Lindenwood University
Digital Commons@Lindenwood University

Theses Theses & Dissertations

1989

The Alcohol Industry: Can It Survive the Next Round of Price Wars? or, Is It Time to Focus on Price Quality Relationships

Timothy Angus McCreery

Follow this and additional works at: https://digitalcommons.lindenwood.edu/theses

Part of the Business Commons

THE ALCOHOL INDUSTRY: CAN IT SURVIVE
THE NEXT ROUND OF PRICE WARS?
OR, IS IT TIME TO FOCUS ON PRICE
QUALITY RELATIONSHIPS?

Timothy Angus McCreery
B.S. - Marketing
B.A. - History

A Culminating Project Presented to the Faculty of the Graduate School
of Lindenwood College in Partial Fulfillment of the
Requirements for the Degree of
Master of Science

1989

COMMITEE IN CHARGE OF CANDIDACY:

Arlene Taich, Ph.D. Dean and Advisor

Adjunct Assistant Professor Rodger B. Rodgers

Robert Burke - Anheuser-Busch, Inc.

33541

FORWARD

This project has been completed against all odds. In my efforts to complete this thesis work, I have had the pleasure to frequent many libraries across the country. So as not to underestimate this point, I will list them:

Washington University - St. Louis, MO
Saint Louis University - St. Louis, MO
Depaul University - Chicago, IL
Roosevelt University - Chicago, IL
University of Georgia - Atlanta, GA
Glen Ellyn Public Library - Glen Ellyn, IL
Anheuser-Busch Research
Library - St. Louis, MO
Atlanta Public Library - Atlanta, GA
Mobile Public Library - Mobile, AL

Throughout this project, from concept to completion, I have been married, moved twice, had an addition to our family and changed jobs.

Thank God I'm finished.

TABLE OF CONTENTS

TOPIC	PAGE
INTRODUCTION	1
A. Definition of Industry	13
B. Background	13
C. Current Situation	14
D. 1988 Alcoholic Beverage Profile	15
MALT BEVERAGES	15
WINE AND BRANDY	19
DISTILLED SPIRITS	21
INDUSTRY OVERVIEW	24
A. Long-Term Prospects	24
B. Comparison with Other Industries	26
C. Breakdown of Industry Total on Functional Basis	27
D. National Beverage Consumption by Age Group	31
E. Historical Trends	35
F. Productive Capacity	36
G. Pricing	37
H. Geographic Concentration or Dispersion	44
I. Earnings	45
J. Technological Innovations	45
K. Substitute Products or Services	47
L. Concentration of Supplier/Customers	51
M. Changes in End-Use Patterns	51
N. Regional/National/Foreign Opportunities/Competition	53
O. Personnel Requirements	
MARKETING REQUIREMENTS	57
A. Patterns of Distribution	57
B. Chains of Discovering Wine	57
C. Traditional Consumption Patterns	57
D. Bases for Purchase/Sale	58
E. Promotion Patterns	59
ORGANIZATIONAL PATTERNS	60
FORECASTS OF FUTURE	61
A. New Products & Processes	61

TOPIC	PAGE

OUTLOOK 63

A. Value of the Price Quality Relationship to the Beverage Industry 65

DEVELOPING EFFECTIVE PRICE QUALITY RELATIONSHIPS 69

A. Least Cost Strategy 70
B. Profitability 70
C. Differentiation 72
D. Ramifications for Profitability and Differentiation 73
E. The Niche Strategy 74

RESEARCH 76

A. Industry Confidence 77
B. Growth 78
C. Dynamics of Pricing 78
D. Consumption by Beer Type 80
E. Price Band in Beer 82
F. Price Band in the Price Framework 84
G. Price Strategy 84
H. Guidelines for Tactical Pricing 88
I. Strategic Price Control 89
J. Dangers of Experience-Curve Pricing 93

EXECUTIVE SUMMARY 97

A. Margin Return Model 101

CONCLUSION 111

INTRODUCTION

Today's consumer product business environment can be described as highly price sensitive. As simple as this sounds, nearly every U.S. industry is confronted with this problem. Buyers representing all levels of industry are demanding price concessions from their suppliers (or at least steady-prices).

Fueling their demands are myriad interwoven factors. Among them: fiercer than ever competition, both foreign and domestic; proliferating technology; the dynamics of supply and demand; and low inflation.[1] There are two struggles taking place under this scenario. On the one hand, a product or service is offered. On the other hand, a potential need is met. The result is acceptance or rejection based on value received versus the alternative. This interaction transcends virtually everything we do. The ingredient of this process as it relates to decision making and the acceptance or rejection of a price will be discussed. Studied will be what processes were developed to determine the price of a product. A major problem in today's consumer product businesses is companies are becoming forced to compete on a price basis alone.

If this persists, gone will be a product that will have a lasting impact with the consumer. Consumption will be based on convenience of disposability or the salvage value if considered. The challenge of all consumer product companies is to fill consumer need with a high quality product. The purpose of this

project is to present to management decision making alternatives in a highly competitive price sensitive market.

The price benefit relationship should be a win-win proposition with both sides feeling they have come out on top. The concept of high quality, high price will be analyzed. A scientific approach to pricing, quality and how the entire company must work together as a team to achieve consumer loyalty, greater repeat purchases, less vulnerability to price, the ability to build high consumer price without losing share, lower marketing cost, and develop positive share trends.

Pricing is an inexact science that exists today. General managers usually consider their pricing policy a simple cost recovery strategy of payback or attempt to follow the leader price strategy. A few products manufacturers even attempt to create benefit analysis action by charging a higher price to the consumer for a product not unlike its lower priced competitor's product. The concept is higher price is supposed to create value in the mind of the consumer. The person is supposed to feel he/she has received "a good" deal. These three price policies represent what many small to medium sized companies consider their pricing strategy.[2]

A major fault with this concept is there is no strategy involved. What results is a pricing action/reaction of price cut after cut. To effectively compete in a highly competitive market, a company must clearly define their objective. Also, a

company must take realistic surveys to evaluate how the product is really being received by the consumer. An approach of what the company wants or pushes the consumer to receive from the product as opposed to selling the product based on quality, its true product attributes, will likely fail.

A benefit of this project will be new ideas for management. By employing the fundamental concept of price/quality relationship, management can avoid a downward price spiral resulting in lower profits, negative earning and eventual extinction. The price/quality quality structure will give more to the reader than simple segmented price strategy. The concept of price/quality will attempt to demonstrate the need for company-wide effort to create a true pricing policy.

The conclusion drawn allows the reader to create models providing alternatives and in creating, structuring and implementing an efficient quality/price policy program for their operation.

[1] Medium to small is defined as 25 million dollars annual revenues.

THESIS CULMINATING PROJECT PRICING STRATEGIES

The purpose of this project is to present to management decision making alternatives in a highly competitive price sensitive market. The concept of high quality, high price will be analyzed. A scientific approach to pricing, quality and how the whole company must work together as a team to achieve consumer loyalty, greater repeat purchases, less vulnerability to price, the ability to fill the high consumer price without losing share, lowering market costs and develop positive share trends. Pricing is an inexact science as it exists today. Managers today usually consider their pricing policy a simple cost recovery strategy of payback or attempt to follow-the-leader price strategy. A few product manufacturers even attempt to create benefit-response-action by charging a higher price to the consumer for a product not unlike its lower priced competition's product. The concept is higher price is supposed to help create value in the consumer's mind. The consumer is supposed to feel he/she has received "a good deal".

