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beam suntory: STRIVING for OPTIMAL POST-ACQUISItiON INTEGRATION[[1]](#endnote-1)

Wiboon Kittilaksanawong and Kendall Marin Wyckoff wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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How to blend the skill and expertise of both [companies] is our goal . . . . It wasn’t clear who was in control. I told Matt [Shattock, now Beam Suntory chief executive] that I am the boss of the entire Suntory Holdings.[[2]](#endnote-2)

Takeshi Niinami, president and CEO of Suntory Holdings Limited

In 2016, over two years after the acquisition of Beam Inc. (Beam), Takeshi Niinami, president and chief executive officer (CEO) of Japanese liquor powerhouse Suntory Holdings Limited (Suntory), admitted that the combined entity Beam Suntory Inc. (Beam Suntory) had not been able to integrate to a satisfactory level.[[3]](#endnote-3) In 2014, Suntory had identified the US$16 billion[[4]](#endnote-4) acquisition of Beam, an American liquor conglomerate with a desirable brand portfolio and global distribution channels, as an attractive way to enter the U.S. market.[[5]](#endnote-5) The acquisition was part of an ongoing trend of venturing abroad due to a declining population and shrinking domestic market.[[6]](#endnote-6) Executives of both companies were excited to merge their talents, align their resources, and optimize their operations to boost worldwide performance. They would form the third largest combined entity in terms of sales value, behind the United Kingdom’s Diageo and France’s Pernod-Ricard in the global distilled liquor industry.[[7]](#endnote-7)

However, as the new unit, Beam Suntory, began the integration process, the two teams encountered significant friction between their respective corporate cultures.[[8]](#endnote-8) The high acquisition price left Suntory in immense debt, creating obstacles and limiting the company’s future investments, which in turn strained the working relationship. The consolidated operations struggled to establish trust, cohesion, and efficiency as contract stipulations fell through and financial concerns emerged. Had Suntory made a wise strategic decision in acquiring Beam? Was the acquired firm worth the high premium price? Suntory confirmed in early 2017 that it was not considering an initial public offering (IPO) of the U.S. unit.[[9]](#endnote-9) How, then, should Suntory cope with its monumental debt? How should the combined Beam Suntory resolve its cultural conflicts and accelerate the integration in a way that aided the recovery of Suntory’s ongoing liquor shortages? What would be the optimal level of integration between the Japanese and American whisky makers?

Suntory Holdings Limited

The Beginning

At the close of the 19th century, Suntory’s founder, Shinjiro Torii, was determined to popularize Western-style liquors in Japan.[[10]](#endnote-10) In 1899, he opened Torii Shoten in Osaka, becoming a pioneer in the distribution of alcoholic beverages in Japan. He devoted himself to introducing the flavours of international spirits to the Japanese population with the dream of one day producing the spirits himself. Believing that the sweet taste of port would be more palatable for Japanese tastes, Torii first focused his investment on producing his own Akadama Port Wine in 1907, Suntory’s premier product. Later in 1921, the company changed its name to Kotobukiya Limited.

Shifting his focus and identifying a potential excellent opportunity in developing an authentic Japanese whisky, Torii built the Yamazaki Distillery in 1923. Torii attempted to create a whisky that would capture the essence of Japan and appeal to Japanese tastes. Japan’s first bottle of whisky, Suntory Whisky Shirofuda (white label), was sold five years later. In 1937, the company perfected its desired characteristic flavour and launched this new product as Suntory Whisky Kakubin. The company faced obstacles throughout World War II, with stagnating product development, but managed to maintain a level of success.

In the early 1960s, the company ushered in its second president, Keizo Saji, and changed its name to Suntory Limited while still embodying Torii’s innovative spirit and drive for continuous improvement. Saji’s next move was to enter the brewing business with the launch of Suntory beer.

The 1970s and 1980s saw company growth.[[11]](#endnote-11) The Suntory food and beverage sector was formed to expand the company’s product offerings, including bottled mineral water and tea. Suntory opened the Hakushu distillery in 1973. The company partnered with prominent French wine company Château Lagrange to enhance the brand’s quality and image in hopes of attracting Japanese consumers to wine culture. Suntory also made great efforts in corporate social responsibility. To carry on Torii’s legacy and fulfil his life desire to contribute to society, Suntory founded various initiatives, including the “Save the Birds!” campaign, Suntory music hall, natural water sanctuary, and education projects.

