

Vodka Manufacturer

Your client is a Spirits company which makes vodka. Of late, they have experienced a decline in profits. Why is this happening? What recommendations can you give to turn this around?

Preliminary Questions

How much have the client's profits declined?

We do not have a numerical figure on the decline in our profits. But it is significant.

Since when have the profits been declining?

Profits have had a sharp decline in the past year or so.

How are the client's competitors doing?

Competitors also have reduced profits but their case is not as bad as our client.

Where does the client operate?

We only operate in Mumbai, Maharashtra.

What are the client's retail channels?

Retail channels are primarily clubs and retail stores all over Mumbai. Clubs account for 90% revenue.

Where is the client in the value chain?

We manufacture and sell vodka to the distributors.

What kind of vodka does the client make?

We make a standard bottle of vodka.

Analysis

I want to analyze the profit structure of the client to identify the drivers for the reduced profit.

Breaking down the profit structure seems like a good idea. Let's go ahead with that. Please ask me questions related to your profit structure?

Have the client's revenues decreased or have the costs increased?

The client's revenues have declined and costs have increased. Let us start by analyzing revenue first.

Has the price of each unit changed or have the number of units sold decreased?

The number of units sold have decreased. The price of each vodka bottle is still the same.

Have the client's competitors also observed a decrease in bottles sold?

Competitors have seen a slight increase in their sales. And the market size has remained roughly the same.

I want to break this down across the value chain and analyze each factor.

Analyzing across the value chain is a good way to break it down. Let us consider Production, Distribution, and Customer Pull one by one.

Has the client's production capacity to produce vodka decreased?

There is no change in our production capacity. This is not the reason for decrease in sales.

Is the client facing an issue with the distributor?

There are no issues. We will come to this when we analyze the increase in costs.

Are clubs not pushing through the client's vodka?

Clubs, which represent 90% of our sales, are pushing through our vodka to consumers. But consumers are not demanding our vodka.

I want to look at the factors that impact the demand of vodka one by one.

Comparing customer pull factors for us and our competitors is a good idea. Please go ahead and ask me questions on each relevant factor.

How is the client's vodka priced compared to competitors' vodka?

Our vodka is more highly priced. This is because our vodka is a better-quality product. It also has superior packaging.

How is the quality of our client's vodka compared to that of our competitors?

Our vodka is a better quality product. It also has superior packaging. However, it is also priced higher.

Do our competitors produce similar vodka type/flavor as us?

Yes. They do. But our quality is better.

Are our competitors better in marketing and advertising or promoting vodka than our client?

Competitors are better at marketing than us. They use social media channels and organize EDM music festivals to better engage the youth. That is why their sales are better. Let us move to the cost section now.

Have costs gone up in the entire industry?

Costs have indeed increased for the entire industry.

I want to break down costs into fixed costs and variable costs.

Fixed costs are the same. However, variable costs have increased.

This must mean that variable costs per unit have increased, since the total units sold have decreased.

Variable cost per unit has increased while the number of units sold have decreased. This has led to a net increase in variable costs.

Has the cost of manufacturing changed?

Manufacturing cost per unit is the same. However, distribution cost per unit has increased.

Why has our client's distribution costs increased?

Our distributor has increased the price of distribution.

Has our distributor increased the distribution price for our client?

Our distributor has increased the price of distribution of vodka. Please move to recommendations if you don't have any other questions.

Why has the distributor increased the distribution price for the client?

There are no real competitors in distribution. Hence, we have no bargaining power over our distributor. Let us move to recommendations now.

Recommendations

Please provide three suitable recommendations to address this issue.

Improve the marketing of the vodka drink to associate with music festivals & events

A newer marketing strategy would make sense. This would help us reposition our product in the market.

Increase the distribution channels of the product

New distribution channels will lead to an increase in sales for sure. This is a good recommendation.

Introduce a new, cheaper vodka product in the market

We can look into that too.