These three policies represent what many small to medium sized companies consider their pricing strategy. A major fault with this concept is that there is no strategy involved. What results is a pricing action reaction. To effectively compete in a highly competitive market, a company must clearly define their objective. also, a company must take realistic surveys to evaluate how their product is really being received by the

consumer. An approach of what the company wants the consumer to receive from the product will fail. A benefit of this project will be new ideas for management. By employing the fundamental concept of price/quality relationship, management can avoid a downward price spiral resulting in lower profits, negative earnings and even eventful extinction. The price quality structure will give more to the reader than simple segmented price strategy. The concept of price/quality will attempt to demonstrate the need for a company-wide effort to create a true pricing policy. The conclusion drawn allows the reader to create models providing alternatives in creating, structuring and implementing an efficient quality/price policy program for their operation.

HYPOTHESIS

The concept of quality needs to be re-examined to determine who is receiving quality, you or the person you sell products or services to. The tendency often is to evaluate quality from an internal set of predetermined guidelines. The standard of quality must be expanded beyond our predetermined quality objective. Usually, quality in the market place is reflection of the effort or evaluation of effort leading up to taking a product to market.

The question, does this product fit my consumer, must be asked. If, according to your specifications, you are hitting your customer target, but the product fails, the question arises, have I met my evolving customer needs and preferences?

The concept of quality must folllow the product outside the manufacturers doors. All phases of channeling the product to the consumer must be checked and evaluated for quality breaks. Troubleshooting occurs continuously throughout this system.

People are in a constant state of change. A product must change with your customer. Take for example when fuel energy was cheap, United States gas guzzling cars prevailed in the marketplace with the consumer. Today, people are conservation minded and economy cars are mainstream needs by today's car customer.

During our fuel crisis when small U.S. cars were in high demand during the start of the oil embargo, small cars were not being built to perform equal to the large gas guzzling sedans. As U.S. small cars began to show rapid breakdown, people regarded our small fuel-efficient cars as cheap or poorly assembled. The result was a great opportunity for fuel-conscience countries like Japan to expand to our market with an economy car product of high quality. During the early oil embargo, American economy cars were not always poorly constructed automobiles.

The real problem was the lack of U.S. car manufacturers to face up to a changing consumer. This refusal to change nearly collapsed Chrysler Motors. U.S. car makers were refusing to recognize their consumer needs and continued to sell their image, although be it a faulty image, and began losing market share to Japan and West German auto makers fast. U.S. car manufacturers tended to:

- Downgrade the customer viewpoint by saying U.S. customers want big cars
- Made high quality synonymous with size and high internal standards
- Tied internal quality objectives to manufacturing flow not consumer needs
- Expressed quality objectives a number of defects per unit
- Quality control as a manufacturing function exclusively.

While U.S. car makers did their best to sell customers what they thought the customer should buy, the Japanese and West German manufacturers took a unique approach. Japanese auto makers stressed:

- Real rather than imagined customers' expectations of size, economy and style
- Identified customers' needs through market research
- Used customer based quality performance measures
- Devised quality control systems for all functions of their product not just manufacturing.

Lack of perspective can be cited as to why United States car companies came off as handicapped in presenting their lines of quality autos. In many manufacturers, it is very easy to quantify defects on a per 1,000 unit basis.[3]

A more practical means to establish quality control would be to determine a wide range of customer preferences and needs. In the U.S. auto example, the lack of relevant experience made it difficult to analyze quality in the broader context and understood how to make the new need pay off.

VALUE OF THE PRICE QUALITY RELATIONSHIP

Quality can have a high impact on your return on investment (ROI). Using the Profit Impact on Marketing Strategy (PIMS), a date base of 3,000 companies where quality and profits were analyzed over four years, evidence suggested a strong and positive correlation between offering high quality products and services and averge to superior profitability.[4] According to PIMS product quality relationship, people recognize that the higher the product or service advantage is differentiated, the higher the return on investment. One reason can be that higher differentiated businesses usually charge and get higher prices.

The chart indicates the relationship of relative quality boosting rates of return. The businesses at the left of the chart show lower average return on investment due to relative

inferior product quality. Businesses moving to the right, that place greater emphasis on product quality, receive greater returns of their investments.

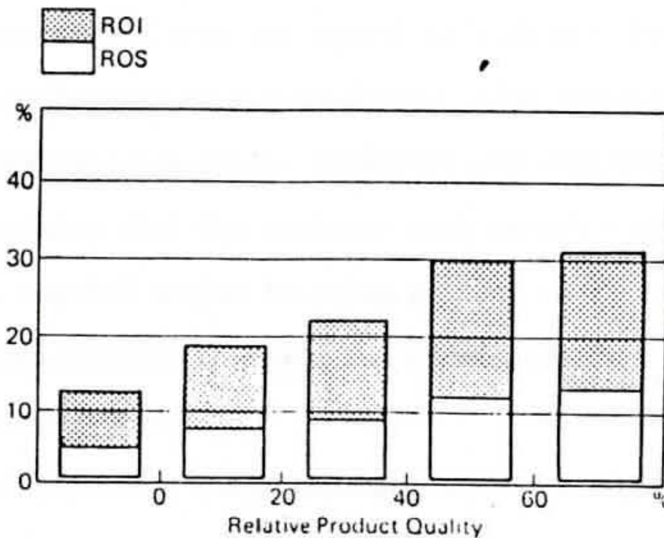


Figure 3

Since customers will pay more for better products and seek out this need for quality, those who offer this combination might be thought of as high cost producers. However, high quality does not mean high cost. The number of businesses reporting both high quality and high share exceeds the number which have achieved either cost leadership or succussful differentiation alone.

A quick example to further point the price quality relationship, I choose four different types of companies who are successful in their marketplace. All are successful and some cases have rewritten the rules of the particular industry for standards of performance, sales and quality.

I. The Chicken Business - Perdue Chicken

Once a strictly commodity business, Perdue Chickens have successfully distinguished themselves from the other brand of pre-cut and whole chickens. Through surveys, it was discovered that the customer was most interested in high meat to bone ratio (plump) and no bruises or pin feathers. Also surveyed but of less consideration were color, freshness and availability. By Perdue emphasizing what the customer most wanted - plumpness and no feathers, enabled Perdue to raise prices, increase market share and significantly increase their earnings.[5]

II. Anheuser-Busch

A case of providing their customer with the highest quality product in the market place. By applying the concept of pasteurization to beer in single unit bottles, Anheuser-Busch could produce a quality product that would last on the retailers' shelves without becoming "skunky" in taste or odor. At the same time, Anheuser-Busch added a code date system for quality control purposes. Any beer left out beyond the code date would require replacement by the distributor with fresh product. The result was consistently fresh product available to the consumer day-in and day-out, a standardization technique.

