

Vodka Study

-Marketing Analytics-

Stephanie Machado Reggeti

Gary A. Neumann

Juan M. Rodriguez Vega



Strategic challenges

- ✓ How does the vodka industry function?
- ✓ On an individual level, what levers should the biggest players use in order to increase sales?

Questions for Model

- ✓ What drives sales for the biggest players? & Why?
- ✓ What drives sales for a big brand? & Why?
- ✓ Which brands compete with each other?
- ✓ Are there differences between commercialization channels?
- ✓ How does the economy influence all this?

Big picture of a consolidated vodka industry

DIAGEO

SMIRNOFF

CÎROC
ULTRA PREMIUM VODKA

Ketel One
VODKA

25%



BACARDI LIMITED

ERISTOFF

GREY GOOSE
VODKA

6%



Pernod Ricard

ABSOLUT
Country of Sweden
VODKA

9%



SAZERAC

NEW ORLEANS

SKOL

8%

Beam SUNTORY

EFFEN
VODKA

VOX
VODKA

PINNACLE
— VODKA —

6%

Analysis revealed additional tiers for the market

Ultra Premium (Tier 1)

Belvedere
Chopin
Grey Goose

Premium (Tier 2)

Absolut
Finlandia
Fris
Level
Pravda
Sky
Stolichnaya
Tanqueray
Ketel one

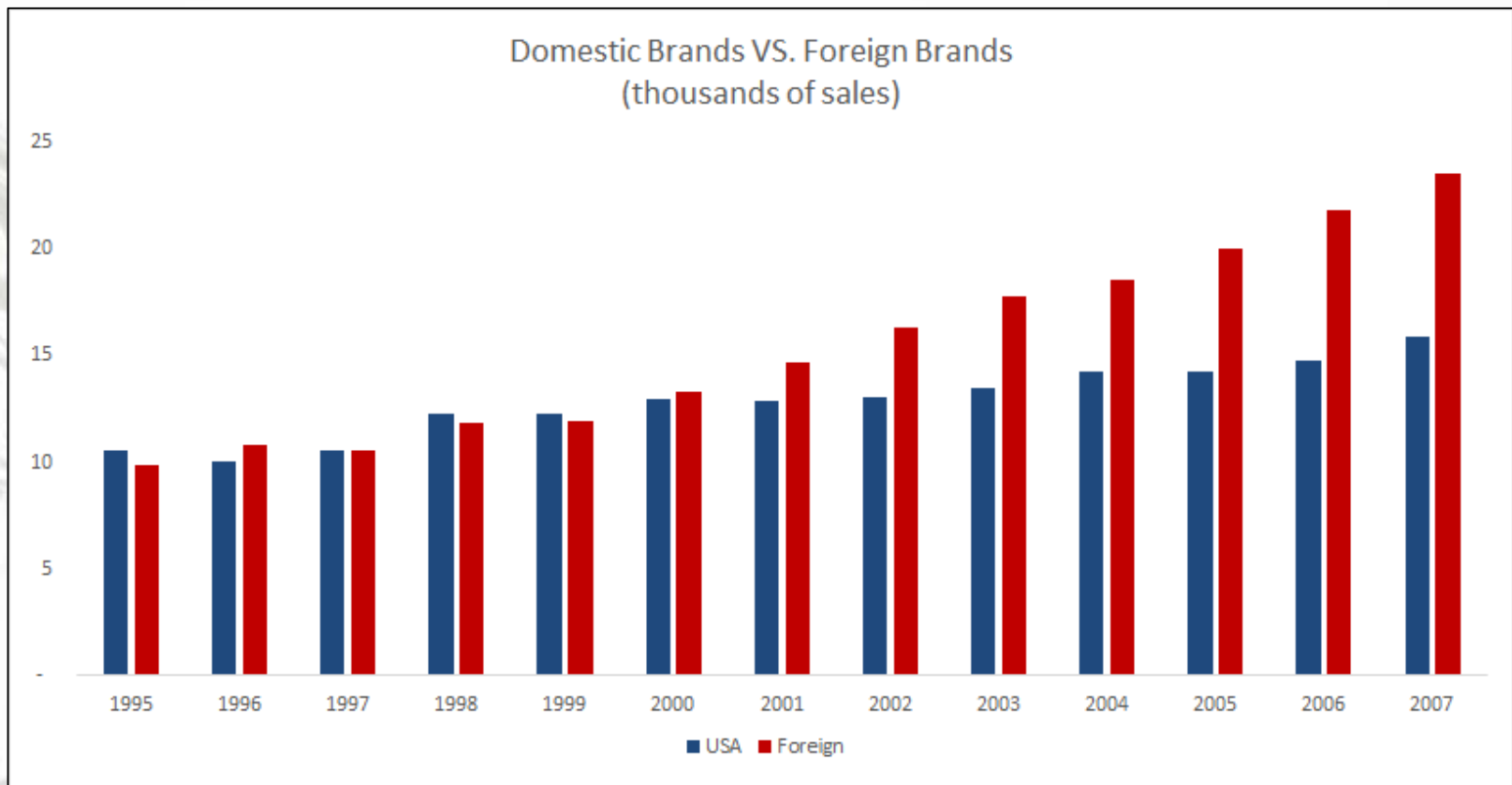
Standard (Tier 3)

