



All stakeholders count: the Dutch beer industry during the First World War

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Covid-19 is first of all a health crisis, but it will also have major implications for businesses. Can lessons be learned from the past, for instance from the strategies of Dutch brewers during the First World War, 1914-1918? The Dutch brewers mitigated the uncertainties and scarcities of the war by reaching out towards their competitors and by engaging with all their stakeholders. Those strategies turned out to prepare them well for the more coordinated market economy that appeared after the war. Though not all breweries survived the war, two third of them did. Imagining how the post-Covid-19 world might look like and how your business can prepare for that new world offers a positive way of approaching the present crisis.

Introduction

Large parts of the world's population are in 'lock down' to prevent the spread of the deadly virus, Covid-19. People worry about their health and that of their loved ones. Businesses are concerned about the short- and long-term costs of this crisis. Will the world be the same when the pandemic is over? Is it possible to prepare now for what may be ahead? Are there valuable lessons to be learned from the past for today's managers? For instance, can we learn lessons from the Spanish flu that gripped large parts of the world between 1918 and 1920 and killed about 50 million people?¹ The Spanish Flu also hit the Netherlands in the years 1918-1920 and led to numerous public interventions that are also being taken today (quarantine, closure of schools, and advice on social distancing). However, in Dutch business archives we have not come across references to specific impacts on companies, probably because businesses were already so much affected by the First World War that a separate impact of the Spanish Flu was hard to distinguish. For our country it therefore makes sense to look at the impact of the First World War for studying business strategies towards crises. Although the Netherlands remained neutral, two of its neighbours, Germany and the UK, were at war with each other and the other neighbour, Belgium was occupied by Germany. Thus the internationally oriented Dutch business community became isolated and had to reorient its affairs.² In that respect, there are many parallels with the current situation. One of the industries that was badly hit in the period 1914-1918 was the beer industry.³



Strategic responses of the Dutch beer industry

Faced with the outbreak of the war, Dutch brewers first of all turned to their own trade associations to protect their relationship with the customers. The smaller brewers of traditional top-fermented beer, mostly in the southern part of the Netherlands, were organised in the Dutch Brewers Association (Nederlandsche Brouwers Bond, NBB), while the large brewers of bottom-fermented beer, mostly from the northern part of the country, formed the Association of Dutch Brewers (Bond van Nederlandsche Brouwerijen, BNB). As soon as the war broke out, the brewers in the Association of Dutch Brewers struck a first agreement in which they pledged to respect each other's markets. During the war, similar agreements in more or less tough wordings were repeated with the intention to safeguard their relation with their own customers by discouraging their agents to approach other breweries' customers.⁴ The trade associations were also active in lobbying the government.

Lack of coal formed the first serious bottleneck in beer production in 1916. Here the government stepped in with distribution of coal. Breweries were not at the top of the list, which necessitated them to look for alternatives. Heineken experimented with wood and brown coal, but those alternatives were also in short supply. The company also ordered an electric motor in Sweden, because electricity was still available, but it took months to arrive.⁵

The regular purchase of barley and malt formed the other major problem for the brewers. Directly at the start of the war Austria prohibited the export of malt and barley, and Germany followed soon. Initially, Dutch brewers were able to buy substantial quantities of British malt. However, imports from overseas had to be approved by the British government, and one of the conditions the British posed was that imported grain would only be used for beer sold on the domestic market.⁶ Britain carefully monitored compliance with this rule.

Brewers bought malt in the US, but it was difficult to find ships to transport the malt to the Netherlands. Some large brewers went so far as to charter a Danish ship to bring over the malt from the US. However, when scarcity of malt threatened the survival of small brewers, the Dutch government stepped in with distribution measures.⁷ The scarcities led to considerable price increases. In 1914 malt could be bought for 23 guilders per hundred kilograms, but in 1917 the price rose to 55 guilders, and a year later it had soared to 90 guilders.⁸ When malt became really scarce from 1917 onwards, the breweries went in search of alternative ingredients. They experimented with tapioca, maize, rice, and sugar. The provision of hops was never in doubt. Imports from Germany and Austria continued as usual.

The problems in continuing beer production translated into a historical reduction in beer consumption. While Dutch beer consumption remained at pre-war levels of around 35 litres per head per year during the first years of the war, it started to drop dramatically in



1917, decreasing to 10 litres in 1918, and remained low in the first post-war years.⁹ While beer consumption rose again after the war, it did not return to the pre-war level.

