shorter than two years’ time.

Christine Tan
In the meantime, during those two years, does that mean you’re out of the consolidation game for now? Are you going to stay cautious?

Jean-Francois van Boxmeer
Never say never but we are very much tuned to making APB work. I have a very successful formula - it’s when you have done an acquisition, you have to be very much concentrated on creating the value with the acquisition you’ve just made and that is exactly what we are going to do with APB.

Christine Tan
And how will you create that value?

Jean-Francois van Boxmeer
Now, the value is created essentially through people and brands and we try to leverage better our portfolio of premium brands because they deliver an over-proportionate part of profitability to our companies and sometimes, using the platforms, we have to penetrate new markets from there.

Christine Tan
As you integrate APB, will any jobs be lost? Are you going to change the management?

Jean-Francois van Boxmeer
Not a lot. Management changes in APB have been announced already, two weeks ago, they are fairly minute. I think we can build on a fantastic team, very entrepreneurial, very determined and I’m glad that they all stay on board and that we continue the adventure together.

Christine Tan
It’s interesting you mentioned Tiger because there are some concerns here in Singapore that the Tiger brand might be diluted now that it’s under your control. Just how important is Tiger to Heineken?

Jean-Francois van Boxmeer
We’ll make the Tiger roar, I tell you! I think it’s a superb brand, which not only has potential in Asia (as it is showing with APB) but also outside of Asia, in other parts of the world. Heineken is present everywhere in the world, it has distribution and sales capabilities in many, many countries. We are, with the Heineken brand, in 179 countries already, whereas the Tiger brand is in 76 countries - we offer kind of a perfect combination to make the Tiger brands grow also outside of Asia and I have high expectations of that.

Christine Tan
Will you give Tiger the same prominence as you would to Heineken?

Jean-Francois van Boxmeer
Sure we will. Look, Heineken was not built in 20 years’ time and it takes still a generation to build a brand within any given market and a brand like Tiger offers an opportunity being not entirely competitive to Heineken; very premium, offering a different perspective and also a different taste. We think the mileage in the coming decades for Tiger is immense.

Christine Tan
As you integrate APB, are there any acquisitions out there that you would still be interested in? What would strike your fancy?

Jean-Francois van Boxmeer
I will never come on to that. As you know, we have been growing and not only by growing our brands and organically but also by doing acquisitions but in advance we would never comment on future opportunities obviously.
Christine Tan
Now that you have APB fully under your control, looking back at the stressful two months acquiring APB, what were some of the lessons learnt?

Jean-Francois van Boxmeer
It’s only one; it’s patience and perseverance, that’s what makes the difference.

Christine Tan
Stay with us! More with the CEO of Heineken in just a moment. Managing Asia will be right back!

Welcome back to Managing Asia, my guest today is Jean-Francois van Boxmeer, CEO of Heineken, the Dutch beer giant that won the high drama battle for Singapore’s Asia Pacific Breweries but how will it offset sluggish growth in Europe?

A third of your business is in Europe, as CEO, what’s it like operating in a region which is marred by economic recessions and high unemployment?

Jean-Francois van Boxmeer
Well, it is obviously not easy. Unemployment affects our business, budget deficits in Europe affect our business, in so far as the States are trying to recoup one part of their deficits on a business like ours because taxes on beer are very popular with finance ministers and not very popular with me. This is a phase that we have to weather now. One has consider that we are market leader in Europe, Europe is a big business for us, it is healthy - it has been so far growing, it’s perhaps the first year where we have more head-winds than in the prior years - but fundamentally what is difficult is that you don’t have a lot of perspective on the growth of the market because …

Christine Tan
There’s no clarity.

Jean-Francois van Boxmeer
… the population is not growing and when you sell beer, you have it from demographic growth essentially and I would single that factor out as one of the most difficult structural factors for our industry, all the rest, I call it ‘adaptation’, and I can also tell you that working under difficult circumstances you also create strong leaders, people who can survive in a difficult time are great and good leaders. So where Europe has difficult times it is also, for us, creating strong and resilient leaders for our business.

Christine Tan
Do you expect things to get a lot worse in the Eurozone? Is there anything on the horizon that could signal an improvement in your business in Europe?