**Aggressive Expansion**

The 1990s, under Suntory’s third president, Shinichiro Torii, marked the beginning of a more ambitious stage of expansion, with goals of penetrating the market further and diversifying Suntory’s geographic markets.[[12]](#endnote-12) Setting its sights on becoming the domestic leader in its food and beverage sector, Suntory launched a number of new products. The company focused on developing a broader range of beverages, such as juices, coffee, tea, water, soda, and energy drinks. In 1998, Suntory landed an attractive franchising agreement with PepsiCo, Inc. It became the sole bottler, distributor, and licensee of Pepsi carbonated beverages in Japan, largely boosting its growing share of the soft drink market.[[13]](#endnote-13)

Along with product development in the beverage sector, Suntory expanded its research and development operations. In 1996, the company announced the introduction of its health food business following a breakthrough in polyphenol exploration. This discovery led to further investments in the health segment, and Suntory created a business division dedicated to vitamin development. Suntory’s research team continued to push boundaries and make discoveries in other areas of science, breaking unforeseen records and genetically engineering the world’s first blue rose.

In 2009, Suntory reorganized into the stockholding company Suntory Holdings Ltd., with seven subsidiaries spanning the beverage, wellness, and alcohol industries. In July 2013, Suntory made its first appearance on the Tokyo Stock Exchange with an IPO of $4 billion in its beverage and food business unit. The IPO launched the company into second place domestically in the soft drink market, just behind Coca-Cola.[[14]](#endnote-14) In 2017, Suntory expanded to include more than 11 direct subsidiaries, including Beam Suntory and other operating companies (see Exhibit 1).

**LOOKING FOR GLOBAL EXPANSION**

With the new millennium, Suntory began to strategize on a global scale. Like most prominent Japanese companies, it was facing a future in a shrinking, saturated market. Though the company had enjoyed great success domestically, it needed to increase its global presence to continue its growth and counteract Japan’s declining population. Gaining worldwide recognition for its unique, authentically Japanese flavour, in 2015 Yamazaki was named the best whisky in the world by whisky expert Jim Murray.[[15]](#endnote-15) Suntory had entered the U.S. market on a small scale and done well, relying on its authentic flavour and high quality.

Suntory chose to expand its worldwide beverage market share through joint ventures and acquisitions. The company hoped its amassment of new products and sub-brand names would gain immediate penetration in sub-fields in new geographic locations. Suntory viewed this approach as less risky than investing organically in foreign development, which would require precious time and resources. In 2009, Suntory made two large international acquisitions: Frucor Group provided a product platform for Suntory in Oceania for €600 million,[[16]](#endnote-16) and Orangina Schweppes Group offered Suntory a penetration point into the European market when the company purchased the financially stressed French-Spanish company for $3.84 billion.[[17]](#endnote-17) Four years later, in 2013, Suntory acquired the drink division of British pharmaceutical company GlaxoSmithKline plc, for ‎£1.35 billion,[[18]](#endnote-18) which included the popular Ribena and Lucozade brands.[[19]](#endnote-19)

As of 2013, Suntory was in 10th place in the global premium spirit market. It was meeting its own expectations and enjoying relative success abroad, but aiming for larger sales growth to offset domestic stagnation. Alcohol consumption was a nationalistically coded activity, as there was a great deal of pride associated with beverage choice. Suntory struggled, as did all expanding liquor companies pursuing global leader status, to break these patriotic barriers and boost sales abroad.[[20]](#endnote-20)

**STRUGGLING IN SPIRITS SALES**

In 2013, Suntory as a whole was stable, with annual sales reaching $23.46 billion and net income totalling $500 million.[[21]](#endnote-21) However, its flagship product, Japanese whisky, which had pioneered an industry and established Suntory as the top distiller of Japan, only accounted for 28 per cent of Suntory’s total sales. At this point, soft drink and water product offerings carried the company. These products accounted for 55 per cent of total sales, amounting to JP¥1,114.3 billion[[22]](#endnote-22) (see Exhibit 2).

