



Practice Case 15 (Scotch Manufacturer)

Background

We have been contacted by a large distilled spirits manufacturing and marketing company to develop a new strategy for one of their brands.

Before getting into the details on this particular case, how would you define strategy?

- Participation
 - Geography
 - Customer
 - High-Level Product Segment
- Offering
 - Product
 - Service
- Pricing
 - Product
 - Service
- Operating Configuration (cost/asset)
- Distribution



What would be your process to develop a new strategy?

- Position Assessment (i.e. understand sources and drivers of profitability)
 - Business Profitability
 - Strategies
 - Market Economics
 - Competitive Position
- Alternative Identification
- Alternative Evaluation
- Business Plan

In the first meeting with the client to "scope out" the potential project, what might be some of the things that you would like to know?

- Ulterior motives for the work (are there politics involved)
- What other work have they done on the subject?
- What do they want to find out?
- How would they like to work together?
- Are there any time constraints?
- Who would they like involved in the project?
- Basic information on the brand (profit, volume, etc.)?
- Any hypotheses on the key issues?
- Any thoughts on the likely alternatives?
- Any key questions that have to be answered regardless of the strategy?



What might be some of the reasons that you would NOT want to accept this project?

- Politics
- Not committed to value
- Looking for scapegoats
- Inability to satisfy the BU manager
- Difficult client in general

Here is a little background information on the scotch industry

The first scotch was introduced in North America in the early 1940s, and grew steadily and rapidly in popularity until the 1960s. The industry has subsequently declined in volume every year to 1996 at a rate of about 3% per year. From 1996-1998, the volume declined at only 1% per year for these two years.

What kind of information would you want to understand in order to determine the reason for the steady volume decline up to 1996, explain the "kink" in the volume decline, and then forecast what market volume is likely to do over the next several years?

- Is the answer to slower growth explained by fewer people drinking scotch, or by drinking less overall, or both? (*fewer people have been drinking scotch*)

What kind of information would you want to understand in order to determine why fewer people have been drinking scotch?

- Demographics
 - Male versus female
 - Age of typical scotch drinkers
- Popularity
 - Substitute products
 - Health reasons



What kind of analysis would you complete to quantify the reduction in number of scotch drinkers?

- Review census work
- Complete literature searches
- Interview customers
- Interview distribution channel members
- Interview other producers
- Complete market research studies
- Review the client's information gathered over time

Here is some additional information on the scotch industry

Scotch consumption has been declining because fewer people have been drinking scotch. Fewer people have been drinking scotch for two reasons. First is a general decline in the popularity of scotch. Other distilled spirits, such as vodka and wine have increased in volume and become more popular. Second is a decline in the age group that traditionally drinks scotch (the 35-50 age group). As the baby boomers age, this segment of the population is growing, so even if popularity doesn't change, the scotch market should improve going forward due to the growth in this segment. In addition, scotch is becoming more popular, especially the unique single malt scotches.

What information would you like to know about the industry, in general?

- How is the scotch market segmented?
 - There are three segments in the market, low-end (such as private label CVS whisky), premium (typically seen on the back bar in a bar), and super-premium (including Chivas Regal and single malt scotches).
- What are the sizes of the segments?
 - 40% of the volume in low-end, 50% in premium, and 10% in super premium.
- Is the scotch market profitable?
 - Yes, all segments are economically profitable.
- How is profit concentrated?



- 20% in low-end, 60% in premium, 20% in super-premium.
- What are customer needs?
 - Taste (do people like the taste of the scotch -- either in blind taste tests or do they "think" one brand tastes better because it has a darker color, or is a more thick liquid, etc.)
 - Fashion (is it fashionable to drink)
 - Badge (does the brand make me feel important/different/mature/sophisticated)

Would you think that the scotch industry is profitable? Explain structurally, and elaborate

- High barriers to entry, takes a long time to establish a brand name in scotch
- People are very brand loyal and won't switch easily
- People think it's bad for your health and it's difficult to get them to start drinking
- People think it tastes bad and it's hard to acquire a taste for scotch
- Customers are not price sensitive
- Regulatory pressures are high (high taxes, it's expensive)
- Competitor intensity is not that high (little price based competition, noticeable, but not outrageous investment in advertising)
- As a result, overall, the industry is very profitable, but volume is declining, so profit is declining

What information would you like to know about the brand?