Smirnoff
Three Olives

Economy (Tier 4)

Aristocrat
Barton
Burnett
Crystal Palace
Fleischmann's
Gilbey's
Gordon's
Kamchatka
McCormick
Polar Ice
Popov
Seagram's
Skol

US consumers prefer foreign vodka brands



Source: Euromonitor Passport

51% of the studied brands were imported

Market Trends

Source	Value	STD Err	t	Pr > t
Intercept	1.134	0.366	3.096	0.002
LnPrice	-0.195	0.066	-2.968	0.003
LnMag	0.015	0.007	2.058	0.041
LnNews	0.013	0.006	2.327	0.021
LnOut	-0.014	0.006	-2.432	0.016
LnBroad	0.002	0.006	0.323	0.747
LnPrint	-0.005	0.008	-0.702	0.483
New Tier	-0.106	0.036	-2.957	0.003
Firstintro	0.489	0.081	6.066	< 0.0001
Foreign	0.048	0.043	1.125	0.262
House	0.005	0.003	1.693	0.092
Tier Mkt				
Share	-0.167	0.128	-1.303	0.194

R² 0.296

✓ The difference in sales for the overall vodka market is determined by:

- Product price
- Competition within tier
- New introduction into segment
- Marketing spend in Magazines, News and Outdoors

Nevertheless, we decided to dig deeper to better understand the two biggest players in the market.

Market Trends

DIAGEO

Source	Value	STD Err	t	Pr > t
LnPrice	0.680	0.324	2.097	0.041
LnMag	0.682	0.423	1.612	0.114
LnNews	-0.378	0.336	-1.126	0.266
LnOut	0.032	0.226	0.140	0.889
LnBroad	0.036	0.188	0.193	0.848
LnPrint	-0.070	0.276	-0.252	0.802
New Tier	0.011	0.550	0.020	0.984
Foreign	-0.188	0.489	-0.384	0.703

R^2 0.413

- ✓ Market leader, but lacks an Ultra Premium brand.
- ✓ Would benefit from increasing price on one second tier brand since it already has recognition

Market Trends



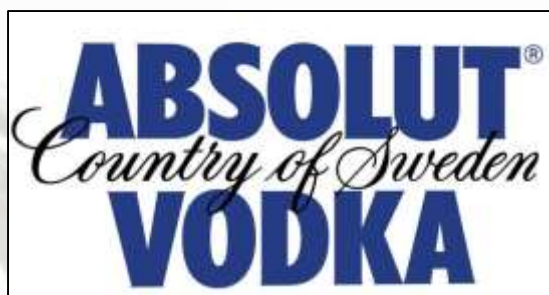
Pernod Ricard

Source	Value	STD Err	t	Pr > t
Intercept	1.767	1.400	1.262	0.221
LnPrice	-0.360	0.262	-1.377	0.184
LnMag	-0.005	0.019	-0.264	0.795
LnNews	0.013	0.016	0.802	0.432
LnOut	-0.013	0.026	-0.518	0.610
LnBroad	0.035	0.025	1.416	0.172
LnPrint	0.041	0.021	1.934	0.067
New Tier	-0.023	0.092	-0.246	0.808
Tier Mkt Shar	-0.948	0.409	-2.319	0.031

R^2 0.308

- ✓ Competes in tier 2 and 4, but contrary to Diageo, would overall suffer from price increases for most of its brands
- ✓ Would benefit from increasing broadcast and print marketing expenditure because they have still not aligned all of their recent acquisitions and do not have a well defined portfolio

