

# **Southwest Conquistador Beer Case Assignment**

**MSBA Cohort 2 Group 22**

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# Revenue

Population  $\xrightarrow[\text{consumption}]{\text{Per capita}}$  Total Beer Consumption  $\xrightarrow[\text{Market share}]{\text{Conquistador}}$  Demand For Conquistador Beer  $\xrightarrow{\text{Price}}$  Revenue

Year	Population	Beer per Capita	Market Share	Total Demand (Gallons)
1999	45,500	48.3	0.25	549,051.67
2000	52,800	49.0	0.3	776,935.90
2001	63,600	49.8	0.33	1,046,090.52
2002	75,500	50.6	0.35	1,338,386.07
2003	87,100	51.5	0.36	1,613,820.65

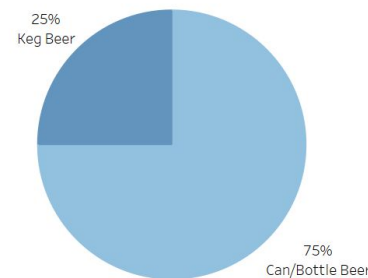
Source: Table B      Table A      Table C

Year	Price (6-pack)	Price (keg)	Weighted Price	Price per gallon	Revenue
1999	3.18	1.43	2.7425	4.88	2,676,931.92
2000	3.18	1.43	2.7425	4.88	3,787,994.14
2001	3.18	1.43	2.7425	4.88	5,100,272.45
2002	3.18	1.43	2.7425	4.88	6,525,375.64
2003	3.18	1.43	2.7425	4.88	7,868,272.24

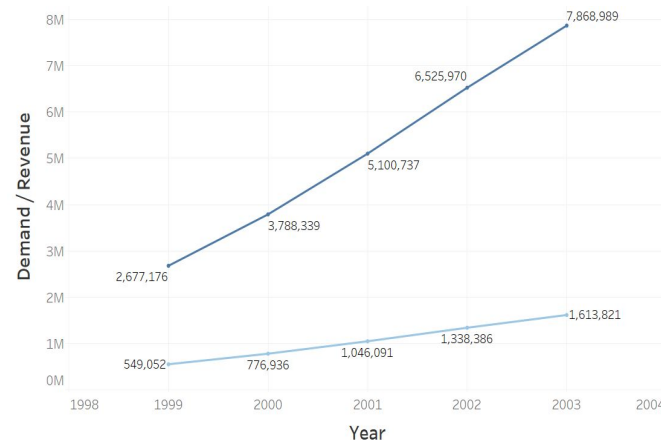
Source: Table G/I      Case

## Assumptions:

- The growth rate of beer consumption for 1999-2003 remains **constant**, which is the **average** of that in 1997 and 1998 (See Appendix 1 for more details).
- Conquistador has a premium price, which is **the highest wholesale price** among existing beers.
- 128** ounces per gallon and **12** ounces per pack of beer.



Beer in bottles and cans outsold keg beer by a **three-to-one margin**. Keg beer prices at the wholesale level is about **45%** for beer in bottles and cans.



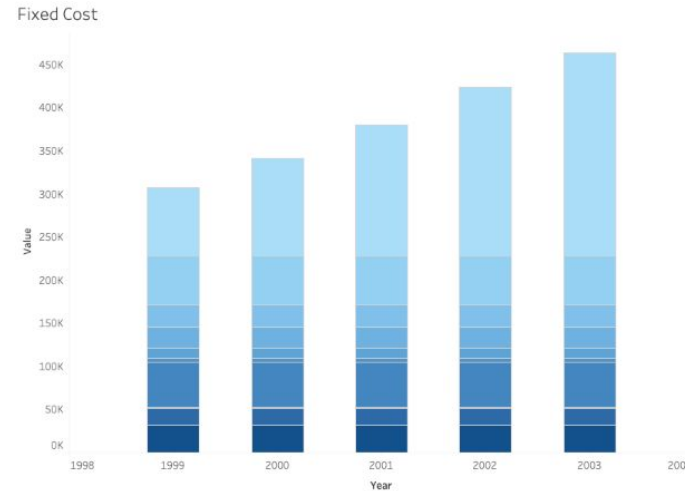
# ANNUAL FIXED COST

## Assumptions:

1. Advertising: Assume the cost is **3%** of the total sales.
2. Incentives: Assume that incentives take up **5%** of the total compensation.
3. Non-salary Benefits: Assume that non-salary benefits take up **10%** of the total compensation.
4. Debt interest: Assume that the debt interest rate Larry got from the local banker is **8%** annually.