While whisky thrived through the 1980s in Japan’s booming economy, the following two decades saw a rapid decline in sales.[[23]](#endnote-23) Despite marketing measures, and efforts to diversify and move toward more premium products to appeal to all segments of the market, whisky sales were still low; this was especially true among younger age groups, which were opting instead for cheaper, more convenient alcoholic beverages such as chūhai and beer.

Aiming to reboot the struggling industry, Suntory reintroduced a classic whisky cocktail, the highball. Promoting the cocktail in bars and canning it for on-the-go purchase enabled Suntory to appeal to the masses. Suntory anticipated that this tonic and whisky mixture would serve as an introductory drink, eventually attracting the younger generation to more premium liquors. While the highball helped revolutionize the Japanese whisky industry, the following upswing in sales was considered more of a trend than a reliable return to liquor. Moreover, despite winning numerous awards for high-end whiskies like Yamazaki, Hakushu, and Hibiki, Suntory’s premium product sales remained stagnant domestically.

BEAM INC.

Beam’s roots dated back to the establishment of its primary product, Jim Beam Kentucky bourbon, in 1795.[[24]](#endnote-24) The liquor evolved under seven generations of family ownership to become one of the bestselling bourbons. The brand had undergone a series of acquisitions. After its parent company, Fortune Brands, was dismantled in 2011, relatable product lines assembled under the new name Beam Inc. (in fact, Suntory first considered purchasing Beam when it entered the stock market at that time.)

In 2012, Suntory and Beam established a strategic alliance, allowing Suntory to manage the sales of Jim Beam and Maker’s Mark in Japan.[[25]](#endnote-25) In the following year, Beam announced upcoming deals in the Irish whisky, rum, and vodka industries. By 2014, the liquor conglomerate had accumulated over 40 sub-brands, spanning six variations of whisky, as well as vodka, tequila, rum, cognac, gin, and liqueur categories, covering all price points. Among the most notable brands were Knob Creek Rye and Bourbon whisky, Maker’s Mark Bourbon, Canadian Club Whisky, McClelland’s Single Malt Scotch Whisky, Cruzan Rum, Calico Jack Rum, Sauza Tequila, Hornitos Tequila, Pinnacle Vodka, Skinnygirl, Midori Melon Liqueur, and multiple flavours and editions of Jim Beam Kentucky bourbon Whisky. This portfolio would work in tandem with Suntory’s spirit offerings. Because the Japanese whisky profile differed from Beam’s whiskies in taste and character, there would be little fear of cannibalism.[[26]](#endnote-26)

**SPIRITS MARKET in THE United states**

The 2014 global alcoholic beverage market saw growth from the optimization of distribution and e‑commerce channels, the rise of economic prosperity, and the growing acceptance of alcohol consumption around the world. Major players began to consolidate through mergers and acquisitions, increasing the rivalry between competitors and raising the entry bar. The industry had experienced rising production costs, which led to lower margins. Most developed markets had reached saturation, and many alcoholic beverage companies were focusing on the emerging markets of Asia and Africa. However, one developed market that still had considerable potential was the United States.[[27]](#endnote-27)

The U.S. spirit industry was the largest and most profitable in the world. In 2014, the total U.S. volume growth increased to over 210 million cases sold, and revenue reached an estimated $70 billion in retail sales.[[28]](#endnote-28) For five years in a row, the distilled spirit share gained on beer in the alcohol market, and U.S. exports were at a record high. Distilled Spirits Council president and CEO Peter H. Cressy noted that one of the driving forces behind this continued growth was a global interest in American whisky, largely supported—rather than cannibalized—by local grassroots distillers. The industry also noticed and responded to a heightened consumer penchant for premiumization and flavour innovation, particularly of whiskies. Taxes, though varying considerably from state to state, were extremely low compared to Japan. The resulting regulatory environment signalled a favourable time to expand.

