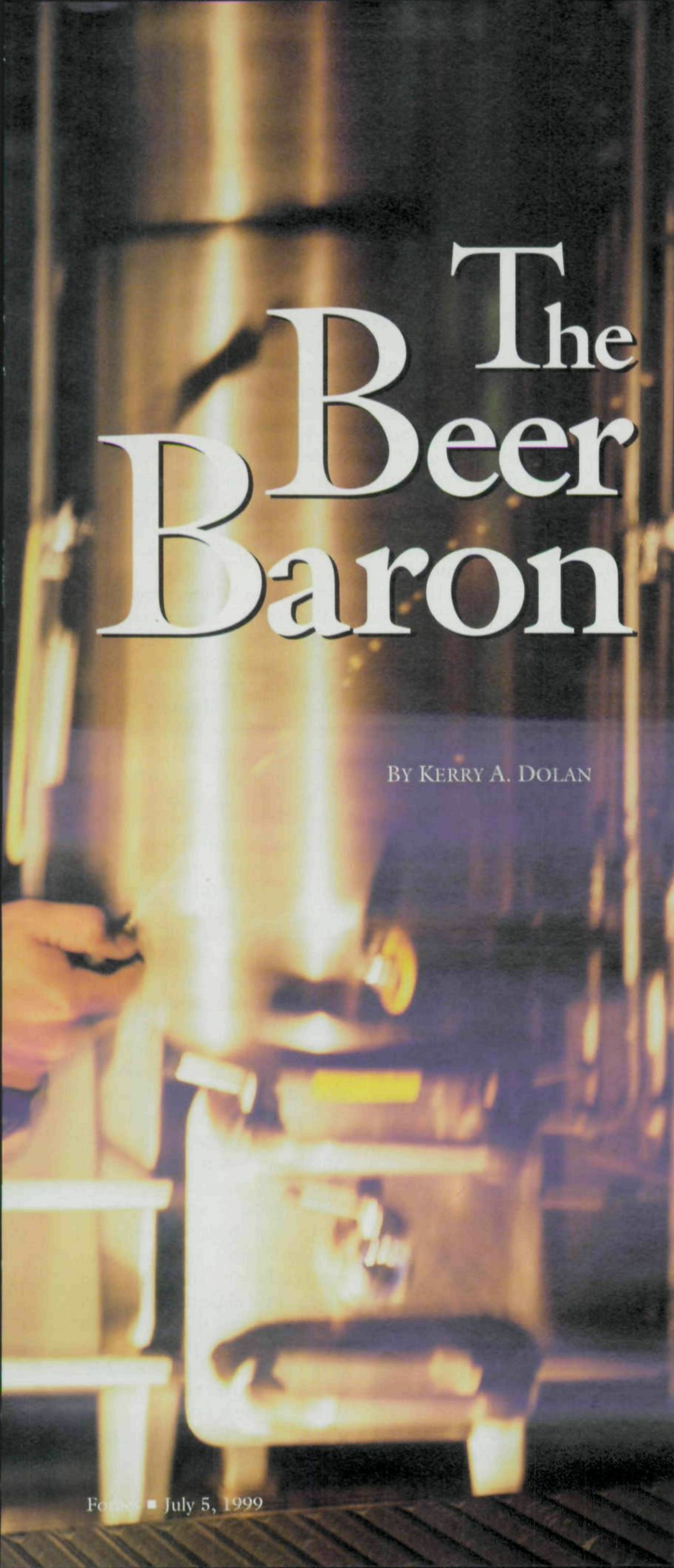
The Beer Baron



By Kerry A. Dolan

CLAUDIO EDINGER / SABA

Lorenzo Mendoza wants to tap more profits out of Venezuela's largest family-owned company.

Lorenzo Mendoza is surely earning his salary. In the last five months, the newly appointed chief executive of Empresas Polar, Venezuela's largest private industrial conglomerate, has traveled to five Latin American countries, examining the insides of factories and meeting with management at the group's snack-food units from Peru to Mexico.