III. E & J Gallo

This beverage company received market share success by appealing to the price conscious generic wine consumer - purchaser of Chablis, Rhine and Burgundy, etc. Gallo sought to

achieve economies of scale of sales and profits by pushing and category consumption with the higher consumer acceptance. The basic strategy they seem to have followed over the last two years is one of lowering the price generics while raising the line quality image with the introduction of Varietals and an advertising campaign backed by #27 million, three times as much money as any other domestic brand. The effect has been to move their generic brands closer in image to the traditional "premium" California wines of Inglenook, Almadin, Taylor California Cellars, and Paul Masson, which have all been frequently discounted in the past several years.[6]

IV. Walt Disney Productions

Frequently cited as one of the best mass service providers in America. One component to their success is how Disney looks upon people, internally and externally, and handles them, communicates with them, rewards them and is, in my view, the basic foundation upon which its five decades of success stand. Disney sells satisfaction and serves millions of people on a daily basis successfully. A second component of success is intense management involvement by an annual week long program called "Cross Utilization." This program entails Disney executives leaving their desks and their usual business garb. They don a theme costume and head for the action. For a full week, the boss sells tickets or popcorn, ice cream or hot dogs, loads and unloads rides, parks cars, drives the monorail or the trains.[7]

In all four examples, each company has committed themselves to being highly quality or service oriented. Each example suggests a method to achieve a high quality or service image with its customers. Each operation asks for 100% success in quality of service. The answer is, sometimes it is obtainable, other times no. However, to set an objective of less than a 100% quality or service program, would suggest a toleration for mistakes. True, service and quality oriented companies can and do expect to get things right. The organization brings all the resources it can muster to bear on the problem.[8] But, even with high standards, companies can get lax if just an occasional failure in quality and service is considered tolerable. As Peters and Waterman suggest, "It is the difference between night and day. One is the mind set that says, doing it right is the only way. The other treats the customer as a statistic." The point here is that acceptance of anything less than excellent, quality or service, becomes a myopic problem. A company begins to provide its service or quality standard they think the customer will accept. What the company is not providing is the quality or service the customer is seeking in this case. When the quality or service is altered to the company's perspective (not the customer) the only alternative is the price weapon alternative. The result is low cost producers will win and survive in the larger market. The cycle will begin again, a niche market develops where the customer needs of quality and

service is great enough that it becomes economically feasible to produce and fill this constant need for quality and service. The assumption is that a company can achieve higher market share and profits by emphasizing quality of its product and service. This concept can be achieved if a correct pricing policy is conceived and implemented. This policy objective must be defined and clearly communicated throughout the company. The company must believe in the concept before they can be expected to work towards the common goal of high quality or service.

INTRODUCTION

A. Definition of Industry

The alcoholic beverage industry consists of three industry sectors: Malt beverage, Wine and Brandy, and Distilled Spirits. This portion of the project will focus on the alcohol segment of the industry. The purpose of this section is to: 1) identify key economic elements which make an industry (and company within same) viable, 2) illustrate how marketing enhances these elements and promotes competitiveness and profitability, and 3) demonstrate a command of managerial economics and marketing concepts as applied to the selected industry.

B. Background

Currently, the malt, wine, and spirits industry is in a period of slow or declining sales that has squashed the growth of all alcoholic beverages. However, long run consumption trends still seem positive. Per capita, adult consumption in the United

States today averages a modest 28.2 gallons. In 1987, total U.S. beverage alcohol consumption rose slightly due mainly to increased wine cooler and beer consumption. Total beer consumption is estimated up 1.0% in 1987, following a 2.2% increase in 1986. Total spirits consumption is forecast to decrease in 1987 by 3.0%.

Prime distribution for beer are grocery stores, drug stores, and package liquor chains.

C. Current Situation

Consumption of alcoholic beverages continued upward in 1986. On a per capita basis, consumption was an estimated 1% more than year earlier levels. The value of alchoholic beverage industry shipments rose 3.6% in 1987 and totaled an estimated 19.9 billion dollars in dollars adjusted for inflation, shipments increased an estimated 2.5%. From 1972 to 1985, alcoholic beverage shipments increased at a compounded annual rate of 2.8% in dollars, adjusted for inflation (1982 $).

1987 ALCOHOLIC BEVERAGE PROFILE[9]

INDUSTRY DATA	TOTAL	MALT	WINE & BRANDY	SPIRITS
Value of Industry Shipments	19,778	13,142	2,967	3,669
Total Employment (000)	62	38.5	13.2	10.3
Average Hourly Earnings	15.45	18.75	10.74	12.48
PRODUCT DATA				
Value of Product Shipments	19,184	13,024	2,902	3,258
Value of Exports	285	56	61	168
Value of Imports	3,222	972	1,193	1,058
Exports as a % of Shipments	1.5	0.4	2.1	5.1
Imports as a % of New Supply	14.0	6.7	29.1	24.5
Imports as a % of Apparent Consumption	12.8	4.7	22.1	21.7

1. New supply is the sum of product shipments plus imports.
2. Apparent consumption is the sum of product shipments plus imports less exports.
3. Value of Industry Shipments is value of all products and services sold by alchoholic industry.
4. Value of Product Shipments is value of products classified in the alcoholic beverage industry produced by all industry.

MALT BEVERAGES

The value of malt beverage shipments -- beer, ale, port and stout, rose almost 4% in 1987, to an estimated 13.1 billion. Adjusted for inflation, the increase was 2.6%.

Today's very large young adult population tends to consume more beer than other alcoholic drinks. Per capita consumption of malt beverages increased an estimated 1.3% in 1986 to 24.1 gallons, continuing an upward trend in consumption in recent years. Americans consumed an estimated 188 million barrels, or 4.5 million gallons of malt beverages in 1987, 2.5% more than in 1980.

Consumer prices for beer in 12 ounce cans or bottles rose an estimated .8% in 1987, largely reflecting increased marketing and packaging cost. In contrast, producer prices for beer increased at 3%.

Domestic production of malt beverage continues to be dominated by six large companies which account for more than 92% of domestic production. The following chart shows sales of leading U.S. brewers. Industry leader, Anheuser-Busch bolstered its dominance in 1986 with total shipments of 75 million barrels, raising its market share to 39% in 1987. On a broader front, its entire stable commands 40% - 50% share of markets in every state except Wisconsin, where local brewers dominate.

Sales of leading U.S. brewers[1]
(In thousands of barrels)

Brewer	1970	1980	1984	1985	1986	% chg. 1985-86
Anheuser-Busch	22,202	50,160	64,000	68,000	72,300	+ 6.3
Miller Brewing (Philip Morris)	5,150	37,300	37,520	37,100	38,700	+ 4.3
Stroh Brewing[2]	3,276	6,161	23,900	R23,200	22,400	− 3.4
G. Heileman Brewing	3,000	13,270	16,760	16,200	16,050	− 0.9
Adolph Coors	7,277	13,779	13,187	14,738	15,200	+ 3.1
Pabst Brewing[3]	10,517	15,091	11,562	8,900	7,150	−19.7
Genesee Brewing	1,475	3,600	3,000	R3,020	2,840	− 6.0
Christian Schmidt	3,040	3,625	2,500	R1,850	1,600	−13.5
Falstaff Brewing[3,4]	6,636	3,901	2,337	1,998	1,700	−14.9
Pittsburgh Brewing	N.A.	958	887	858	840	− 2.1
Total-leading brewers	62,573	147,845	175,653	R175,884	178,780	+ 1.7
Total-domestic	121,900	173,300	178,077	R174,800	178,000	+ 1.8

N.A.—Not available. R—Revised. [1]Includes tax-free withdrawals. [2]Sales reflect purchase of F&M Schaefer in 1981 and Jos. Schlitz in 1982. [3]Purchased by S&P Company, March 1985. [4]Includes Pearl Brewing Co. and General Brewing Co.
Source: *Impact Databank* and *Modern Brewery Age*.

F 26/FOOD, BEVERAGES & TOBACCO

INDUSTRY SURVEYS/OCTOBER 8, 1987

The chart on the preceding page shows the leading U.S. Brewers' domestic beer market share. Anheuser-Busch has nearly 2:1 lead over its next closet competition. Its flagship brand, Budweiser, show volume gains of 5% to 48.2 million barrels, for a 26% of the total beer market and 60% of the beer industry's most profitable segment, premium priced beers. Its lower calorie stablemate, Bud Light, captured the No. 3 position in the light category with 22.2% volume growth last year; this brand now accounts for more than 9% of Anheuser-Busch's total beer volume.[11]

U.S. brewing industry capacity and usage—1985*

Brewer	Number of plants	Total capacity (mil. barrels)	Shipments (mil. barrels)	% of capacity
Anheuser-Busch	13	70.0	68.0	97.1
Miller Brewing (Philip Morris)	6	44.5	37.1	83.4
The Stroh Brewery	6	25.3	23.4	92.5
G. Heileman Brewing	10	25.5	16.2	63.5
Adolph Coors	1	15.5	14.7	94.8
S&P Co.	4	13.3	10.9	82.0
Genesee Brewing	1	4.0	3.0	75.0
Christian Schmidt[1]	1	3.5	1.9	54.3
Pittsburgh Brewing	1	1.2	0.9	75.0
All others	59	12.4	3.2	25.8
Domestic total	100	215.2	179.3	83.3

*Latest available. [1]Includes 2.6 million barrels which are tax-free exports and military shipments. Sources: Company annual reports; *Modern Brewery Age Blue Book* and *Impact Databank*.