Creating the world’s third-largest high-end spirits maker

Suntory, being aware of the United States as a desirable market, sought to enter the country and appeal to the target American market the way it did best, through acquisition. An excellent opportunity presented itself in early December 2013, when Suntory’s fourth president, Nobutada Saji, and Beam’s CEO, Matt Shattock, met in Tokyo to discuss future opportunities. A month later, Suntory announced its plan to purchase Beam, for $16 billion.[[29]](#endnote-29) This deal would provide Suntory with a crucial platform in the U.S. market and access to desirable distribution channels. It would also grant the company control of a wide range of globally successful sub-brands, which would greatly enrich its product portfolio. The deal would bring about Beam’s seventh-place global standing and give Suntory the fourth-largest annual sales volume (see Exhibit 3). Beam’s net sales for 2013 had just grown another 4 per cent and set a record high at $2.55 billion, comparable to other top liquor manufacturers.[[30]](#endnote-30) The combined sales of Beam and Suntory in 2013 would be $26.01 billion, making the partnership the world’s third-largest spirits company.[[31]](#endnote-31)

**Mission and Character**

Both Beam and Suntory had comparable histories of growth and relatable characteristics of innovation.[[32]](#endnote-32) They had evolved under the guidance of their founding families. Both their whiskies and their businesses were driven by similar attitudes of pride and ambition. At Suntory’s core was the spirit of “*Yatte Minahare*,” which translated to “go for it.” This approach had motivated the company to pursue worldwide goals. Likewise, Beam’s proclivity for and pride in developing a legendary whisky with an authentic spirit paved the way for its global success. These businesses, built on similar values, both appreciated this level of compatibility. They believed the alliance would integrate well and create a competitive synergy. Both boards of directors unanimously endorsed the acquisition.

According to Suntory’s president, Saji,

Since its founding, Suntory Group has always shared the spirit of “Yatte Minahare – Go for it!” in taking on new challenges, creating new opportunities, and living our corporate values. Beam’s heritage of over 200 years is also characterized by a spirit of entrepreneurialism, creativity, and courageous decisions that exemplify the same . . . spirit. I believe this common spirit and our combined strengths will be a powerful driving force as the new Beam Suntory excites consumers around the world with our portfolio of premium brands.[[33]](#endnote-33)

Beam’s CEO, Shattock, also looked forward with optimism:

We believe the new Beam Suntory will grow by pursuing the global strategy that made Beam so successful. . . . We will be focused on continuing our momentum, growing in developed and emerging markets, and building on our combined strengths. Those strengths include a dynamic portfolio across key categories, powerful routes to market, and passionate people. I’m particularly excited about what brings us together—a strong cultural fit based on the entrepreneurial and innovative spirit of two companies with common values and proud heritages rooted in multi-generational family businesses. We look forward to learning from each other and to creating a future of exciting growth for our business and opportunities for our people.[[34]](#endnote-34)

**Payment Process**

Suntory was guided through this transaction by a unique advising partnership between Morgan Stanley and Mitsubishi UFJ Financial Group (MUFG), Japan’s largest bank. Beam and Suntory announced their definitive agreement, stipulating that Suntory would acquire all of Beam’s outstanding shares for $83.50 per share in cash, which would amount to just over $16 billion, and included all estimated net debt.[[35]](#endnote-35) The deal consisted of a 25 per cent premium on Beam’s market price of $66.97, roughly equal to 20 times Beam’s earnings before interest, taxes, depreciation, and amortization (EBITDA), based on the 12 months leading to September 30, 2013 (see Exhibit 4).[[36]](#endnote-36) Stock prices instantly rose 25 per cent. “Through the joint venture and the partnership that we have with MUFG, we were able to deliver a significant single-sourced bridge loan to support the advisory services, allowing our client to achieve its corporate goal of becoming a global powerhouse in the industry,” said Benjamin Frost, Morgan Stanley’s head of consumer mergers and acquisitions in New York investment banking.[[37]](#endnote-37)

**Financial Concerns**

Though Morgan Stanley was positive about the transaction, the high price raised some doubts for Suntory’s loaning bank, MUFG, which was considerably more risk averse. The premium price was the highest Suntory could possibly afford, while the deal would probably offer fewer synergies and opportunities to benefit from each other.[[38]](#endnote-38) While focusing on the mature Japanese market demands, Suntory would not easily boost its sales through Beam’s existing distribution network, as the Japanese company did not have sufficient spare stocks. The deal was the third-largest transnational transaction in Japan’s history, and the seller about 1.2 times the size of the acquiring firm in net sales.