The detailed inspections are part of Mendoza's larger mission: to restructure operations and fatten profits at the $1.8 billion (revenues) group, which spans beer, food, soft drinks and investments. Sounds like the task of a seasoned executive. But Mendoza is only 33.

Last year, backed by Polar's board and executive committee, Mendoza engineered a plan to establish better coordination within the 58-year-old family group. "We were 50 companies just independently attached by a group of similar shareholders," he explains, sitting in his spacious yet unpretentious office at Empresas Polar headquarters in Caracas.

To create some order, he established distinct food, beverage and investment divisions. He's also brought in consultants Arthur D. Little to help implement further changes, like standardizing information technology systems, coordinating purchasing, eliminating redundant treasury departments and figuring out exact job descriptions for top executives. "We've almost been negotiating each of our roles," says Lorenzo Tellería, a 25-year Polar veteran who heads the packaging and metalworking division.

Mendoza says the changes, once they're in place by year-end, should increase profits by at least 15%. (Privately held Polar doesn't disclose profits, but FORBES figures the group's liquidating value is about $2.5 billion.) If he can pull it off, that would be something to crow about amid the current Venezuelan recession.

The youthful-looking Mendoza is the oldest son in his family and part of the third generation of Mendozas to run Polar, which started with a brewery founded by his grandfather in 1941. His father, also named Lorenzo, ran Polar from 1962 until his death in 1986.

But Mendoza insists he's had to prove himself. He has, at least, been paying his dues. He started at age 12, when he had a summer job as an assistant to the truck drivers delivering Polar beer to small shops and liquor stores in Caracas. The days started at 5 a.m. Throughout his teens, summer jobs took him from warehouses to factory lines at Polar's different divisions.

He got a bachelor's degree in industrial engineering from Fordham. Next came a two-year stint at Citicorp in New York, where he worked on mergers, acquisitions and LBOs, followed by two years in London with investment bank Schroders. Rounding up his experiences abroad, Mendoza got an M.B.A. from the Massachusetts Institute of Technology in 1992.

When his father died, Mendoza was just 20. His mother, Leonor, unofficially took charge of Polar. But she was also heavily involved in the charitable Polar Foundation. Partly to fill the vacuum, Mendoza went back to Caracas after his MIT degree, joining the family company's executive committee.

Opportunity has since beckoned. In August 1997, Venezuela's other billionaire family, the Cisneroses, switched from being the country's Pepsi bottler to its Coca-Cola bottler. Polar, which at the time owned a local soft drink brand as well as extensive beer operations, jumped at the chance to land the Pepsi business. Three months later, without help from investment bankers, Polar took a 70% stake in the venture with Pepsi.

But relaunching Pepsi was no simple task. Its market share had fallen to zero. To recapture the market, Polar-Pepsi has built three plants and added 56 warehouses and 1,500 delivery trucks, investing $500 million. The payoff: Polar's share of the soft-drink market has climbed to 33%, and Mendoza is determined to increase it further. "I think it's going to be a Harvard Business School case study someday," he boasts. But he's got deep-pocketed competition: Panamerican Beverages, which bought the Cisneros bottler, is Latin America's largest Coke bottler, and has plastered Venezuela with Coke billboards.