Leading U.S. brewers' domestic beer market share
(In percent)

Brewer	1970	1980	1983	1984	1985	1986
Anheuser-Busch	18.2	28.9	34.1	35.9	38.2	39.8
Miller Brewing (Philip Morris)	4.2	21.5	22.3	21.1	20.8	21.3
Stroh Brewing	2.7	3.6	13.7	13.4	13.1	12.6
G. Heileman Brewing	2.5	7.7	9.9	9.4	9.1	8.8
Adolph Coors	6.0	8.0	7.7	7.4	8.3	8.4
Pabst Brewing	8.6	8.7	7.2	6.5	5.0	4.0
Genesee Brewing	1.2	2.1	1.8	1.7	1.7	1.7
Christian Schmidt	2.6	2.1	1.8	1.4	1.2	1.0
Falstaff Brewing	5.4	2.3	1.5	1.3	1.1	1.1
Pittsburgh Brewing	—	0.6	0.6	0.5	0.5	0.5
Other	48.7	14.7	0.6	1.4	1.4	0.9
Total[1]	100.0	100.0	100.0	100.0	100.0	100.0

[1]Addition of columns may not agree because of rounding.
Source: *Modern Brewery Age*.

Anheuser-Busch has the highest earnings and cash flow per barrel in the industry and is investing heavily in more efficient facilities to raise annual brewing capacity to 77 million barrels, from 75 million at present.[12] Malt beverage imports have increased 11.4% in 1986 and totaled an estimated 8.8 million barrels in 1982. Major beer producers have recently begun to

market one or more types of imported beer, which generally differ from domestic products in taste. In 1987, exports of malt beverages amounted to an estimated 56 million dollars, representing an insignificant share of value or sales, less than 1%.

Trends and Forecasts

Malt Beverages
In Millions of Dollars
Except as Noted

Item	1984	1985	1986	1987	1988	Compound Annual Rate of Growth 1972-85	'80-85	'86-87
Industry Data								
Value of Shipments	11,868	12,216	12,660	13,142	-	8.9	5.5	3.8
Value of Shipments (1982 $)	10,858	10,945	11,047	11,339	11,623	3.5	1.4	2.6
Total Employment (000)	38.8	40.3	39.1	38.5	-	- 1.9	-1.4	-1.5
Production Workers (000)	27.4	27.0	26.1	26.0	-	- 1.7	-2.4	-0.4
Product Data								
Value of Shipments (1)	11,781	12,146	12,559	13,024	-	8.8	5.5	3.7
Value of Shipments (1982 $)	10,779	10,882	10,959	11,237	11,507	3.4	1.4	2.5
Product Price Index (1982=100)	109.2	111.2	114.6	115.9	-	5.2	4.0	1.1
Trade Data								
Value of Imports	603	654	805	972	-	23.2	10.1	20.7
Value of Exports	25.8	46.3	40.1	56.2	-	24.4	-5.6	40.1
Import/New Supply Ratio (4)	0.047	0.049	0.058	0.067	-	13.0	4.7	15.5
Export/Shipments Ratio	0.002	0.004	0.003	0.004	-	11.3	-10.6	33.3

(13)

This chart shows 4 years of data on the trends and forecasts of the malt beverage category.

1. Value of all products and services sold by the alcoholic beverage industry.
2. Value of products classified in the alcoholic beverages industry produced by all industries.
3. Developed by the office of industry assessment, ITA.
4. New Supply is the sum of product shipments plus imports.

WINE AND BRANDY

The volume of wine and brandy shipments increased 1.1% in 1986, an estimated value to total about 2.9 billion.

Wine consumption has increased steadily over the past decade and per capita consumption by adults was estimated at 2.5 gallons in 1986. Table wine accounts for about 60% of all wine consumption.

TYPE MARKET SHARE	
Table	59.8%
Coolers	20.5%
Dessert	5.9%
Vermouth	1.09%
Sparkling	7.5%
Special Naturals	5.1%
Others	.11%

California continues to be the major center for United States wine production, more than half of the country's more than 800 wineries are located in that state.[14]

Trends and Forecasts
Wine & Brandy
In Millions of Dollars Except as Noted.

Item	1984	1985	1986	1987	1988	Compound Annual Rate of Growth 1972-85	1980-1985	Change 1986-87
Industry Data								
Value of Shipments	2695	2763	2847	2967	-	9.3	4.8	4.2
Value of Shipments (1982$)	2614	2675	2719	2802	2871	3.3	0.1	3.1
Total Employment (000)	12.2	13.2	13.1	13.2	-	2.6	3.3	0.8
Production Workers (000)	7.0	7.1	6.9	7.1	-	1.8	1.2	2.9
Product Data								
Value of Shipments	2645	2696	2782	2902	-	9.3	3.4	4.3
Value of Shipments (1982$)	2565	2610	2657	2740	2808	3.2	1.2	3.1
Product Price Index (1982=100)	103.1	103.3	104.7	105.9	-	5.9	9.7	1.1
Trade Data								
Value of Imports	1125	1185	1209	1193	-	13.4	7.0	1.3
Value of Exports	25.9	28.1	35.3	60.8		24.1	1.6	72.2
Import/New Supply Ratio	0.298	0.305	0.303	0.291		2.8	3.1	-4.0
Exports/Shipments Ratio	0.010	0.010	0.013	0.021		13.2	-5.1	61.5

(15)

This chart indicates 4 year trends and forecast of the wine and brandy category.

1. Value of all products and services sold by the alcoholic beverage industry.
2. Value of products classified in the alcoholic beverages industry produced by all industries.
3. Developed by the office of industry assessment, ITA.
4. New Supply is the sum of product shipments plus imports.

The value of wine and brandy imports decreased 1.3% in 1987 and totaled 1.195 billion. Imports accounted for more than 14% of new supply in 1986 and 1987. Principal suppliers of wine to the United States continues to be Italy, Spain, Portugal, France and West Germany. United States exorts of wine continued to rise at 13% but account for only about 2.1% of domestic production.

In 1981, several producers made major marketing efforts to introduce featured alcohol content reductions ranging from 12% to 37%, from the standard 12.5% alcohol content thinking fewer calories will encourage greater consumption per occasion and broaden the appeal of wine to weight conscious adults.

DISTILLED SPIRITS

In 1987 shipments of distilled spirits, except brandy, totaled an estimated 3.3 billion, about the same level as in 1980 after adjusting for inflation. In recent years, the shift in consumer preference from distilled spirits to wines and beer has limited and lowered the spirits industry prices as prices for other alcoholic beverages rise.

