

SORGHUM & CASSAVA – SAB Alternatives



SABMiller seeks to tap new markets with 'home-brew' alternative

By: [Darren Parker](#) 25th September 2009

For many Africans living outside South Africa, buying a cold beer at the end of a long day is not a realistic option, owing to the fact that industrially- produced, quality-assured beer is prohibitively expensive.

Rather than buy premium products off a shop shelf, in many sub-Saharan African countries, people make their own opaque, chunky brews from grains such as millet and sorghum, which are grown in dry areas and ground into meal.

While home brewing is a centuries-old, global practice, it has proven to be a serious health risk to those who partake. For example, in a recent incident in Nairobi, Kenya, about 128 people died overnight after drinking a home brew made by local entrepreneurs. Almost 400 people were put into hospital, many suffering blindness, after drinking the same *chang'aa* brew, which was laced with methanol, a type of alcohol used in antifreeze or as car fuel.

Although the *chang'aa* brew, otherwise known as 'kill-me-quick', has been banned in the country, it remains popular owing to its powerful inebriating effects and low price.

Many similar dangerous brews exist throughout the continent and even relatively safe home brews can easily go awry when brewed in unsanitary conditions. Hundreds of people reportedly die every year in countries like Kenya and Nigeria because of unsafe home brews, but still locals continue to produce and drink it because the alternative is beyond what they can afford.

Earlier this year, the world's second-largest brewer, SABMiller, stepped in, announcing plans to introduce more affordable beers into Africa, in the hope that the company could access the continent's home-brew market, which it estimates to be worth about \$3-billion (about R23-billion). This is almost double the \$1,6-billion (about R12-billion) that African consumers, excluding South Africa, currently spend on industrially produced beer. Low incomes limit locals' consumption to an average of 6 ℓ to 9 ℓ a year a person in most African nations, compared with South Africa, where the average consumption is about 56 ℓ a year.

"Beer is a very small part of alcohol consumption in Africa," said SAB Africa MD **Mark Bowman**. "That is our opportunity."

He said that the brewer was partly spurred into action by surging commodity prices in recent years. Cereal prices jumped 43% in 2008, according to the United Nations Food and Agriculture Organisation.

The strategy would see the brewer planning to enlist about 44 000 local farmers throughout Africa by 2011, to produce domestic crops, such as sorghum and cassava, as raw materials for beer making. These crops are already widely grown throughout the continent as staple foods and are common throughout the region. Securing African ingredients would allow the company to lower the price of beer in Africa by at least 30%, rendering it more affordable to average citizens.

By enlisting local farmers to produce some of the key raw materials used in beer production, the supply chain is significantly shortened and simplified, lowering input costs and, ultimately, the price of the final product.

"It's eminently sensible to broaden the clear beer market to include more commercially available sorghum brands," Investec analyst **Anthony Geard** says. "It creates a new market and gets the local government and community on side."

Cassava will be used initially as an adjunct to replace maize in the beer making process. It will be used purely as a source of starch and will not affect the flavour of the beverage at all. Trials of the crop are currently taking place in Ghana, while barley trials are being conducted in Zambia and Mozambique.

Like the potato, cassava is a tuber crop. No continent depends on root and tuber crops for food as much as Africa. In the humid and sub-humid areas of tropical Africa, cassava is either a primary staple food or a secondary co-staple. In Ghana, for example, cassava and yams occupy an important position in the agricultural economy and contribute about 46% of the agricultural gross domestic product.

Sorghum is a genus of numerous species of grasses, some of which are raised for grain and many of which are used as fodder plants, either cultivated or as part of a pasture. It is also widely grown throughout Africa.

Most species of sorghum can survive high temperatures and drought, rendering it a useful food crop in arid regions, as it forms a significant component of pastures in many tropical regions.

Sorghum species are an important food crop in Africa, Central America and South Asia and are rated as the fifth-most important cereal crop grown in the world by *Cambridge University Press*.

On whether food crops would be diverted into beer making, SABMiller director of technical, enterprise development and supply chain **Gerry van den Houten** says that the initiative will involve only the cultivation of new land, instead of the redirecting of existing crops away from food production.

While SABMiller's strategy could see the company benefit greatly from the untapped home-brew market, the model for its implementation is not entirely self-serving.

Through the initiative, the company hopes to allay the effects that poisonous home brews have on African society, by providing a safe alternative of assured quality at a competitive price.

"What we are trying to do is to introduce those consumers to a product that is far better quality and is part of the responsible social drinking scheme, which we will be promoting along with the product," says Van den Houten. "The social ills caused as a result of home brews are actually quite serious in a lot of countries. There is no quality control on these various home brews. The people buy them because it's bang for their buck."