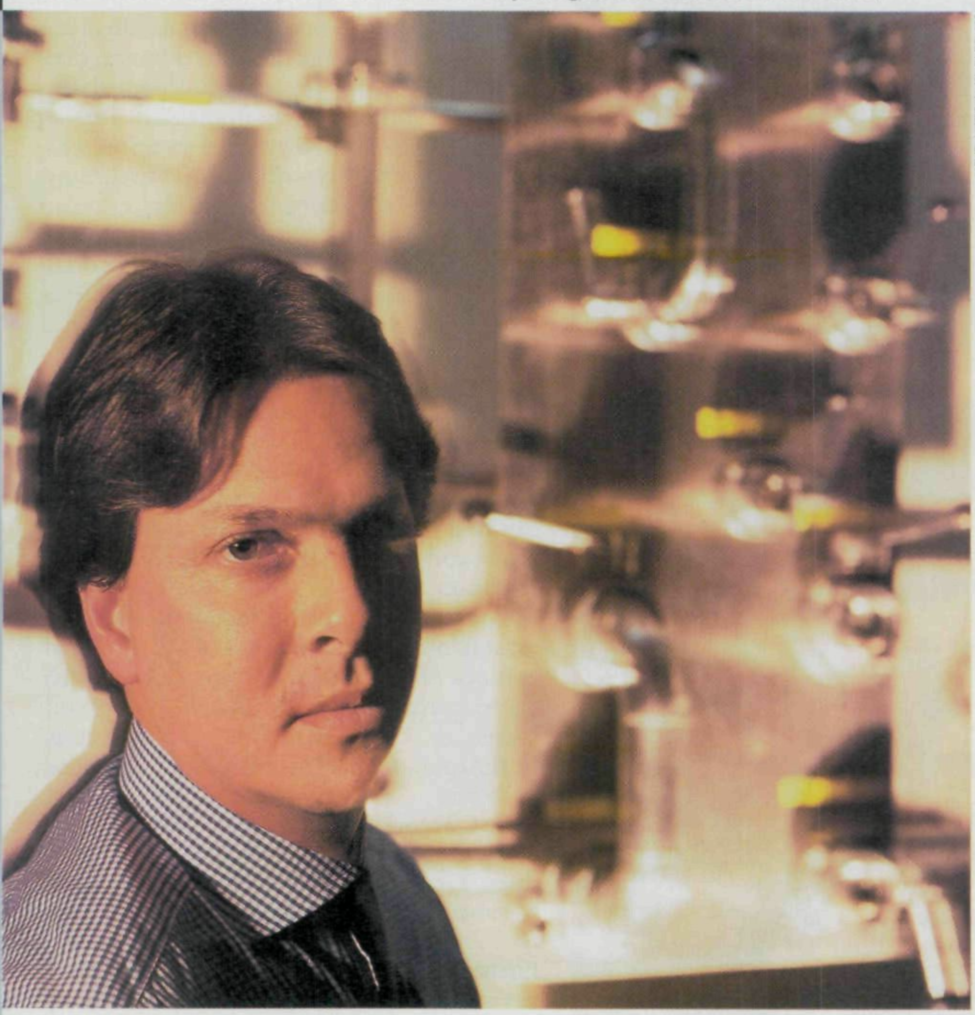
Initial success in the Pepsi venture in part led to another cross-border link-up. After a ski weekend in Colorado, PepsiCo's Frito-Lay head, Steven Reinemund, and Mendoza decided to join forces. Last November, Polar merged its snack-food division in a 50/50 venture with Frito-Lay. So far, so good. Mendoza expects double-digit growth and sales this year of $370 million from the unit, which operates in nine South American countries.

Meanwhile, the lowest oil prices in 33 years triggered a punishing recession in Venezuela. Unemployment hovers around 15%, inflation at 23%. In December the country elected a new president, former attempted coup leader Hugo Chavez, much to the initial dismay of Venezuela's business community. These are difficult times to be running a group with nearly 18,000 employees. Polar has laid off at least 1,000 workers since January, but added 2,400 net new jobs over the last year and a half through its Pepsi venture.

Fortunately for Polar, even when times are tough, Venezuela's 23 million people still drink beer and eat. Polar beer brands dominate the country, with a market share in the vicinity of 75%. The country's per capita beer consumption is the highest in Latin America, about 20 gallons a year.

Mendoza is working long hours, but is making time for regular tennis matches and weekends with his wife and four young children. Will they take over some day? Mendoza doesn't want to put any pressure on them. But, he adds, "Family businesses usually don't go beyond the second generation. We're the third generation." ■

Generation next: Polar's new chief executive is putting his U.S. education to the test.



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