Introduction

This case involves a real life consulting assignment with a manufacturer and distributor of whisky.
This is a typical "conceptual" case; i.e. there will be no numbers, only problem Identification and idea generation will be tested.

Background

The client was a first mover in promoting imported whisky in bars, discos and karaoke clubs, which was a fast growing business in an emerging market about 10 years ago and had experienced tremendous success – an annual growth of over 30%. The client penetrated the channel with whisky through aggressive marketing and partnering with top/key outlets in cities, offering sponsorships on events and volume rebates in return for exclusive or preferential sales on-premise. The growth has slowed down in the past few years to about 10% per year and profit margin is also declining. The key task is to describe and understand the reasons for the recent slow down and fall in profitability. Once that has been completed, the next objective is to explore a range of strategic options for the company to rebuild its growth platform.

Solving the case

First question: What information would you require to help explain the slowing down of growth?

The Good Answer: one needs to understand what has been driving the slow down of the business.
You would need to consider the market and competitive environment for whisky.

The tremendous growth the client experienced was driven by the growth of the bar/disco channel, which is peaking as the number of bars and discos are no longer increasing.

- The category has reached a high share of throat in the channel and is unlikely to grow by increasing penetration.

Competitors saw the opportunity and started to invest following the client's success

- Competition has eroded some share from our client

The Excellent Answer: all of the above, but considering also the life-cycle and upgrade path for consumers as well as the aging of brand image.

The client has been using the same advertising campaign for 5 years and has not been able to come up with new concepts

- Aging brand image impairs ability to recruit new consumers as well as keeping existing consumers
- Lack of aspiration for consumers to up-trade to more premium SKUs

Category life cycle is short as consumers tend to go less to bars/discos as they age and the first batch of recruits are leaving the market at this moment

Second question: What is driving profitability down?

The Good Answer: one needs to understand the forces in the market that affects the bottom line of luxury consumer goods

- Competition has driven prices down (or limited room for price increase) and has limited the margin growth
- Competition has driven up costs in trade marketing costs as outlet owners have more bargaining power to choose which manufacturers to partner with and demand more sponsorships and rebates
- Imported goods are subject to currency fluctuations

The Excellent Answer: all of the above, but consider also the profit per outlet aspect

- As the business expanded, smaller and weaker outlets (with lower return on investment) began to partner with the client as competitors were also aggressively seeking outlets, driving down the overall return

Third question: What are the potential strategic options?

Here are options that can be explored:

- Revitalize brand with new campaign to improve competitiveness
- Premiumize the market (given revitalized image) and encourage consumers to up-trade to higher value products (better margin and higher turnover without increasing volume consumption); making price competition irrelevant
- Seek opportunities in rural areas and invest strategically to capture less competitive markets
- Explore new channels such as in-home or restaurant consumption to catch consumers who leave the bar/disco channel
- Innovate to improve on delivery and create competitive advantage
- Improvements in outlet selection