Annual Fixed Cost					
Year	1999	2000	2001	2002	2003
Advertising(3% of Sales)	\$80,307.96	\$113,639.82	\$153,008.17	\$195,761.27	\$236,048.17
Salary	\$450,000.00	\$450,000.00	\$450,000.00	\$450,000.00	\$450,000.00
Incentives(5% of TC)	\$26,470.59	\$26,470.59	\$26,470.59	\$26,470.59	\$26,470.59
Non-salary Benefits(10% of TC)	\$52,941.18	\$52,941.18	\$52,941.18	\$52,941.18	\$52,941.18
Debt Interest(8% of debt)	\$56,000.00	\$56,000.00	\$56,000.00	\$56,000.00	\$56,000.00
Utilities	\$32,000.00	\$32,000.00	\$32,000.00	\$32,000.00	\$32,000.00
Insurance	\$24,000.00	\$24,000.00	\$24,000.00	\$24,000.00	\$24,000.00
Personal Property Taxes	\$20,000.00	\$20,000.00	\$20,000.00	\$20,000.00	\$20,000.00
Maintenance	\$11,200.00	\$11,200.00	\$11,200.00	\$11,200.00	\$11,200.00
Miscellaneous	\$4,800.00	\$4,800.00	\$4,800.00	\$4,800.00	\$4,800.00
Total	\$757,719.72	\$791,051.59	\$830,419.94	\$873,173.03	\$913,459.93

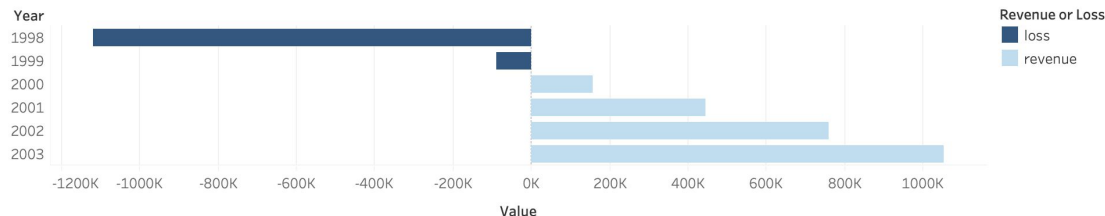
Annual fixed cost increases over years



Source: The Southwest Conquistador Beer Case

# Cash Flow Analysis

	Now	1999	2000	2001	2002	2003
Revenue	-	2,676,932	3,787,994	5,100,272	6,525,376	7,868,272.24
Cost of Sales (1)	-	(2,007,699)	(2,840,996)	(3,825,204)	(4,894,032)	(5,901,204)
Fixed Cost	-	(757,720)	(791,052)	(830,420)	(873,173)	(913,460)
Salvaged Value (3)	-	-	-	-	-	480,000
Initial Investment	(1,120,000)	-	-	-	-	-
Total	(1,120,000)	(88,487)	155,947	444,648	751,171	1,533,608



## Assumptions:

1. Cost of Sales is **75%** of sales in the beer industry.
2. The business plan is for 5 years (Equipments will be fully depreciated in 5 years).
3. After 5 years, warehouse can be salvaged.

## Metrics:

NPV: **\$1,488,719**

Payback Period: **3.94 years**

Average ROI: **2.33**

(See Appendix 2 for more details)

## Conclusion

1. Larry **should invest** in this business because NPV is positive.
2. Future Research:
  - Based on report G, 65.2% of consumer usually buys beer from supermarket, so supermarket should be the primary retailer of Conquistador Beer.
  - Pricing of Conquistador Beer should be determined by a thorough Economics Value Analysis considering customers consideration of different features.

## Appendix 1 - Estimates of Beer Consumption from 1999 to 2003

Year	Consumption	Growth Rate
1996	46.0	
1997	46.8	1.74%
1998	47.5	1.50%
1999	48.3	1.62%
2000	49.0	1.62%
2001	49.8	1.62%
2002	50.6	1.62%
2003	51.5	1.62%

\*The average growth rate of beer consumption per capita in 1997 and 1998 was **1.62%**. We assume that growth from 1996 to 2003 remains **constant** at this rate.

Source: Report A

## Appendix 2 - Calculation of NPV, Pay-back period

	Now	1999	2000	2001	2002	2003
Revenue		2,676,932	3,787,994	5,100,272	6,525,376	7,868,272.24
Cost of Sales		(2,007,699)	(2,840,996)	(3,825,204)	(4,894,032)	(5,901,204)
Fixed Cost		(757,720)	(791,052)	(830,420)	(873,173)	(913,460)
Warehouse's Salvaged Value						480,000
Initial Investment	(1,120,000)					
<b>Total</b>	<b>(1,120,000)</b>	<b>(88,487)</b>	<b>155,947</b>	<b>444,648</b>	<b>758,171</b>	<b>1,533,608</b>
Interest Rate*		0.0533	0.0646	0.0369	0.0173	0.0115
<b>PV</b>	<b>(1,120,000)</b>	<b>(84,009)</b>	<b>137,595</b>	<b>398,847</b>	<b>707,898</b>	<b>1,448,388</b>
<b>NPV</b>	<b>1,488,719</b>					
Cummulative PV	(1,120,000)	(1,204,009)	(1,066,414)	(667,567)	40,331	1,488,719
<b>Discounted Pay-back Period</b>		<b>3.94</b>				

\*Interest rates in the US obtained from OECD website: <https://data.oecd.org/interest/short-term-interest-rates.htm>