Allaying concerns about whether lowering beer prices and widening beer distribution throughout Africa might inadvertently introduce a whole new portion of the population to alcohol consumption, SAB-Miller corporate media relations manager **Bianca Shevlin** says, "We are not looking to recruit new consumers into the alcohol beverage sector. We are specifically targeting those who already consume alcoholic beverages."

South African Association for Responsible Alcohol Use director and spokesperson **Adrian Venter** believes SABMiller's strategy will have a positive social effect. "Research has shown that there is little correlation between price and abuse, when it comes to alcohol consumption.

If SABMiller is able to provide a high-quality, good product at a lower price, then it would free many would-be home-brew consumers from the illegal home-brew market, which isn't always safe."

The local farmers who would be supplying the crops are already familiar with growing sorghum and cassava crops, although further education and assistance would improve their crop yields and their business acumen. Van den Houten tells *Engineering News* that the company will be implementing a programme for farmer development, nick-named the 'hub and spoke' approach, whereby a number of small subsistence farmers ('spokes') will be grouped together under the guidance of a central, larger, commercial farming hub.

"The commercial farming hub will provide about 50% of our needs, while the surrounding smallholder contingent will provide the other 50%," says Van den Houten. "The idea is that the commercial farmers in each hub will help develop the subsistence farmers through skills training and education in good agronomic practices."

He says that the long-term vision is to develop the local subsistence farmers over time into small cash-crop farmers, then into medium-size farmers and eventually into large-scale commercial farmers.

SABMiller is currently successfully operating the 'hub and spoke' model in India, where it was implemented three years ago. About 10 000 barley farmers are part of the initiative, with about ten 'hub and spoke' centres.

"We know the model works," says Van den Houten. "It's effective because we have people on the ground, who are commercial farmers that know the local conditions and are in a far better position to help the subsistence farmers than any outside entity would be."

Further, in SABMiller's favour, a local supply chain would also have tax advantages, as traditional brewing in Africa relies heavily on imported barley and malt, both subject to customs duties.

Outside South Africa, the company, which is now domiciled in London, but which has strong African ties, already has a significant presence in Tanzania, Uganda and Zambia, and is moving into Angola, in terms of barley growing.

Depending on the crop yield for the current season, which Van den Houten says is looking promising; SABMiller will be investing in a maltings facility in Tanzania to further streamline the African beer supply chain.

"We have similar initiatives on the go in Uganda but on a slightly smaller scale, and a fairly large one in Zambia," Van den Houten says, explaining that the brewer already buys crops from about 15 000 farmers in the region.

Although SABMiller's core business is beer making, not farming, it is managing the overall initiative. "We see maltings as part of our core business, but that is where we draw the line," he says.

In Uganda, SABMiller has been making Eagle, a clear sorghum beer, since 2002. It is the company's best-selling product in Uganda and has subsequently been introduced to four other African markets.

Consumers find clear beers aspirational and would choose to drink more of them if they were cheaper, Bowman says. SABMiller breweries also make opaque beer, including the Chibuku brand.

0.2A pilot project to grow cassava for brewing has begun in Angola, where SABMiller this year opens a 2,5-million-hectolitre combined brewery and soft drinks facility in the capital, Luanda. It will be SABMiller's biggest brewery in the region outside South Africa.

This and another two breweries planned for Mozambique and Tanzania will be commissioned toward the end of the year.

"These plans are not a direct result of the initiative," says Van den Houten. "We have seen growth in Africa for quite a while. From a capacity point of view, we have fallen below the curve, and so the decision came to build new breweries about two years ago."

The company has also proposed investing in State breweries in Ethiopia and may acquire more nonalcoholic businesses, such as bottled-water plants.

SABMiller's capital spending in sub-Saharan Africa will decline after the company completes some major investments, Bowman said. Spending this fiscal year will reach about 75% of the \$380-million to \$400-million spent in the 12 months ended March 31, 2010, and will be further reduced to less than \$250-million a year within a few years.

SABMiller is unlikely to make major acquisitions in the region following this year's purchase of a stake in Nigeria's Pabod Breweries. That "filled our only obvious gap", Bowman says. Pabod has since reintroduced brands such as Grand Lager and Grand Malt and may bring more to the market.

Besides its 15 clear-beer plants and ten sorghum breweries in the region, SABMiller has an interest in 19 other African nations through its venture with the privately held Castell Group of France.

Elsewhere in Africa, SABMiller has also agreed to invest \$12-million in Zimbabwe's Delta Corp and finance a new production line, raising its stake from 2,5% to about 38%. Bowman says that it is the first investment in the company's brewing activities in a decade.

Sales volumes in Zimbabwe, which has suffered ten years of recession, have begun to rise since the country agreed to use currencies such as the US dollar.

The priority for SABMiller now is to implement the home-brew strategy in a way that not only gives access to previously untapped markets, but to position itself as a preferred partner to African farmers and a trusted brand among a new group of consumers. Should it succeed, some believe the business spin-offs could be material.