However, the $16 billion deal came at a huge cost. Suntory finalized the deal with a net debt of roughly $2 billion, five times that of its EBITDA, an amount that was more than twice the median level for big Japanese companies.[[39]](#endnote-39) The risk involved with this calibre of loan caused one credit rating agency to re-evaluate Suntory and change its long-term rating to negative. Suntory faced some serious questions. Was the acquisition overvalued? What problems would arise from a $16 billion purchase price? Would the combined businesses achieve the desired rates of success worth the amount paid? Would Suntory be able to pay back its loans efficiently?

**Immediate Reactions**

On April 30, 2014, the deal was finalized, establishing Beam Suntory Inc., a subsidiary of Suntory Holdings Limited. While this deal created advantageous value for stockholders, not all customers were content with the acquisition. Because of Jim Beam’s image as a patriotic staple and all-American symbol, many Americans who were filled with nationalistic pride felt betrayed and upset by this “sell out” move, enough to threaten the boycott of Beam’s products.[[40]](#endnote-40) American consumers were not always comfortable with the foreign control of their food, a feeling motivated by either distrust of outsiders or fear that the status of the United States as a world leader was on the decline.[[41]](#endnote-41) Most concerns about substantial changes to favoured products were largely unfounded, as one of the most attractive qualities of a well-established brand was the associated strong image. Suntory recognized Beam’s strengths, and though it had plans to integrate and identified points of improvement, as the new parent company, Suntory had no desire to make drastic alterations to the acquired firm.[[42]](#endnote-42)

**OBSTACLES IN POST-ACQUISITION INTEGRATION**

**Confusing Chain of Command**

The integration of Beam Suntory would involve unique reorganization. Although Beam was the subsidiary, Suntory placed all Japanese liquor operations under Beam’s management, headquartered in Deerfield, Illinois. Suntory aimed to consolidate and optimize the business units for more efficient production, a decision designed to take advantage of Beam’s network and branding.[[43]](#endnote-43) In reality, this system muddled the chain of command and led to its own unique obstacles. The employees of the Japanese whisky sector were frustrated to have to report on domestic operations to their new foreign command post, particularly to one they believed they were superior to.[[44]](#endnote-44) This reorganization of the company also used short‑term resources. It would take a sizeable amount of time of at least three to four years to merge work cultures of the two original companies.[[45]](#endnote-45)

**Corporate Culture Clash**

The integration process revealed an unexpected corporate culture clash, and the months following the deal were marked with high tension. One area of conflict emerged when Suntory’s sixth and most recent president, Niinami, a proponent of Japanese *kaizen*—a process of continual improvement—suggested certain upgrades to Jim Beam’s Kentucky bourbon, largely as a means of offsetting Suntory’s supply shortage at that time.[[46]](#endnote-46) Though Niinami did not intend to adjust the recipe, but hoped to share and apply Suntory expertise to the water purification process, Beam’s employees were alarmed by the audacity of the proposal. The prospect of making changes to the formula and distillation procedure that Beam’s family and company had spent over two centuries perfecting offended and angered the employees.[[47]](#endnote-47)

Doubts of successful team collaboration began to arise on both sides. The characteristics of pride, passion, and ambition, which had once seemed an alluring sign of potential unity, were now exacerbating minor disagreements and straining once strong relationships. These difficulties were tantamount to the struggles most Japanese companies faced after foreign acquisitions with respect to their unique business approach and overbearing management, though Niinami was chosen to head the operations for his Harvard-educated, internationally minded expertise. Being more forward and aggressive than the average Japanese businessperson, Niinami made it clear to Shattock that he was indeed “the boss of the entire Suntory Holdings,” and that it was the parent company that would have the ultimate say.[[48]](#endnote-48)