Brand Power



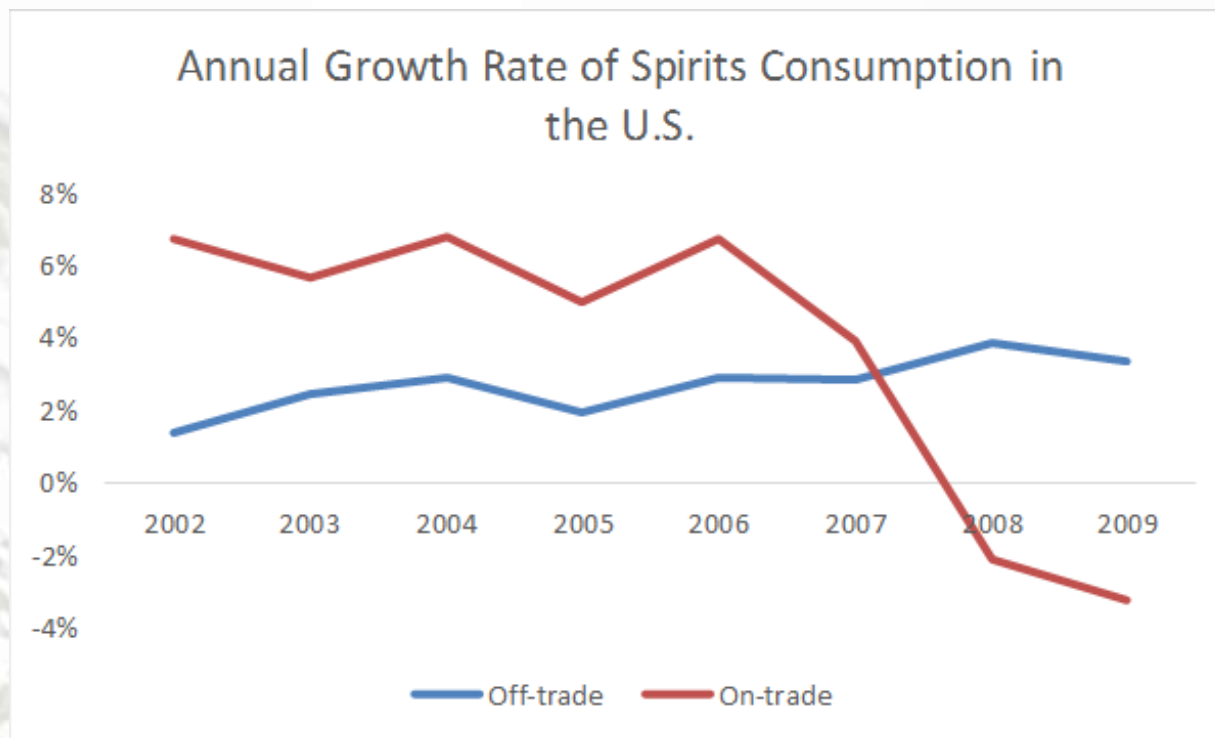
- ✓ Its the only Pernod Ricard brand that would benefit from increasing price and repositioning itself as a ultra premium brand in the portfolio

Source	Value	STD Err	t	Pr > t
Intercept	1.661	1.697	0.979	0.365
LnPrice	1.097	0.253	4.332	0.005
LnMag	0.089	0.062	1.438	0.200
LnNews	0.013	0.012	1.132	0.301
LnOut	-0.122	0.106	-1.152	0.293
LnBroad	0.033	0.023	1.413	0.207
LnPrint	0.110	0.081	1.366	0.221

R^2 0.933

Commercialization channels

Consumers are increasingly switching their preference from purchasing from the on-trade to the off-trade channel



Source: Euromonitor Passport

Macroeconomic factors lack significance for vodka sales

Source	Value	STD Err	t	Pr > t
Intercept	0.037	0.164	0.222	0.824
GDP growth	-0.004	0.011	-0.325	0.745
GDP per capita	0.000	0.000	1.040	0.299
Inflation %	-0.025	0.027	-0.927	0.355
Unemployment	-0.006	0.019	-0.309	0.757

R^2 0.007

- ✓ The studied time period corresponds to mostly prosperous economic times, in this context GDP, Inflation, Imports and unemployment had no influence on overall change in sales
- ✓ Consumers are very brand loyal and will not change their brand preference due to slight economic changes. They are more likely to switch channels

Insights

- ✓ There are more than 2 tiers for the vodka brands
- ✓ Tier 3 had a big opportunity for another entrant, which explains Svedka's success in joining the market
- ✓ Imported vodka brands are not only more expensive, but also have higher demand
- ✓ Diageo would benefit from having an ultra-premium vodka
- ✓ Absolut should increase its price point
- ✓ Consumers are trending towards off-trade consumption
- ✓ Macroeconomic factors do not have any influence on vodka sales in the studied time period