Jean-Francois van Boxmeer
Look, I do not have a crystal ball obviously, so it’s very difficult for me …

Christine Tan
What’s your gut feel?

Jean-Francois van Boxmeer
… but I think we are in a kind of a stagnation mode for quite a long time in Europe, we have been in that stagnation point for already a number of years and, once more, we need in Europe some structural reforms, we all know, we all talk about them; they will happen, they will happen slowly because we live in democracies and those things, they take time because it requires …

Christine Tan
How much time are you talking about?

Jean-Francois van Boxmeer
… I think if we would look back one day when things will go better, that we would have been a decade into a transformational period in Europe, is my guess. But meanwhile, business will continue and we have to face a period of very, very slow growth and some years of negative growth obviously.
Christine Tan
Meanwhile, Asia continues to be your best performing region. How will you use your newly acquired joint venture with APB to grow your foot-print here in the region?

Jean-Francois van Boxmeer
Well, if you look back to how our foot-print was ten years ago, 80% of our profits was coming out of Europe and North America. Today 65% of our profits (close to) will come from the so-called emerging markets, where the demographic trends and economic trends are positive - that is Asia, Africa, the Middle East but also Latin America, all these three continents are contributing to the lion’s share of the growth of the Heineken brand - first of all because the market for beer is growing in Asia and certainly in South East Asia, where I would say the lion’s share of the business of APB’s beer category here is growing 5% (close to 5%, 4.8%) every year and in that the appetite for premium beers, like Tiger and Heineken, is even bigger, with a growth of 8/9%. So this is the business we’re in and if we look forward ten years, we can see that that growth is going to continue and therefore we would disproportionately invest into this part of the world going forward.

Christine Tan
The acquisition has given you the iconic Tiger brand and a stable of other brands, like Bintang in Indonesia, Larue in Vietnam, Anchor in Malaysia. As you build up these global brands in your portfolio, are there any concerns on your part that it could cannibalise the Heineken brand itself? Are you worried about that?

Jean-Francois van Boxmeer
I am not worried about that at all because you see that competition in the premium segment, if we have more than one brand to offer in that competition, it only fuels that segment to get higher and higher. So the cannibalisation can occur incidentally but it’s more a theoretical exercise than the reality. These brands reinforce themselves for our business.

Christine Tan
You’re not the only brewer growing drastically in Asia Pacific, your Danish rival, Carlsberg, has recently announced a joint venture with a Thai brewery. Over in Malaysia they already compete with Guinness Anchor for the number one position and in China there is talk they might be taking significant positions to increase their stake there. Do you think you can out-do Carlsberg here in Asia?

Jean-Francois van Boxmeer
Look, I never make comments directly about my competitors. I recognise Carlsberg is a fierce contender here in Asia but I think we’re a good player too. So we are used to competing with each other in these regions for a long time already, so that competition will continue I guess but I think we are very well equipped, in terms of foot-print, people and brands, to win that competition.

Christine Tan
You’re also facing stiff competition from SABMiller, Anheuser-Busch InBev and not to mention Japanese brewers, Asahi, who are keen to expand outside of Japan, as well as local brewers, like ThaiBev. How much strategising do you do on your part to get the formula right, to compete effectively?

Jean-Francois van Boxmeer
We do, of course, strategy. All companies have to prepare their strategic plan market by market and we do that also worldwide, to evaluate what the competition is doing, what we are doing and I guess they are doing the same, that’s the name of the game. So one has to accept that competition is only going to increase and that the best will win.

Christine Tan
Where do you see growth over in China. I mean, first there were concerns about a slow-down and now latest data seems to suggest that growth is stabilising in China – how do you see growth in China and how do you position yourself?

Jean-Francois van Boxmeer
China today is the largest beer market in the world, it’s close to half a billion hectare litre, so it’s big, it’s huge and, on the other hand, if you take a closer look, you will see that the profitability of the Chinese, their market, is not that high because it is plagued by solid doses of competition, rather low prices and
low returns. And when I look at the demographic developments of China, I am a little bit afraid that in 15 years or so we will face a kind of a limit to the expansion of the Chinese beer market - and I’m talking here only about the beer market for China. So we have taken the view for Heineken to concentrate on the premium end, which we see a longer development phase in, than to go in the mainstream market. Now, where that mainstream market is continuing to develop, how fast and how much it will continue to grow, I don’t know. I think it has still some legs to grow but down the line, in 15 years, the demographics in China are not so great.

