LABATT-FEMSA CERVEZA DEAL ALL SET

One of the more exciting deals signed in North America in recent months is the partnership between John Labatt Limited and Fomenta Economico Mexicano S.A. de C.V. (FEMSA).

Under terms of the partnership, Labatt will acquire 22 per cent of FEMSA Cerveza S.A. de C.V., a wholly-owned subsidiary of FEMSA, for U.S.$510 million, with an option to acquire an additional eight per cent within three years. The partnership will select the best portfolio of U.S. and imported beer brands for Mexico; all Labatt's Canadian, U.S. and European brands and their ice brewing technology will be available to FEMSA Cerveza.

FEMSA brands, which include *Dos Equis*, *Carta Blanca* and *Cuauhtemoc*, accounted for 48 per cent of the Mexican market in 1993. Labatt, which holds 44 per cent of the Canadian market, will distribute FEMSA Cerveza's brands throughout Canada.

Labatt and FEMSA plan to merge their U.S. operations into a specialty company in order to expand in the large, growing and profitable U.S. market for specialty beers — imports, microbrews, super premium and domestic specialties.

"We have already a good position in the super premium market in the States," says Lorne Stephenson, Vice President of Corporate Affairs at Labatt. "With this arrangement, we can become first at the top end of the market."

The deal results from an imaginative examination of the market for beer. Mexico attracted Labatt "because of the demographics," says Mr. Stephenson. He noted the youth of the population, and the growing size of a consumer class. Both Labatt and FEMSA were already in the United States, and both doing well there. Combining their efforts can only make their market share grow.

When the deal was announced a few months ago, spokespeople of both companies stressed the complementary nature of the partners teaming up. According to George Taylor, President and CEO of Labatt, FEMSA had "the most diversified and balanced portfolio of beers in one of the most attractive growth beer markets in the world." He also noted the company's high quality management team and strong proprietary distribution network. "Distribution operations are always a key determinant in entering a market," says Mr. Stephenson.

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To the table, Labatt brought its own skills in brand management, technological strengths and its Canadian brands, the latter sure to find interest in a marketplace where imports are highly regarded. According to Othon Ruiz Montemayor, CEO of FEMSA, "the fit between both companies' objectives, their focus on brewing, their similar size, their market regionality and product mix" are among the keys to a successful longterm partnership.

FEMSA and Labatt will be equally represented on a six-member FEMSA Cerveza management committee advising the CEO and Board of FEMSA Cerveza. That Board, in turn, will consist of 11 representatives of FEMSA, five of Labatt, and two outside directors. Senor Ruiz Montemayor has been invited to join Labatt's Board of Directors.

The deal begins here, ambitiously enough, but there may be various developments in the future. FEMSA is considering the subsequent public offering of equity in FEMSA Cerveza, and the partnership contemplates seeking additional strategic partners to add value to the newly created U.S. specialty company.

Both firms have interests outside brewing. Labatt's is well-known here, as it includes Labatt Communications Inc., among whose more famous enterprises are the Toronto Blue Jays and The Sports Network. In addition to its beer products, FEMSA is distributor in Mexico for the Coca-Cola family of soft drinks. The company also operates an extensive chain of convenience stores (OXXO) throughout Mexico.

Labatt already has breweries in several Caribbean islands, including Cuba and Puerto Rico. Mr. Stephenson acknowledges that the FEMSA partnership may lead the company back into South America, where it has had a brewery in the past, although it is not a priority at the moment.

Although this partnership is not a direct result of NAFTA —Labatt was sizing up the Mexican market long ago — nonetheless NAFTA "is a pleasant add-on," says Mr. Stephenson. "It didn't make this happen, but it can only help."

For the moment, Labatt will continue to distribute the products of FEMSA Cerveza in Canada, rather than brew them under licence. Any change in that situation is in the future. For the meantime, the two smaller countries of NAFTA have found an innovative way to carve themselves a larger share of the market in the biggest country. From Ottawa to Oaxaca, no doubt there are many glasses raised wishing them "Cheers" and "Salud."

After NAFTA – from page I

The NEWMEX program (see **Access**, November 1994) offers intense trade training geared specifically to Mexico with in-depth courses and trade missions focusing on specific needs and interests.

And, in September, the Canadian Business Centre in Mexico City opened its doors with its first standalone trade show. It has been busy and active since then, with many Canadian business people taking advantage of its full range of facilities for conducting business in a foreign centre, as well as holding other trade shows. (See Calendar, page IV). The Centre is going to provide a focus on Canada and on Canadian products and services. Half the battle when competing in a foreign market is to have potential customers realize that you can meet their needs; thanks to the Centre, Mexicans will know that they can look to Canadian suppliers for products they previously sought elsewhere.

Already, Canadian sales to Mexico are approaching a billion dollars — in 1993, they topped $780 million. Our imports in the same period were about $3.9 billion, and the coming years should see even greater trade flows.

Canadian direct investment in Mexico is also approaching the billion dollar mark, and more than 200 Mexican companies have some capital participation by Canadians.

Opportunities here, as anywhere, are not risk-free, but NAFTA has provided rules to deal with trade irritants. Orderly trade rules do lead to a more stable trading environment, and progress has already been made on some fronts. To cite only one example, Mexico has eased the requirements for business visas, eliminating paperwork for many Canadian business travellers.

NAFTA is, of course, not a static agreement. For many Canadian firms, Mexico is a gateway to the rest of the dynamic Latin American market. In the future, other countries from the region may accede to the Agreement. The United States had said early in the year that they saw 1994 as a year in which to consolidate the NAFTA, a sensible approach in which Canada concurred. But other nations are knocking at the door, and as their positions are examined, the climate for increased and freer trade throughout the hemisphere comes ever closer. In the meantime, the experience gained in Mexico makes the Latin American market more penetrable for Canadian firms.

The history of NAFTA will be written not in government publications but in signed contracts; how it works will be a result of the efforts of the Canadian business community. So far, it has been a good script, but it can become a blockbuster: Mexico is now in the top ten of Canadian business partners. Despite the untapped potential elsewhere in Latin America, and the continuing expansion of Canada's international trade, notably in Asia, Mexico will be an increasingly important part of our trade scenario in the years ahead.

Down to business: the first trade show at the Canadian Business Centre in Mexico City was the Tourism Sector's Conozca Canada.

ACCESS ERRATUM

*In the October issue of **Access**, we inadvertently transposed two numbers in the fax number of Bancomext in Toronto.*

*The correct number is **1-416-867-1847**.*

We sincerely apologize to all those who have been inconvenienced by this error.