White goods, gin, vodka, rum, and tequila have grown in popularity in recent years and now account for about 42% of distilled liquor consumption, up from 34% in 1975. Another fast-growing segment of the distilled spirits market is speciality goods, cordials and liqueurs. At the same time, the market share for brown goods, blended whiskeys and bourbon has declined from a dominant share to less than 39% of consumption.[16]

Distilled spirits distribution & market share

Category	1975		1980		1981		1982		1983		1984		1985		1986	
	Million cases	market share	Million cases	market share	Million cases	market share	Million cases	market share	Million cases	market share	Million cases	market share	Million cases	market share	Million cases	market share
Bourbon	32	17.0	28	14.7	28	14.5	26	13.5	24	12.7	22	12.0	21	11.5	19	11.0
Blends	24	12.8	17	8.9	16	8.2	14	8.3	14	7.8	14	7.4	13	7.0	11	6.8
Scotch	24	12.8	20	10.5	20	10.5	19	10.2	19	10.3	17	9.4	17	9.3	15	8.8
Canadian	21	11.2	22	11.6	23	12.1	22	11.7	22	11.9	23	12.6	21	11.8	20	12.0
Irish	*	†	*	†	*	0.2	*	0.2	*	0.2	*	0.2	*	0.2	*	0.2
Total whiskey	101	53.7	87	45.8	87	45.5	82	43.8	79	42.8	77	41.5	72	39.8	65	38.9
Gin	19	10.1	18	9.5	18	9.4	17	9.1	17	9.1	16	8.9	16	8.7	14	8.6
Vodka	37	19.7	41	21.6	41	21.5	35	22.5	42	22.6	42	22.8	41	22.7	39	23.4
Rum	8	4.3	13	6.8	13	6.9	13	7.3	14	7.8	15	8.0	15	8.3	13	8.0
Tequila	3	1.6	3	1.6	3	1.7	3	1.9	4	2.2	4	2.2	4	2.2	4	2.3
Total white goods	65	34.6	75	39.5	76	39.6	74	40.8	78	41.7	77	41.6	75	41.9	71	42.4
Brandy	6	3.2	8	4.2	8	4.5	8	4.7	9	5.0	9	6.1	9	5.2	9	5.2
Cordials & liqueurs	13	6.9	16	8.4	16	8.7	17	9.1	16	8.8	18	9.9	20	11.3	20	12.1
Cocktails & mixed drinks	2	1.1	4	2.1	3	1.8	3	1.7	3	1.9	3	1.7	3	1.7	2	1.5
Total specialties	21	11.2	28	14.7	29	14.9	28	15.4	29	15.7	30	16.8	33	18.3	32	18.8
Total distilled spirits	188	100.0	190	100.0	191	100.0	183	100.0	186	100.0	185	10.0	180	100.0	168	100.0

*Less than 500,000 cases. †Less than 0.05%. N.A.—Not available. 'Addition of columns may not agree due to rounding.

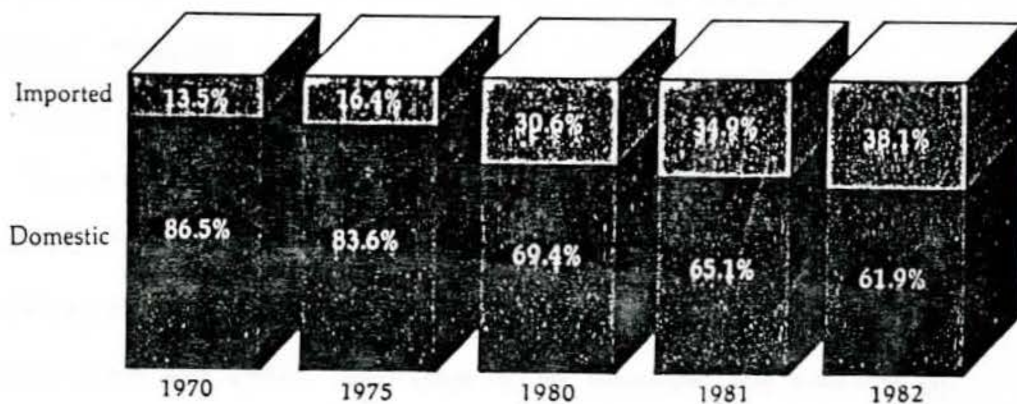
Source: *Impact* Databank.

Leading liquor brands — 1986

Brand	Marketer	Type	Case sales (in thous.) 1985	Case sales (in thous.) 1986
Bacardi	Bacardi	Rum	7,350	6,800
Smirnoff	Heublein	Vodka	6,250	6,300
Seagram's 7 Crown	Seagram	Blend	4,500	3,950
Canadian Mist	Brown-Forman	Canadian	3,700	3,600
Popov	Heublein	Vodka	3,250	3,400
Jim Beam	Beam	Bourbon	3,250	3,000
Jack Daniel's	Brown-Forman	Tennessee	3,150	2,950
Seagram's	Seagram	Gin	3,000	2,950
Dekuyper Peachtree	National	Liqueur	1,300	2,900
Windsor Supreme	National	Canadian	2,700	2,500
Seagram's V.O.	Seagram	Canadian	2,500	2,250
Dewar's	Schenley	Scotch	2,200	2,200
Kamchatka	National	Vodka	1,900	1,850
Canadian Club	Walker	Canadian	2,050	1,800
Black Velvet	Heublein	Canadian	1,850	1,750
Gordon's	Schenley	Gin	2,050	1,700
E&J	Gallo	Brandy	1,400	1,650
Gordon's	Schenley	Vodka	1,800	1,600
Gilbey's	National	Gin	1,850	1,550
Kahlua	Walker	Liqueur	1,450	1,500
Early Times	Brown-Forman	Bourbon	1,400	1,350
J&B	Paddington	Scotch	1,400	1,300
Gilbey's	National	Vodka	1,300	1,250
Crown Royal	Seagram	Canadian	1,150	1,200
Jose Cuervo	Heublein	Tequila	1,000	1,200
Kessler	Seagram	Blend	1,350	1,150
Southern Comfort	Brown-Forman	Liqueur	1,150	1,100
Johnnie Walker Red	Somerset	Scotch	1,150	1,050
Tanqueray	Somerset	Gin	1,150	1,050
Lord Calvert Canadian	Seagram	Canadian	1,050	1,050
Christian Bros.	Fromm & Sichel	Brandy	1,150	950
Beefeater	Kobrand	Gin	1,050	950
Ten High	Walker	Bourbon	900	950
Ancient Age	Ancient Age	Bourbon	1,050	900
Wolfschmidt	Seagram	Vodka	900	850
Skol	Medley	Vodka	850	850

Source: *Business Week*

SHARE OF CORDIALS AND LIQUEURS SHIPMENTS
DOMESTIC VS. IMPORTED



Source: IMPACT DATABANK

In 1987, the value of imports of distilled liquor topped 1 billion, up 5.4% from 1972. Bulk imports of rum, scotch, and other whiskeys, tequila and vodka increased at a substantially higher rate than did bottle goods in 1986. Imports accounted for 25% of new supply in 1987, compared to 24% in 1986. More than two-thirds of the volume of imports, measured in proof gallons, originated in Canada and the United Kingdom. United States distillers continued to seek export opportunities in 1987, but exports and 1.68 million, accounted for only 6.1% of domestic shipments.

For the 1984 - 1988 period, the malt beverage shipments, measured in 1972 dollars, is espected to increase 2.4%. Per capita consumption of wines and brandy is expected to continue to rise, with increased acceptance of wine as a beverage of moderation. The value of wine and brandy industry shipments is forecasted to increase about 2.5% in dollars adjusted for price changes. The value of distilled liquor shipments is expected to increase about 1.3% in dollars adjusted for price changes. Total industry is projected to increase 2.2% in the same period.

INDUSTRY OVERVIEW

A. Long-Term Prospects

Economic and demographic developments in the years ahead are expected to expand markets for alcoholic beverages. The number of Americans between the ages of 30 and 50 will increase by 20% between 1988 and 1992. Earnings often increase for members of

this age group as does the frequency of dining out and entertaining at home, which is expected to increase 4.7% and 1.5% in 1988, respectively.