Christine Tan
Stay with us. Up next we ask the CEO of Heineken about his latest splurge on James Bond and whether it was worth it! Managing Asia. We’ll be right back.

Welcome back to Managing Asia. My guest today is Jean-Francois van Boxmeer, a company man with Heineken for nearly 30 years, rising up the ranks to head up the Dutch beer giant since 2005.

Everyone’s talking about how you managed to get James Bond 007 to drink Heineken! How did you do it!? How did the opportunity come up this time?

Jean-Francois van Boxmeer
I think because James Bond likes Heineken beer, that’s the very simple and easy answer. In the original books of Ian Fleming, James Bond was drinking beer, though the brand was not specified, I have to say – so why not Heineken?

Christine Tan
Did you like how Heineken was weaved into the James Bond narrative? I mean, James Bond only drank Heineken when he was down and out - were you happy with that!?

Jean-Francois van Boxmeer
Yes. I think he was very happy and out, not down and out! But we were very happy how it was presented and portrayed because it is very close to real life.

Christine Tan
You spent something like 60 million Euros for Skyfall. How do you know that the money you spent is worth all that publicity? How do you measure the effectiveness of such an expensive campaign?

Jean-Francois van Boxmeer
I travel a lot and I have seen the campaigns in all the countries I have travelled to since the movie has been out there. James Bond is a global character, as well as Heineken is a global brand and this is where the marriage is perfect and the 60 million that you alluded to are the total budget that we allocated to that operation, which is including all the activation costs that we make in more than a hundred markets where we show also Skyfall in collaboration with Heineken. So I think it has been worthwhile, every penny. It is a win/win situation for us, as well as from James Bond.

Christine Tan
So you’re saying there was an improvement in sales as a result?

Jean-Francois van Boxmeer
Oh yes, sure, it has. It's always difficult to exactly measure what but I wouldn't envisage a life without Heineken and James Bond working together.

Christine Tan
Did you have a chance to meet Daniel Craig in person?

Jean-Francois van Boxmeer
No, I didn't and a lot of people around me had that chance but I didn't have that chance - you need to be Chief Marketing Officer to have that chance.

Christine Tan
But you're CEO! But you're CEO!
Jean-Francois van Boxmeer
When you’re Chief Executive Officer you’re not very interesting any more. But I saw the movie and I was very glad and happy to watch it - it was a very great film.

Christine Tan
On a more serious note, sir, let me ask you, now with APB (Asia Pacific Breweries) under your belt, you have a whole lot of brands, a whole lot of diverse markets that you need to manage, how will you go about managing this newly expanded group?

Jean-Francois van Boxmeer
APB offers a very strong management base to do everything we need to do today and in the future in Asia. So we have no intention to change whatsoever, just to build on. We will invest more in Asia in the years to come, obviously as we see opportunities coming to us, but we will do that from APB, out of Singapore, as we have been doing that in the past. I think we build on a very strong company and a very strong legacy and that’s a nice starting point to continue.

Christine Tan
What sort of investment are we looking at?

Jean-Francois van Boxmeer
Those will be significant demands obviously. We have to be catering for the growth of the markets and the trick is to be ahead of the curve in your investments and hence you can expect investments in Asia, going forward, to be strong.

Christine Tan
Which markets are we looking at in terms of investment?

Jean-Francois van Boxmeer
Obviously more South East Asia as a country, like New Zealand, which is more stable in its population obviously, that is true.

Christine Tan
And finally, as CEO of Heineken, now that you have APB under your belt, what does 2013 look like to you?

Jean-Francois van Boxmeer
I hope it will be bright and a good year for us.

Christine Tan
Where will your emphasis be in growing the business?

Jean-Francois van Boxmeer
Our business will grow in countries like Vietnam, Cambodia, Laos, Thailand, the exports out of Singapore, we will, I think, continue the growth pattern we have been showing so far and definitely it will be with the Heineken brands and the Tiger brands going forward.

Christine Tan
And that was Jean-Francois van Boxmeer, CEO of Heineken.

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