**Deteriorating Mutual Trust**

The Japanese business approach was famously risk averse and paperwork heavy, and though Suntory was considerably ambitious in its undertakings, its management style was hands on. The employees on Beam’s end were overwhelmed by the amount of required reports, as they found such frequent financial evaluations to be more tedious than useful.[[49]](#endnote-49) Niinami also observed every aspect of business, relentlessly asking detailed questions; this widened the rift between the companies, as Beam’s executives became suspicious of Suntory’s overly thorough interest. As was occasionally the case with acquisitions, the Beam office worried that its parent company would absorb Beam’s soft resources and then abandon the subsidiary. This worry fed an environment of mistrust that had already developed following false promises of the IPO of the U.S. unit after the acquisition.[[50]](#endnote-50)

A key stipulation for Beam when entering the contract was that its IPO would be relisted on the New York Stock Exchange, and those earnings would be largely responsible for the debt repayment. However, the Torii-Saji family, which founded Suntory, had taken issue with loosening its grip on its 89 per cent stake of the company, and ultimately vetoed the original plan. Up to January 5, 2017, Suntory confirmed that it was not considering an IPO for the U.S. unit.[[51]](#endnote-51) Suntory also failed to meet expectations of bringing its own spirits to the American market, leaving Beam’s members frustrated and sceptical.

Failing to meet these contractual obligations may have been responsible for the high turnover rate and resulting strain on resources. The composition of Beam’s executive team drastically changed within the two years following the acquisition. While Shattock remained at the helm, “Losing the head[s] of international [operations], the U.S. [operations], production, human resources, and [the chief marketing officer and chief financial officer] cannot happen without some impact,” noted one retired Beam senior executive, Donard Gaynor.[[52]](#endnote-52) Despite the shift in senior management, Shattock remained confident that his employees understood the long-term commitment of Beam Suntory and were willing to make the necessary adjustments for the long haul.[[53]](#endnote-53)

**FINDING SYNERGISTIC OPPORTUNITIES**

“The longer it takes to align corporate culture and get effective strategies in place, the more opportunities are missed,” advised Stephen Rannekleiv, a Rabobank spirit industry analyst.[[54]](#endnote-54) Yet, Suntory realized that a shift to a global mind-set would take three to five years, especially for a Japanese company.[[55]](#endnote-55) After an extended period of miscommunication and corporate culture conflicts, the two teams began to see beyond their management frictions to the underlying intentions, and identified their shared objectives. Niinami commented, “How to blend the skill and expertise of both [companies] is our goal. That has been a big challenge but over one and a half years, they more or less commute to each spot: Kentucky and Yamazaki (distilleries). This is a new plan for our integration.”[[56]](#endnote-56) Beam’s master distiller, Fred Noe, and Suntory’s chief blender, Shinji Fukuyo, travelled between the two headquarters, collaborating on distillation optimization and product development. Slowly, Beam Suntory accomplished a working partnership to run the global operations. Synergistic success also took shape in other departments such as procurement, risk management, and marketing.[[57]](#endnote-57)

**PROBLEMS**

**Monumental Debts**

In a time marked by competitive industry and rapid consolidation, international rivalry was heating up. Beam Suntory struggled to enter new markets, as it was dependent on the American and Japanese markets, which accounted for 73 per cent of 2015’s total sales by volume.[[58]](#endnote-58) With the aid of this partnership, Suntory planned to increase its presence in emerging markets in India and throughout Asia in the coming years.[[59]](#endnote-59) However, Beam Suntory’s remaining debt continued to be a restricting factor for future investments. Beam Suntory’s home-based focus proved to be a competitive advantage as other top American brands began to fail in their overseas ventures. Even more threatening was the worldwide rush to the United States by other major liquor companies hoping to take full advantage of the still-growing market.

