Practical Experience of a Brewery
Facing the Effects of Market Globalization

By Mario O. Mazarino

Technical Manager, Cervecería y Maltería Paysandú, Uruguay.
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ABSTRACT

Cervecería y Maltería Paysandú SA (CYMPAY) is a brewing and malting company located in Uruguay, South America. The yearly production is about 300,000 hLs of beer and 90,000 tons of malt. Our beer market share is 25%. 93% of the malt is destined to export trade to Brazil and Argentina. During 1991 we began a change process to adapt our structure to new market conditions. This change process was planned around three key areas:

1. Human resources
   a. Payroll reduction by means of out-sourcing of dispensable jobs
   b. Retirement incentives
   c. Cost reduction by means of different types of salary agreements every two years.
   d. Training of existing staff and hiring of more qualified personnel.

2. Updating of installations and process:
   a. Process improvement and equipment renewal beginning in the bottling hall and filtration cellar.
   b. Joint work with an external consultant.

3. Changes in commercial and marketing policy
   a. Introduction of new beer brands
   b. Introduction of new bottle formats
   c. Joint-ventures with other breweries
   d. Relaunching of main beer brand

Keywords: human resources, updating of installations and process, commercial and marketing policy

INTRODUCTION

The purpose of this paper is to present practical experience regarding the company’s response to the market globalization phenomenon.

Cervecería y Maltería Paysandú SA (CYMPAY) is a brewing and malting company located in Uruguay, South America. Yearly production is about 300,000 hLs of beer and 90,000 tons of malt. The beer market in Uruguay is about 800,000 hLs/year.
and has been steady for the last 10 years. The beer consumption is 22 liters/year/inhabitant. Our beer market share is 25% and we export 25% of the beer production to Brazil and Argentina. Our beer brands are a) Pilsen beer b) Dark beer c) Malt beer (non-alcoholic).

The beer plant production is very traditional with a great majority of open fermentation vessels and horizontal small storage tanks. The filtration cellar and bottling hall had already been renewed.

More than 90% of the malt house production is designated for export to Brazil and Argentina, Brahma and Antarctica (AMBEV) being our most important customers. Most of this is Pilsen malt plus a small quantity Munich malt.

Both production plants share laboratories, maintenance, water and steam generation.

Eight years ago we adjusted to new market conditions, by streamlining our brewery for better quality, better appearance of the products and lower production costs.

It is important to take into account the fact that at the same time the passage to a democratic government took place, which resulted in our going from a closed market to an open market in a short period of time. Moreover, since the Uruguayan market was not growing, it was imperative that we increased our exports.

At that moment, the company situation was characterized as follows:

- Excess of personnel, many of whom were poorly educated.
- Heavy, obsolete and unmotivated structures.

For these reasons, we decided to put in practice a Total Quality Management (TQM) process.

The above mentioned process was organized applying the workshop methodology, directed by external consultants with the participation of all company’s levels and areas in the cascade shape.

The subjects dealt with were:

- Company vision, values and objectives
- Total quality concepts
- Non-quality costs
- Problem solving techniques

These workshops were carried for four years, at the rate of two each year. After each workshop, specific tasks were requested to be submitted at the next meeting.

The TQM process undertook three primary areas:

- Personnel
- Process and facilities modification
- Commercial and marketing policy.

As far as the human resources field is concerned, up to present we have followed different actions, as described below:

1. Reduction of dispensable positions by out-sourcing
2. Retirement incentives
3. Cost reductions by means of biannual salary agreements
4. Training of existing staff and hiring more qualified personnel

Reduction of work positions was carried out in the following areas:

- Personnel devoted to deadwood handling (boiler fuel)
- By going from a direct sales system to a distributors system
- Personnel devoted to general cleaning tasks

The retirement incentive policy was based on an agreement with the trade union which made retirement mandatory when the worker reached the minimum retirement age. In compensation, the company agreed to grant an extraordinary payment.

Parallel to this, an incentive retirement system was put in force, addressed to those employees who were about to be retired.

![Graph showing labor costs evolution](image1)

**FIGURE 1**

Evolution of labor costs (total payroll)

![Graph showing labor costs per worker](image2)

**FIGURE 2**

Evolution of labor costs per worker
Cost reductions by means of biannual salary agreements turned out to be immediately effective due to the Government monetary policy which generated a gap between currency devaluation and inflation. This action consisted of adjusting salaries by means of combined formulas which took into account the above mentioned factors. (see Figures 1 and 2)

The last salary agreement recently signed incorporated an innovative clause for our country — a reduction of the weekly working day.

