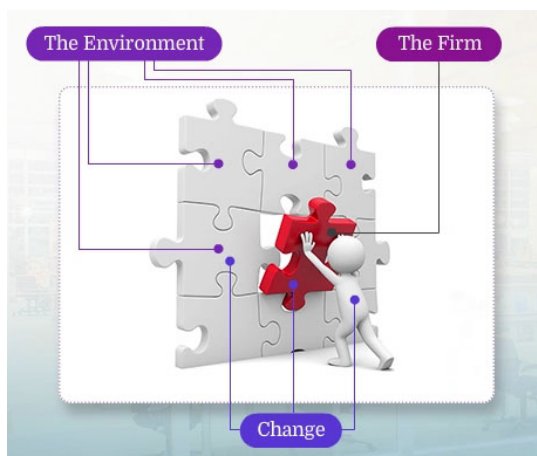


Marketing & Strategy

Strategy Session 1
STRATEGY 704QH 2024

What is Strategy?



Great strategies, ones that allow firms to achieve ambitious objectives, address all three of these topics

Session 1: The Environment

Today's Agenda

Evaluate Boston Beer's environment (macro & industry)

Draw out implications for strategy

Environmental Analysis (Scan)

Identify and assess relevant:

Demographic trends

Socio-cultural influences

Technological developments

Macroeconomic impacts

Political-legal pressures

Global trade issues



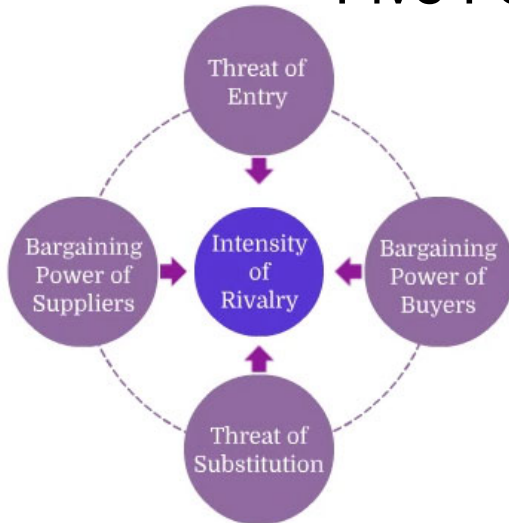
Environmental Analysis

Poll: Which Segment Would You Choose?

Why choose Craft?

Why choose Mass?

Five Forces Analysis



How much of the value created will the firms be able to capture (i.e., how profitable will this industry be)?

What key threats to capturing value must a firm's strategy address?

Industry Definition

All firms whose products and services may *readily* displace your own, through either:

- Demand substitution by customers willing and able to switch among firms' products or services
- Supply substitution by firms willing and able to produce similar products and services

Challenges to Industry Identification

Products are differentiated

Geographic distinctions between markets

Important competitors may provide close substitutes

Industries evolve

Markets split into strategic groups

Approaches to Identification

Customer analysis (likelihood of demand substitution): clustering; profiling; perceptual mapping; brand-switching analysis; substitution in use analysis; measuring products' cross-price elasticity (evidence of substitution)

Competitor analysis (likelihood of supply substitution): evaluate actions and attributes such as resources, capabilities, objectives, assumptions, and stated strategies

Industry?

Five Forces for Mass and Craft

Refined Perspective on Mass or Craft?

Investor's Perspective (IPO Pricing)

	A	B	C	D	E	F	G	H
1		Comparables Analysis						
2			Redhook	Pete's	Boston Beer			
3		Date of Offering	17-Aug-1995	7-Nov-1995	15-Dec-1995	From prospectus (Ex 5)		
4		Shares Outstanding (after IPO)	9,300,000	8,460,000	19,182,119	From prospectus (Ex 5)		
5		Shares Offered	2,575,497	3,000,000	2,540,379	Extrapolated from 9-month results (Ex 5)		
6		EPS	\$0.75	\$0.25	\$0.33	Based on Pete's.		
7		P/E Ratio	36	100	100			
8		Price (1st day close)	\$27.00	\$25.25	\$33.00			
9								
10		Note: Implied Market Cap	\$251,100,000	\$213,615,000	\$633,009,927			
11								
12		Source Exhibit	3,4	3,4	5			
13								

What should Boston Beer do?

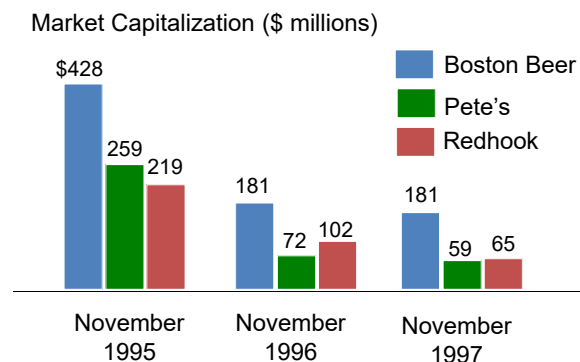
What happened?