The rising prices of fuels and ingredients made it necessary to raise beer prices, with the first increase starting in January 1916. To make sure prices would not be undercut by competition, the Association of Dutch brewers prescribed the required higher prices in great detail. The new prices allowed slightly larger profit margins for cafés and restaurants to ensure support for the measures among the customers.¹⁰ The government's introduction of a new beer tax in January 1917 increased the beer prices even further. When the scarcity of ingredients made it impossible to brew high-quality beer, the Association's members also forged agreements about lowering alcohol content, prioritising sales over quality.¹¹

As beer prices rose, so did many other consumer prices and thus the cost of living, which in turn led to rising demand from workers to increase their wages. After some initial foot-dragging, the Association of Dutch Brewers granted price costs compensation, but it was unwilling to make those extra payments part of the regular wages. When beer production had to be reduced from 1917 onwards, the brewers were prepared to keep regular workers employed and shorten the working week. They even offered a free Saturday afternoon for part of the workforce for the time being. Though all these measures were put in place under war time circumstances and strictly limited to that period only, they paved the way for more generous working conditions after the war.¹²

Despite the rising costs of ingredients and the decline in beer consumption, Heineken's financial performance was satisfactory during the First World War, with profits increasing in line with inflation.¹³ It suggests they could recoup the rising cost of ingredients by increasing beer prices and lowering the alcohol content. The company also profited from the beer tax, because it could sell its large stock of beer that was taxed at a lower price, at the newly established higher prices. After the war, the company faced a high tax bill related to their war profits.¹⁴ However, not all brewers were so lucky. The number of breweries fell from 420 in 1914 to 289 in 1918.¹⁵ It was mainly the smaller breweries that had to close their gates.

Conclusion

Summarizing the strategies of the brewers we can conclude that they had to redirect their supply lines and tried to substitute scarce resources by alternatives. They also adjusted the quality of the beer to continue production. In all this, they tried to reduce competition by working closely together in their associations, disciplining members who might have been inclined to break the rules. However, nearly a third of all brewers did not survive the war period or did not survive as independent brewers.



What lessons can we learn from the way the Dutch beer industry dealt with the crisis? First, surviving is not self-evident. Entrepreneurs who are creative, seize the opportunities to change their course and develop a strategy in anticipation of the new future might have a chance of success. In the short term, the brewers managed to eliminate the competition between them, and in the long term they created a constructive partnership in which employees and the government were involved. They compiled a new balance and contributed to a paradigm shift from a Liberal Market to a more Coordinated Market Economy that would become do dominate the post-war period. Will there be a new Variety of Capitalism, with shorter supply chains and with regional, national or even local networks at the core. Networks that will be able to create sustainable business environments, where people matter and profits benefit all stakeholders. To pre-sort on this route seems to be a great challenge for today's managers.

Endnotes

- ¹ S. Correia, S. Luck and E. Verner, 'Pandemics Depress the Economy, Public Health Interventions Do Not: Evidence from the 1918 Flu' (March 30, 2020). Available at SSRN: <http://dx.doi.org/10.2139/ssrn.3561560>; L. Spinney, *Pale Rider; the Spanish flu of 1918 and how it changed the world* (London: Cape 2017).
- ² K.E. Sluyterman, *Dutch Enterprise in the Twentieth Century; Business Strategies in a small open economy* (London/New York: Routledge 2005), 75-88.
- ³ For this essay we used our book about the history of Heineken: Keetie Sluyterman and Bram Bouwens, *Brewery, Brand and Family: 150 years of Heineken* (Amsterdam: Boom 2014).
- ⁴ Stadsarchief Amsterdam (SA) [municipal archives Amsterdam], CBK 204, inv. no. 100, BNB agreement, 20 April 1915; HC, manuscript Van Malsen, 1301-1302.
- ⁵ Heineken Collection (HC), manuscript Van Malsen, 1245. ⁶ HC, supervisory board minutes, 14 December 1914.
- ⁷ H.A. Korthals, *Korte geschiedenis der Heineken's Bierbrouwerij Maatschappij NV, 1873-1948* (Amsterdam: Uitgeverij Allert de Lange 1948), 269-270; SA, CBK 204, 151 and 152.
- ⁸ Korthals, *Korte geschiedenis*, 271.
- ⁹ Centraal Bureau voor de Statistiek, StatLine, food, beverages and tobacco: beer, 1910–1920.
- ¹⁰ Calculation based on SA, CBK 204, inv. no. 224, minutes of the BNB board meeting, 15 June 1916; SA, CBK 204, inv. no. 100, retail prices as from 12 August 1917.
- ¹¹ SA, CBK 204, inv. no. 153, BNB agreement, 9 April 1918.
- ¹² HC, manuscript Van Malsen, 1273-1287.
- ¹³ HC, supervisory board minutes, 16 February 1916 to 10 February 1919; on calculating the value of the guilder, see <http://www.iisg.nl/hpw/calculate2-nl.php>
- ¹⁴ HC, manuscript Van Malsen, 1326.
- ¹⁵ G.Z. Jol, *Ontwikkeling en organisatie der Nederlandsche brouwindustrie* (Haarlem: De Erven F. Bohn 1933) 63.



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