Shipments by all three industry segments are to grow in the next several years, but sales of malt beverages and wine and brandy will continue to use aggressive advertising and promotional campaigns to compete for larger market shares. In dollars adjusted for price changes, the value of alcoholic beverage industry shipments is expected to rise at between 0.9% and 1.3% compounded annual rate between 1988 and 1992.

B. COMPARISON WITH OTHER INDUSTRIES

Food and Kindred Products Industry Shipments, 1972, 1977, and 1982-87[1]

(millions of current dollars)

Code	Industry	1972	1977	1982	1983	1984	1985	1986	1987
20	TOTAL	115,051	192,912	280,530	287,084	300,012	301,562	309,442	[illegible]
201	MEAT PRODUCTS	31,477	46,278	67,504	66,392	68,579	67,139	66,833	[illegible]
011	Meat packing plants	23,003	31,208	44,854	42,775	44,278	42,554	42,013	[illegible]
013	Sausage & prepared meats	4,632	8,465	12,278	12,366	12,361	12,406	12,460	[illegible]
016	Poultry dressing plants	3,254	5,746	9,045	9,566	10,100	10,340	10,491	[illegible]
017	Poultry & egg processing	588	857	1,427	1,685	1,840	1,839	1,869	[illegible]
202	DAIRY PRODUCTS	16,312	26,011	38,772	40,218	40,402	41,075	43,379	[illegible]
021	Creamery butter	808	901	1,687	1,737	1,564	1,571	1,555	[illegible]
022	Cheese, natural & processed	3,195	6,126	10,763	10,907	10,837	11,060	12,135	[illegible]
023	Condensed & evaporated milk	1,668	3,189	4,731	5,746	5,213	5,288	5,985	[illegible]
024	Ice cream & frozen desserts	1,245	2,009	2,355	2,963	3,436	3,477	3,642	[illegible]
026	Fluid milk	9,396	13,786	18,736	18,865	19,352	19,679	20,062	[illegible]
203	PRESERVED FRUITS AND VEGETABLES	11,480	20,333	29,874	31,313	34,058	35,023	35,271	[illegible]
032	Canned specialties	1,877	2,829	4,141	4,370	4,784	4,802	4,973	[illegible]
033	Canned fruits & vegetables	4,044	6,663	9,283	9,358	10,390	10,999	10,410	[illegible]
034	Dried fruits & vegetables	607	1,142	1,745	1,647	1,686	1,788	1,653	[illegible]
035	Sauces & salad dressings	1,167	2,997	4,269	4,698	4,896	5,123	5,365	[illegible]
037	Frozen fruits & vegetables	1,849	3,298	5,375	5,561	5,969	5,803	5,974	[illegible]
038	Frozen specialties	1,936	3,404	5,061	5,679	6,333	6,508	6,896	[illegible]
204	GRAIN MILL PRODUCTS	12,163	22,345	31,386	33,250	34,377	34,045	35,341	[illegible]
041	Flour & grain mill products	2,380	3,683	4,533	5,229	5,306	5,205	5,340	[illegible]
043	Cereal breakfast foods	1,126	2,498	4,132	4,572	5,107	5,718	6,295	[illegible]
044	Rice milling	681	1,263	1,334	1,368	1,690	1,581	1,610	[illegible]
045	Blended & prepared flours	705	1,012	1,419	1,538	1,642	1,635	1,670	[illegible]
046	Wet corn milling	832	2,015	3,258	3,501	3,815	4,190	4,298	[illegible]
047	Dog, cat, & other pet food	1,402	3,087	4,402	4,776	4,914	5,306	5,446	[illegible]
048	Prepared animal feed	5,037	8,787	11,298	11,766	11,903	10,410	10,682	[illegible]
205	BAKERY PRODUCTS	7,896	12,236	17,808	18,208	19,387	20,835	21,662	[illegible]
051	Bread & other bakery goods	6,132	9,275	13,143	13,293	13,702	14,389	14,698	[illegible]
052	Cookies & crackers	1,764	2,961	4,665	4,915	5,685	6,446	6,964	[illegible]
206	SUGAR AND CONFECTIONS	6,622	10,840	15,575	16,443	17,428	17,088	17,499	[illegible]
061	Cane sugar, except refining	407	704	1,114	1,312	1,233	1,169	1,200	[illegible]
062	Cane sugar refining	1,743	2,260	3,240	3,145	3,081	2,616	2,683	[illegible]
063	Beet sugar	880	1,182	1,516	1,585	1,835	1,789	1,835	[illegible]
065	Confectionery products	2,473	4,498	6,773	7,175	7,780	7,914	8,087	[illegible]
066	Chocolate & cocoa products	736	1,629	2,217	2,259	2,484	2,506	2,664	[illegible]
067	Chewing gum	383	567	915	967	1,015	1,004	1,030	[illegible]
207	FATS AND OILS	6,901	14,480	16,753	17,073	19,551	17,504	17,952	[illegible]
074	Cottonseed oil mills	459	859	533	791	906	881	904	[illegible]
075	Soybean oil mills	3,357	7,580	8,504	9,060	9,988	8,629	8,854	[illegible]
076	Vegetable oil mills	252	361	557	659	617	566	582	[illegible]
077	Animal/marine fats & oils	765	1,655	1,753	1,818	2,323	1,820	1,869	[illegible]
079	Shortening & cooking oils	2,068	4,025	4,306	4,745	5,717	5,608	5,743	[illegible]
208	BEVERAGES	13,869	23,329	33,502	40,229	41,181	43,243	45,125	[illegible]
082	Malt beverages	4,054	6,653	11,183	11,798	11,868	12,216	12,660	[illegible]
083	Malt	226	499	662	587	587	571	585	[illegible]
084	Wine, brandy, & brandy spirits	865	1,363	2,736	2,837	2,695	2,763	2,847	[illegible]
085	Distilled & blended liquors	1,798	2,296	3,126	3,397	3,405	3,495	3,585	[illegible]
086	Soft drinks & carbonated water	5,454	10,007	16,308	17,321	18,052	19,358	20,481	[illegible]
087	Flavorings, extracts, & syrups	1,472	2,511	4,727	4,739	4,574	4,840	4,967	[illegible]
209	MISCELLANEOUS FOODS	8,335	17,064	23,359	23,961	25,053	25,613	26,380	[illegible]
091	Canned fish & seafood	810	1,441	1,349	1,537	1,507	607	725	[illegible]
092	Fresh or frozen fish & seafood	1,084	2,665	4,309	3,790	3,774	3,947	4,106	[illegible]
095	Roasted coffee	2,329	5,616	5,627	5,809	6,378	6,677	6,851	[illegible]
097	Manufactured ice	116	149	230	252	217	231	235	[illegible]
098	Pasta products	348	662	1,065	1,096	1,082	1,155	1,185	[illegible]
099	Food preparations, NEC	3,648	6,531	10,579	11,177	12,095	12,906	13,278	[illegible]

Totals may not match those in "Trends and Forecasts" and "Historical Performance" es due to rounding
Estimated

SOURCE: U.S. Department of Commerce: Bureau of Census, and International Trade Administration (ITA).