Personnel training covered several stages:
1. Evaluating the formal educational level of all personnel and focusing the training toward remediary deficiencies.
2. Hiring teachers in order to give the workers on-site training. This amounted to 12,000 teaching hours per year.
3. Training was restricted to personnel with at least a secondary education level. The majority of the trainees had partial higher education.
4. Many of the personnel were sent to different technical schools; for example, VASSOURAS (affiliated with Doemens School - Germany) or to the Siebel Institute in the USA.
5. Intensive training was given in different areas in order to have a flexible workforce.

As a result of this process, the following accomplishments were achieved:
1. Reduction of the total payroll by 39%
2. The number of personnel with higher education increased from 13% to 29%, accompanied by a 30% reduction in personnel having only primary education (see figure 3).
3. Having a staff of workers who have graduated from technical schools distributed among the brewing department and malthouse.

With regard to the process area:
Equipment and machinery renewal
At the beginning of this process, the great majority of the plant equipment was of 1950's vintage. Equipment upgrading started with the purchase of a new beer D.E. filter followed by some new bottling-hall equipment.
As of the later part of 1999, the total renewal of the bottling line equipment was completed with the purchase of a new tunnel pasteurizer.
Brewhouse modification and automation have also taken place, enabling a substantial increase in productivity. (see figure 4)

At present, a renewal plan for the remaining production areas (fermentation and storage cellar) is being prepared.
At the beginning of 1997, we worked jointly with a brewery consultant modifying our brewing process in order to obtain further improvements in product quality. During that time, we also created and trained a taste panel. Additionally, we optimized the malting process and as a result increased output from 68,000 tons/year in 1994 to the present value of 90,000 tons/year. At the same time, we built a new storage silo facility for barley and malt with a 65,000 ton capacity. This enabled us to reduce storage costs significantly.
A project team did a detailed process survey which enabled us to determine the process weak points. These weak points were modified as significant yield improvements resulted from changing the process problem areas. Total investments during this period amounted to $14,000,000 US dollars.

With regard to the commercial area:
Elimination of direct sale and transference to independent distributors (dealers)
At the beginning of this process, beverage sales were conducted in a direct sales system which caused a great deal of
inconvenience, primarily due to the fact that the salaries of the sales workers were tied neither to the sales levels achieved nor to the time spent in sales efforts, resulting in built-in inefficiency. Additionally, at the same time, labor disputes played an important role since the democratization had replaced the dictatorial government.

The change to an independent distribution system enabled us to eliminate conflicts with workers, and improve both services rendered and competitiveness since they were not employees anymore but independent workers.

**BRAND RELAUNCHING AND INTRODUCTION OF NEW PACKAGES**

Globalization has led to the presence of imported beers in the marketplace with both good quality standards and presentation. This also brought about a changed way of marketing and doing business in general. This brought about changes in the marketplace. Consumers now demanded a higher level of information and demand situated far beyond the mere gratification caused by the beer consumption; thus demanding better packaging and availability.

As a consequence of this, two new types of bottles were introduced which, together with the relaunching of our main beer brand (Nortena), substantially improved the presentation of our products in the marketplace. (figure 5)

**FIGURE 5**

From the past three years we have entered into joint-ventures with foreign brewers where we have our beer brewed and bottled so as to be available within all the South Common Market region (MERCOSUR).

Despite the fact that the Uruguayan consumer is very traditional, there does exist some market opportunities for developing new types of beer. We have taken advantage of that situation by launching products focused to that particular market segment.

With reference to malt production, a project for the malting of specialty malts is now in the pilot plant phase.

**CONCLUSIONS**

Despite the fact that currently our main clients are the ones of bordering countries, the progress achieved throughout this process has enabled us to aspire to selling our products in other countries.

The reasons for this optimism is based on the concrete achievements we made regarding increased productivity of all segments of our business, and specifically the ISO 9002 certification obtained for our malt house at the end of 1998.

As a consequence of the above, the company’s shareholders have shared in our increased profit margins.

The main difficulties that we encountered during this process change were the ones related to the cultural changes necessary to the success of a project of this kind.

**Undoubtedly, the most difficult area to overcome was the following:**

Prior to the beginning of this process, there were already in force agreements specifying the company’s guarantee of assuring labor stability (meaning that workforce reductions due to technological changes and new equipment should not take place). It became extremely difficult for workers to understand that there were no hidden strategies behind this statement. The reason for the suspicions was based on the fact that there were similar occurrences at other companies where the results were exactly that.