Thus far, Beam Suntory had lived up to its own preset expectations, pushing beyond profit targets and sales objectives. Yet the urgency to repay the company’s monumental debts meant that Japanese management was difficult to satisfy. With Beam’s IPO never reaching fruition, the spirit company was lacking the cash flow both sides had expected when entering the acquisition.[[60]](#endnote-60)

To counteract this financial obstacle, Beam Suntory had made efforts to cut costs in the most immediate sense, including divesting the less profitable Spanish sherry and brandy brands, limiting international travel, and reducing employee hours. Beam’s sales were responsible for 9 per cent growth of revenues, roughly half Suntory’s 2015 net profit growth and amounting to ¥45.2 billion.[[61]](#endnote-61) According to the 2016 financial report, Suntory’s alcoholic beverages increased the company’s operating profits by almost 13 per cent, while its total sales fell by 3.6 per cent, mainly due to challenges in the beer industry. Fortunately, the conglomerate was rescued by the profitable Beam Suntory unit, particularly the Jim Beam and Maker’s Mark products. These products continued to perform well in the American market and enjoyed growth in Europe and Asia, rising a competitive 40 per cent in Japan in 2016 (see Exhibit 4).[[62]](#endnote-62)

**Shortage of Liquor Categories**

In early 2017, Niinami addressed a crucial issue about the widening gap between supply and demand of Japanese whisky.[[63]](#endnote-63) While Suntory was chasing worldwide recognition and gaining popularity alongside Beam’s leading brands, its distilleries were unprepared to handle the increasing demand, especially in the aged whisky category. As a result, Suntory ramped up its non-aged beverages, such as canned highball cocktails. Unfortunately, this shift stifled the company’s progress in becoming a global leader because the product was considerably less sellable outside the domestic market.

The shortage of supplies had several distilleries in Japan outsourcing, creating new blends using borrowed liquids from Scotland and elsewhere, which Japan did not regulate. However, Suntory did not want to compromise its authenticity or lose the integrity of its product by creating new blends.[[64]](#endnote-64) The downside was that it could take up to 10 years to catch up to current demand, a delay that could have adverse effects on the brand’s rising popularity and consumer loyalty. Could Beam Suntory share resources in a way that would aid the recovery of Suntory’s liquor shortage, and prepare the company for the future?

**MOVING FORWARD**

On December 5, 2016, Beam Suntory relocated its global headquarters from Deerfield to downtown Chicago to complement a more focused marketing strategy targeting metropolitan consumers.[[65]](#endnote-65) Shattock said, “Chicago is one of the world’s greatest cities, and this move underscores our strategic priority of getting closer to our customers and consumers in major cities around the world.”[[66]](#endnote-66) The move would also help establish a connection of hometown pride as the actress Mila Kunis and the Chicago Cubs kicked off long-term sponsorship deals with Beam Suntory.[[67]](#endnote-67)

The liquor distributor was strategizing ways to pay off its debt by reorganizing and optimizing its channels for increased efficiency. It was also working on the premiumization and flavour innovation of current brands. Nevertheless, two years after the acquisition, the combined Beam Suntory had not been able to integrate itself to a satisfactory level.[[68]](#endnote-68) The cross-cultural conflicts and deteriorating mutual trust between the two units continued to impede the integration and realization of potential synergies that could address Suntory’s ongoing shortage of liquor categories.[[69]](#endnote-69) Moreover, Suntory had so far insisted that it was not considering an IPO of Beam Suntory in spite of its monumental debt.[[70]](#endnote-70) Suntory still had many problems to solve in light of the premium price it had paid to acquire Beam.

**Exhibit 1: ORGANIZATIONAL STRUCTURE OF SUNTORY HOLDINGS LIMITED**

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| --- | --- | --- | --- | --- | --- |
| **Suntory Holdings Limited** |  |  | Suntory Beverage & Food Ltd. |  | Suntory Foods Ltd.  Suntory Beverage Solution Ltd.  Suntory Beverage Service Ltd.  Japan Beverage Holdings Inc.  Suntory Products Ltd.  Suntory Beverage & Food Europe  Suntory Beverage & Food Asia  Frucor Group  Pepsi Bottling Ventures Group |
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|  |  | Suntory Beer, Wine & Spirits Japan Limited |  | Suntory Beer Ltd.  Suntory Wine International Ltd.  Suntory Liquors Ltd.\* |
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|  |  | Suntory (China) Holding Co., Ltd. |  |  |
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|  |  | Sunlive Co., Ltd. |  |  |
|  |  |  |  |

\* Sold alcoholic beverages (e.g., spirits, beers, wine, and others) in Japan.