November, 1995: BBC IPO at \$20, rises to \$30.375 on 1st day

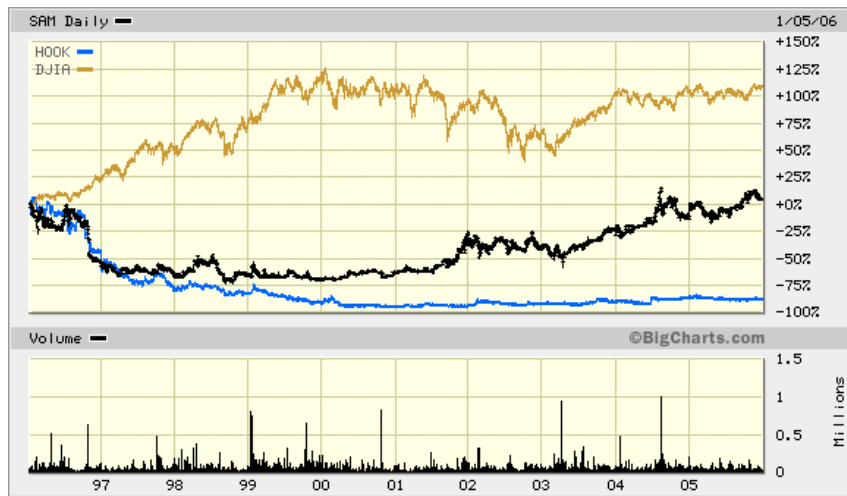
February 1996: Announces record results for fiscal year 1995

October 1996: NBC's Dateline: "Mass produced" beers are misleading the consumer. BBC's stock price drops by 20% as orders fall

1997 BBC's stock price hits a low of \$8



One Rough Decade



DJIA
Boston Beer (SAM)
Redhook (BREW)

Note: Pete's was purchased in 1998 and brand discontinued in 2011

Boston Beer Success



Boston Beer (SAM)
Redhook (BREW)
DJIA

Boston Beer Exits Craft

Relative 2013 Revenues of Assorted Breweries



FIVETHIRTYEIGHT

SOURCE: IBISWORLD.COM

“.. just by advertising on national television, Sam Adams has separated itself from 99 percent of craft breweries. The content of those advertisements and the issues they raise, together with the ratings of craft beer lovers, show us that Sam Adams is caught betwixt and between. It started a craft beer revolution, and then craft beer’s evolution passed it by.”

Source: <http://fivethirtyeight.com/features/is-sam-adams-too-big-to-be-craft-beer/>

“Big company strategies”

Opinion: Craft beer becomes what it once loathed

Published: June 30, 2016 4:08 p.m. ET



Aa

As smaller brewers grow, they start to use big-company strategies



<http://www.marketwatch.com/story/craft-beer-becomes-what-it-once-loathed-2016-06-20?siteid=bigcharts&dist=bigcharts>

My Take on Case

An exciting opportunity...

...meets a tough industry structure...

- Low barriers to entry (negative?)

- High supplier power (hops)

- Low economies of scale, and

- Close substitutes for craft beer



<http://www.rockartbrewery.com/>

... that shifts value created to suppliers and buyers

Koch's strategy transitioned the company accordingly

- Contract brewing provides an opportunity to achieve mass

- Advertising and variety packs raise switching costs

Highlights the importance of multiple analyses, strategy, and self-awareness

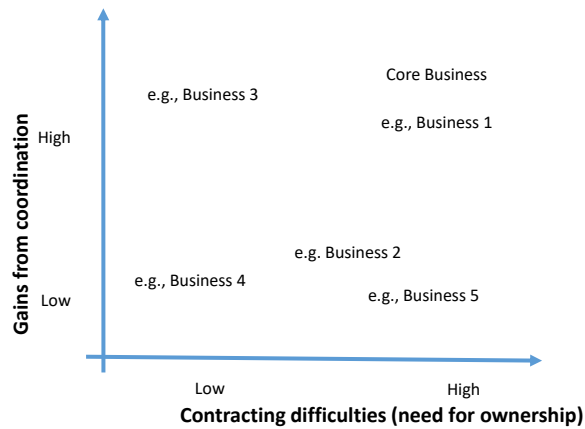
For our next meeting (*The Firm*)

Does the Mayo Clinic have one or more [VRIN resources or capabilities](#)? If so, what are they?

Knowing what you know now, [which of the three options](#) (if any) would you have recommended the Mayo Clinic pursue: (1) focus future investment in tertiary and quaternary care; (2) continue expanding primary and secondary presence in the upper Midwest while investing in tertiary and quaternary care ("status quo"); or (3) pursue growth through a range of additional business models?

For any of the additional businesses it has entered or could have entered (see case pages 6-9 and exhibit 10), [which would you have recommended the Mayo Clinic own and for which should they have contracted with other companies](#)? (Note: the preparation analysis and your thoughts on question 1 should inform your thoughts here.)

Corporate Scope Template



Corporate objective: Maximize gains from coordination across businesses while minimizing the cost of transactions

Which business, beyond their core, should Mayo Clinic *most* own and why?
Brief response:

Contracting Difficulties

- Uncertainty about future contingencies
- Inseparability of resources or effort
- Contracting on information: Arrow's paradox
- Limited private information (adverse selection)
- Specific assets and hold-up (opportunism)

Gains from Coordination

Operational Advantages (lower costs and higher WTP)

Economies of scope (scale and utilization of a shared activity)

Cross-selling and bundling

Co-location and other forms of increased complementarity (fit)

Coordinating complementary investments and activities

Leveraging resources and capabilities (particularly scale-free ones)

Strategic Advantages

Bargaining power with suppliers and buyers

Reduction in rivalry (multi-point competition)