- What segments do we participate in?
 - Only in the premium segment and with one brand
- Where is our brand positioned?
 - Tied as the #2 brand with 25% market share of volume (#1 has 35%, #2 has 25%, we have 25%, #4 has 10%, others have 5%)
 - Priced slightly above the industry average (10%)



- How have competitors performed?
 - #1 has gained share from us, the #4 and other brands, but mostly from us
 - #2 has held share
- How profitable are we relative to competitors?
 - We all have same cost of goods, differences are in selling costs and advertising costs
 - #1 has highest selling costs and advertising costs, #2 has second, #3 has third, and so on
 - #1 and we have a price premium, #2 is priced at the industry average, #3 and all others are slightly below the industry average, but no one is dramatically different than the industry average
 - #1 has a lower per unit profitability but has the most share of profit given its highest market share

What are your potential hypotheses that you would want to test to understand our relative performance?

- Customers perceive our brand as having poorer rankings on the key attributes
 - We have a disadvantaged taste, disadvantaged badge, but competitive fashion
- We do not have the same distribution/availability as competitors
 - We actually have advantaged distribution
- We are priced too high relative to our attributes
 - True
- Customers are not aware of our products (advertising awareness)
 - False, people remember our advertising
- Customers are not convinced to buy our product from our advertising (advertising effectiveness)
 - True, we have very poor advertising effectiveness



Why has our advertising effectiveness been poor?

- We don't spend enough
 - True, we spend about 25% too little money
- We don't spend in the right media
 - True, we spend a lot on billboards because they're cheap but they don't reach the right audiences
- We don't spend at the right time of the year
 - True, we spend a lot at Christmas to get the impulse buyers but we don't get the brand loyal buyers
- Our advertising copy is bad
 - True, we have had poor campaigns while the #1 brand has had very good campaigns

How would you determine how much money to spend on the advertising budget?

- Set a target number of customers to reach and a frequency target, and then back out the required investment to achieve the targets, based on the media used, time of year, quality of layout, etc.
- Spend as much as competitors
 - This would require a 100% increase in advertising investment
- Spend the same % of revenue as competitors, or set a % of revenue target
- Look at the competitors, index their advertising investment relative to the price premium they receive, and thus index our investment relative to the price premium we receive (in other words, #1 brand has a 10% price premium and invests \$10MM/year in advertising and the industry average is \$5MM/year. So they have 100% more advertising for a 10% price premium. We want a 0% price premium, so we'd invest at the industry average of \$5MM. Or, we want a 10% price discount, so we'd invest at ½ of the industry average, or only \$2.5MM per year)
- Continue current spending
- Spend a % of our cost structure
- Do a break-even analysis and spend up to where we are economically break-even



If our goal was to make money, and not necessarily to gain/maintain market share, what might be some alternatives?

- Reformulate the product to change its attributes
- Change pricing
- Reduce costs
- Change distribution
- Change advertising/promotion strategy
- Sell the brand
- Milk the brand

Which of these is likely to offer the greatest profit potential and why?

- Milk the brand
 - Because market volume is declining so much, we will never recover the advertising investment to turn around the brand (the best strategy).
- Sell the brand
 - Because market volume is declining so much, we will never recover the advertising investment to turn around the brand, and the value of the brand declines every year as the volume declines.
- Invest to build the brand
 - Convince other producers to spend on advertising so the entire industry convinces more people to drink scotch and all producers win. We could also encourage people to switch from wine/vodka/other drinks to drink scotch (e.g., link with cigars to appear more fashionable).



Which of these will be easiest for the company to implement and why?

- Is this the largest brand for the company? (i.e., if this brand declines, will the entire company decline?)
 - This brand is only a small part of the company's portfolio.
- Fit with other brand strategies (i.e., are all of the other brands in the portfolio growth brands so that this is the only declining brand?)
- Fit with management time and attention (is there so much time focused on fixing this brand that other brands suffer and offset the potential improvement in this brand?)
- Because market volume is declining so much, we will never recover the advertising investment necessary to turn around the brand, and the value of the brand declines every year as the volume declines
- Invest to build the brand
 - Convince other producers to spend on advertising so the entire industry convinces more people to drink scotch and all producers win. We could also encourage people to switch from wine/vodka/other drinks to drink scotch (e.g., link with cigars to appear more fashionable).