The chart on the previous page shows the beverage industries total gross dollars as compared to other kindred products. Bottled and canned soft drinks and malt beverages command the most gross dollars in the beverage industry. The greatest volume for these items is in the food/grocery stores. The value of the chart is the comparison to other food and kindred products. The beverage industry has a position of strength envied by other everyday food items in terms of gross dollar shipments.[17]

C. Indications of Most Important Product Lines & Customer Groups; Breakdown of Industry Total on Functional Basis

WINE ENTERING TRADE CHANNELS BY TYPE
(millions of gallons-rounded)

Type	1985	1986	% Change	Market Share
Table	378.0	350.6	- 7.4	59.8
Dessert	34.3	35.0	2.0	5.9
Vermouth	6.9	6.4	- 7.2	1.09
Sparkling	46.2	44.2	- 4.3	7.5
Special Natural	27.0	30.0	10.0	5.1
Coolers	88.0	120.4	36.8	20.5
Total	580.3	586.6	1.07	

Wine market

(Wine entering distribution channels in U.S., in millions of gallons)

Year	All wine	Table	Dessert	Vermouth	Sparkling	Coolers	Other
1986	586.6	350.6	35.0	6.4	44.2	120.4	30.0
1985	580.3	378.0	34.3	6.9	46.2	88.0	27.0
R1984	554.4	401.3	37.7	7.0	47.0	34.2	27.2
1983	528.1	402.9	38.1	7.5	43.5	7.6	29.3
1982	514.0	397.3	40.2	7.7	37.5	*	31.3
1981	505.7	386.7	42.3	8.0	34.3	*	34.4
1980	479.6	359.6	44.8	8.6	30.0	*	36.6
1979	444.4	324.2	47.3	8.6	27.0	*	37.4
1978	431.1	300.7	54.2	9.5	25.7	*	41.0
1977	401.0	261.3	57.5	8.9	24.3	*	49.0

R Revised. *Wine coolers were introduced in 1983.
Source: *Wines & Vines.*

17

Table Wine continued to lead all other wine types decreasing 7.4% to 350.6 million gallons and securing a 59.8% share of the market. Sparkling wine recorded a large percentage decrease last year, 4.5% to 44.2 million gallons, holding a 7.5% market share. Dessert wines, once a dominate factor in the wine market, actually increased in 1986, posting a 2.0% increase to 35.0 million gallons, with 5.9% of the market. The wine cooler category had the best performance of all the segments, increasing 36.8% to 120.4 million gallons last year for a 20.5% share of the market. The Sweet Vermouth segment was down 7.2% last year to 6.4 million gallons, accounting for 1.09% of the total market.

Wine coolers (the highest growth category) represents the emergence of a strong growth category which last year clearly demonstrated its health relative to the wine market. Whereas the table wine market decreased by 7.4% by 75 million gallons, wine coolers showed the strongest growth rate of any category, with a 36.8% increase from 88.0 to 120.4 million gallons. Since 1983 when coolers began climbing from a base of 7.6 million cases, its sales have increased 15 times. The strongest upturn occurred after 1983, when in only three years the cooler wine market grew by 112.6 million gallons.

TOP 10 COOLER SHARES 1986[18]

RANK	BRAND	SHARE
1	Bartles & Jaymes	24.2
2	Cal. Cooler	16.9
3	Sun. Country	14.2
4	Seagrams Wine Coolers	13.2
5	White Mountain	9.6
6	Calvin Cooler	8.1
7	20/20 Wine Cooler	2.2
8	Dewey Stevens	2.1
9	LaCroix Cooler	1.4
10	Champale Cooler	1.3
11	All Others	6.8
		100%

Coolers continue to be the marketing success of the 80's. One key to the success is their status as a marketing hybrid. They are packaged like soft drinks and have an alcohol content (6%) like beer. This latter point is significant because it allows coolers a much wider retail distribution in the states like New York that prohibit the sale of table wines in supermarkets.

How long growth remains above 35% is a function of many factors, including disposable income, federal excise taxes, and the all important marketing support.[18] Competition to date has kept profit margins on coolers extremely narrow. Gallo and Seagram's marketing dominance allows it to keep considerable pressure on prices and, with advertising budgets ballooning, it is difficlut to assess how long lesser players will stay in the game. Coolers are expected to compete well against wine and distilled spirits for share of all beverage markets and to rise close to an equal footing with them by the 1990's.

D. 1979 National Beverage Consumption[20]
By Age Group (% of Volume)

Age Group	All Bev.'gs	Distilled Spirits	All Wines	Table Wine	Wine Color Red	White	Rose
Under 20	23.1%	.8%	1.3%	1.0%	.9%	1.1%	.6%
20-29	17.6%	19.8%	22.0%	24.7%	25.4%	26.6%	19.8%
30-39	17.4%	23.8%	24.0%	27.1%	23.6%	24.6%	37.8%
40-49	12.2%	18.2%	15.1%	15.0%	12.0%	17.0%	15.0%
50-59	12.6%	15.1%	15.8%	15.0%	13.6%	16.8%	13.2%
60 & Over	16.6%	22.2%	21.8%	17.0%	24.3%	13.8%	13.5%

Source: Beverage Industry, December 12, 1980

These consumers are also being exposed to more year round promotions by retailers, particularly those in major markets. This activity is just beginning to broaden usage beyond the traditional patterns of consumption. There is nothing in the wine and spirits industry that can compete with wine coolers in terms of imagery. Its growth is the logical extension of the white wine boom, as the consumers who created that sales phenomenon make the switch to coolers.

The following chart will show United States wine consumption by region and by flavor.

1979 U.S. Wine Consumption By Region (000 gals.)

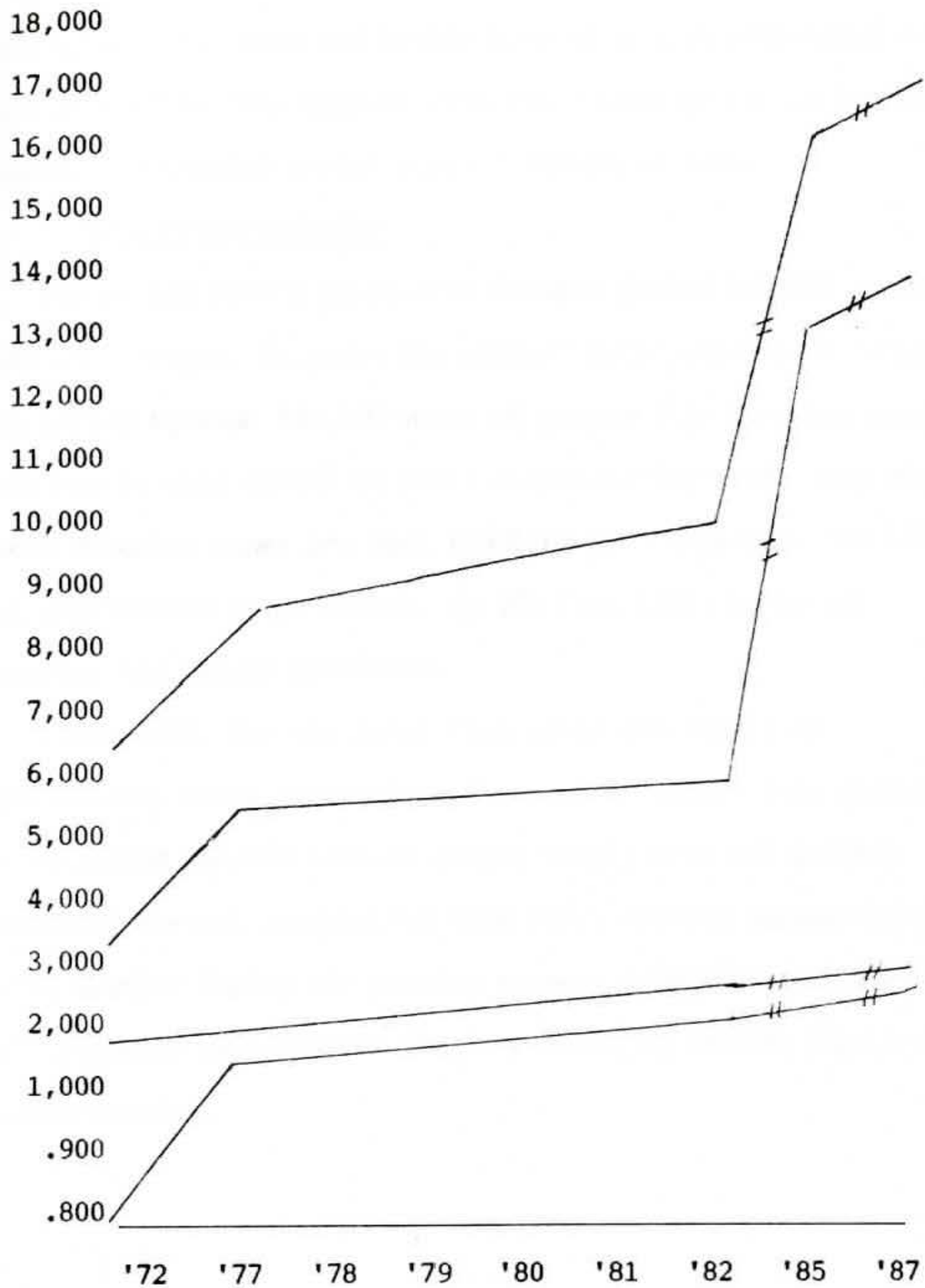
California	1960	1970	1975	1976	1977	1978	1979
Red	27	43	56	52	55	58	57
White	5	23	51	60	80	90	110
Rose	4	24	41	45	47	52	53
Total	36	90	148	157	182	200	222
Other states							
Red	8	10	13	13	13	9	7
White	2	3	5	5	6	7	8
Rose	1	4	4	4	4	4	[illegible]
Total	11	17	22	23	23	20	18
Imports							
Red	4	11	21	25	31	36	3[illegible]
White	2	5	12	17	21	33	3[illegible]
Rose	-	5	8	6	7	12	1[illegible]
Total	6	21	41	48	59	81	7[illegible]
All origins							
Red	39	64	90	91	99	102	9[illegible]
White	9	31	68	83	107	130	15[illegible]
Rose	5	33	53	55	58	68	6[illegible]
Total	53	128	211	227	264	301	31[illegible]

