Case 1: Whisky Brand Turnaround

Introduction

Problem Statement Narrative

Our client has been in business for close to 90 years. The original founder started in the whiskey business and over time expanded the product line so that today it is a multi-million dollar business with less than 5% of sales coming from whiskey.

The whiskey market in the US (our relevant market) has been declining at 2% over the last 20 years and our client's brand has been declining at the same rate.

While the company has great passion for the whiskey brand, in recent years they have been paying limited attention to it. Last year however, events happened that caused our client to pay attention to their whiskey brand. While sales of the market declined at 2% our client's brand declined by 15%, despite selling 10m bottles.

Our client has come to us to understand what has happened and how to grow the brand back without lowering the profits they were making on it.

Overview for Interviewer

To help understand why our client's whiskey brand has declined it helps to use an internal vs. external framework. Possible internal reasons:

- Reduction in marketing spend
- Decline in quality of marketing or product quality
- Product availability (production/supply chain)

Some possible external reasons:

- Negative PR
- New competitor launch
- Increase in competitor marketing
- Pricing effects

Information to be Provided Up Front

The information provided in the statement is all the candidate receives at this point. Once the candidate reaches the point of talking about competitors and their products the hand out (next page) should be given.

Case 1: Whisky Brand Turnaround

Provided Data

Competitor Analysis					
Interviews with advertising experts and an examination of competitors' ad pages have shown that while marketing spend hasn't changed significantly, there has been significant changes in prices within the industry.					
Brand	Place of sale	Cost to produce	2007 price	2008 price	2009 price
Client	Grocery, Specialty stores	$8.00	$14.75	$14.75	$15.00
Competitor A – Premium	Specialty stores	$8.25	$15.00	$17.00	$19.00
Competitor A – Own brand	Grocery	$6.50	Not launched	Not launched	$9.00
Competitor B – Premium	Specialty stores	$8.25	$16.00	$17.75	$19.75
Competitor B – Own brand	Grocery	$6.50	Not launched	Not launched	$9.75

Case 1: Whisky Brand Turnaround

Questions to Answer

How could we determine if there has been change in relative marketing spend against our major competitors?

First we need to gather information on our own marketing spend to have a basis for comparison.
Secondly, we need to determine our competitors' marketing spend, which we could do through several sources:

- Internal interviews
- External benchmarking through competitor company reports
- Analyze number of pages in various publications
- Interviews with experts within the advertising and marketing industry

After discussions about the industry and the competitors the handout should be given to the candidate and they should be given a couple of minutes to take in the data.

What are the options our client has assuming they want to stay in the whiskey business and how should they price their whiskey brand?

It is important for the candidate to realize that our client's product is a premium product and that is based on the cost to produce. Given this information it would seem that our client needs to try and increase prices in order to be perceived as a premium product comparable to the competitor premium brands.
It would be reasonable to suggest a price of $19.00-$20.00 for our client's brand. The candidate should be asked to justify any answer provided.

What conclusions can we draw from the table?

We have 2 main competitors, each with two different brands (premium and own brand).
Competitors have been steadily raising prices in their premium category, aiming at a segment of consumers who are willing to pay more. These consumers it seems prefer to buy at specialty stores. It is likely that our competitors have succeeded to capture a lucrative share of the market.
Additionally both competitors have launched this past year "own brands" and selling them through grocery stores. These own brands are significantly cheaper than the premium brands and have a lower cost to produce.
It seems that competitors have been capturing the lucrative top end of the market while also launching new own brands that have captured the price sensitive consumers, effectively squeezing our clients brand out of the market.

Case 1: Whisky Brand Turnaround

Math

Math

Once the options have been discussed the following information should be provided:

Based on market research our client believes that if they increase their price to \$20.00 they will be able to sell 8m bottles. The costs of producing whiskey are 75% variable and 25% fixed.

The candidate should now calculate the total profit of the two options to see which one is better. Notice that they all ready know the price today (\$15.00) and the quantity today 10m and this information should not be given again.

Today:

$$TR = 10m \times \$15 = \$150m$$
$$FC = 25\% \times \$8 \times 10m = \$20m$$
$$VC = 75\% \times \$8 \times 10m = \$60m$$
$$Profit = \$150 - \$20 - \$60 = \$70m$$

New Pricing Option:

$$TR = 8m \times \$20 = \$160m$$
$$FC = \$20m$$
$$VC = 75\% \times \$8 \times 8m = \$48m$$
$$Profit = \$160 - \$20 - \$48 = \$92m$$

(The fixed costs do not change!)

Examining the two options it seems that an increase of price to \$20.00 would increase total profits by \$22m an increase of ~30%.

Case 1: Whisky Brand Turnaround

Final Questions and Conclusions

It would appear that the higher pricing option is very favorable to our client. What complication might arise from such a price increase?

In the short term, we need to be aware of how our competitors react to this move in pricing, branding and advertising. Our move could provoke additional price increases from our competitors leaving us in the same position we were before. We should also be aware of possible difficulties in marketing our brand in the premium category as the third mover.

Further complications could arise given that our changes in our whiskey brand may impact negatively our wider liquor portfolio, if customers who stop purchasing our whiskey brand will also stop purchasing other liquor brands that our client owns.
Lastly we should be careful with the number of 8m bottles as given to us by the client. If this number is too optimistic the results could be significant.

Conclusions

Recommendation:
Our client should increase its price to $20.00 per bottle. This increase will generate an additional $22m in profits, an increase of 30%!
Some potential risks of this move include: competitor response, optimistic data from client and consumer perception of our brand.
Some next steps include: Validating data, creating marketing and advertising plan, preparing the market for significant price increase.