Source: Created by the case authors based on Suntory Holdings Limited, *2017 Suntory Group Profile,* April 2017, accessed August 8, 2017, [www.suntory.com/about/overview/pdf/profile2017.pdf](http://www.suntory.com/about/overview/pdf/profile2017.pdf), 5.

**Exhibit 2: SUNTORY sales IN 2013 AND 2015**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Business Segment | **Sales by Business Segment** | | | |
| 2013 | | 2015 | |
| Billion ¥ | % | Billion ¥ | % |
| Alcoholic beverages (whisky, ready-to-drink beverages, shōchū, beer, wine, and other alcoholic drinks) | 571 | 28 | 1,026 | 38 |
| Non-alcoholic beverages (health drinks, processed foods, and other products) | 1,114 | 55 | 1,371 | 51 |
| Others (operations in China, health foods, ice cream, restaurants, sports, flowers, and other operations) | 355 | 17 | 289 | 11 |
| Consolidated sales | 2,040 | 100 | 2,686 | 100 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Geographical Region | **Sales by Geographical Region** | | | |
| 2013 | | 2015 | |
| Billion ¥ | % | Billion ¥ | % |
| Japan | 1,526 | 75 | 1,656 | 62 |
| Asia and Oceania | 262 | 13 | 350 | 13 |
| Europe | 171 | 8 | 333 | 12 |
| Americas | 81 | 4 | 347 | 13 |
| Consolidated sales | 2,040 | 100 | 2,686 | 100 |

Source: Created by the case authors based on Suntory Holdings Limited, “Suntory Group Overview,” *Suntory Group CSR Report 2014,* accessed August 8, 2017, www.suntory.com/csr/report/pdf/2014/00\_03\_e.pdf, 8; Suntory Holdings Limited, *Suntory Group Profile 2016,* April 2016, accessed August 8, 2017, www.suntory.com/csr/data/report/pdf/company2016\_en.pdf, 5.

**Exhibit 3: FIVE LARGEST GLOBAL LIQUOR DISTRIBUTORS**

|  |  |  |  |
| --- | --- | --- | --- |
| **Distributor** | **Annual Volume (Million Cases)** | **Home Turf** | **Notable Brands** |
| Diageo | 126 | London, England | Johnnie Walker, Crown Royal, J & B, Smirnoff, Ketel One, Captain Morgan |
| United Spirits Limited | 125 | Bangalore, India | McDowells and Black Dog whiskys, Pinky and White Mischief vodkas, Celebration rum |
| Pernod Ricard | 123 | Paris, France | Absolut, Jameson, Beefeater, Malibu, Kahlua, Glenlivet |
| Suntory/Beam | 54 | Osaka, Japan | Hibiki and Yamazaki whiskys, Jim Beam, Courvoisier, Maker's Mark, Sauza, Orangina, Schweppes |
| Bacardi | 38 | Hamilton, Bermuda | Bacardi, Dewar’s, Grey Goose, Bombay Sapphire |

Source: Created by the case authors based on Mike Lew, “Who Are the 5 Biggest International Liquor Distributors?” *Bon Appétit*, January 13, 2014, accessed August 8, 2017, www.bonappetit.com/drinks/article/liquor-distributor-guide.

**Exhibit 4: SUNTORY FINANCIAL HIGHLIGHTS**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2012** | **2013** | **2014** | **2015** | **2016** | **2017 (Forecast)** |
| Net Sales | 1,852 | 2,040 | 2,455 | 2,687 | 2,652 | 2,690 |
| Net Debts | 318 | 126 | 1,625 | 1,563 | 1,353 | N/A |
| Debt-to-Equity Ratio | 0.50 | 0.10 | 1.15 | 1.11 | 0.97 | N/A |
| EBITDA\* (billion ¥) | 183 | 214 | 295 | 344 | 352 | N/A |

Note: EBITDA = Earnings before interest, tax, depreciation, and amortization.

Source: “Financial Highlights,” About Us: Financial Information, Suntory Holdings, accessed August 8, 2017, www.suntory.com/about/financial/.

endnotes

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