Source: Beverage Industry.[21]

There are some powerful demographic trends underlying the growth Table wines and coolers. First, it has its greatest appeal among men and women between 25-34 years of age. The educational level achieved is a high school graduate. He/she is employed full-time either as a professional or manager with household income of $25,000 or more per year. Most are married whites, especially in the imported wine market.

E. HISTORICAL TRENDS

In the Alcoholic Beverage Industry, the value of shipments in dollars has grown 2.8% over a 15 year period.



The trend graphic shows the alcohol industry grew at a 2.8% compounded annual growth rate. The greatest growth in the industry came from the malt industry with 3.4% compounded annual rate of growth. Wine and brandy grew at a 3.2% compounded annual rate of growth. The segment with the lowest growth is Distilled Liquor. Compounded annual rate of growth is 0.8%.

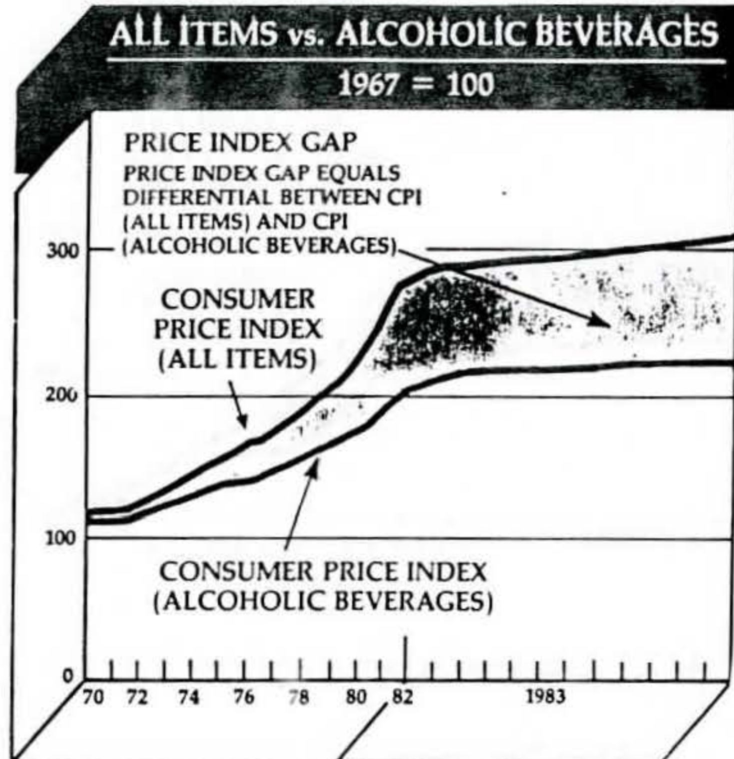
F. Productive Capacity

During the 1970's optimistic farmers pushed 163,000 acres into wine grapes, bringing the states' total acreage to 343,000, not including some 360,000 acres of grapes like Thompson seedless that can be used either as table grapes or for wine. Now many of these maturing vines are just reaching full capacity. In 1982 3.1 million-ton grape crunch, up 29% from 1981, broke all records, and prices plummeted.

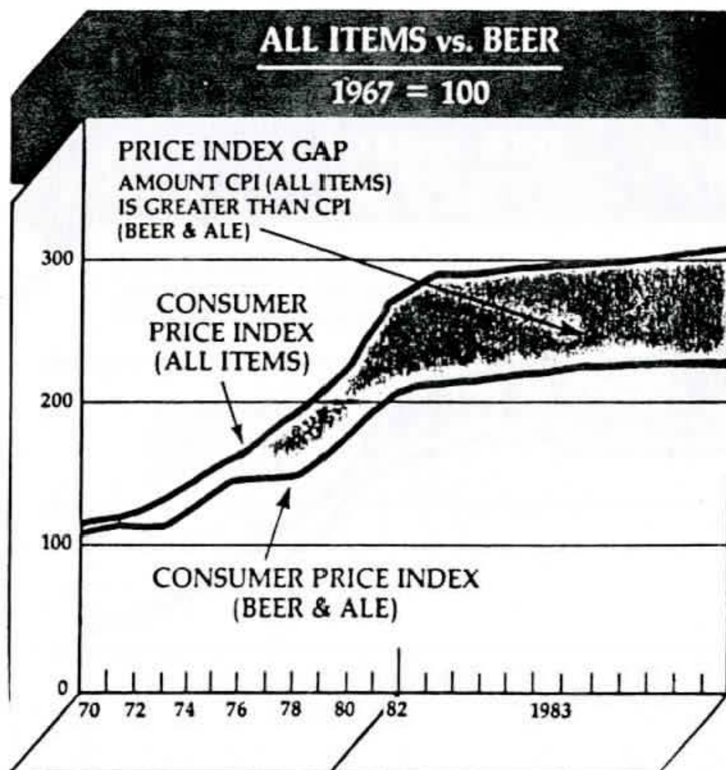
Since 1985, for the first time since the repeal of prohibition, fruit remained on the vine to wither into raisins, an estimated 280,000 tons of grapes simply were not picked. A bountiful harvest is expected this year, barring unexpectedly harsh weather during the growing season; premium grape prices will probably fall another 20%, according to leading Napa and Sonoma growers.

G. Pricing

The graph points out that the price of retail alcoholic products have laged the consumer price index by 25-30%. This price lag indicates several unique problems. The industry is plagued by intense price competition.



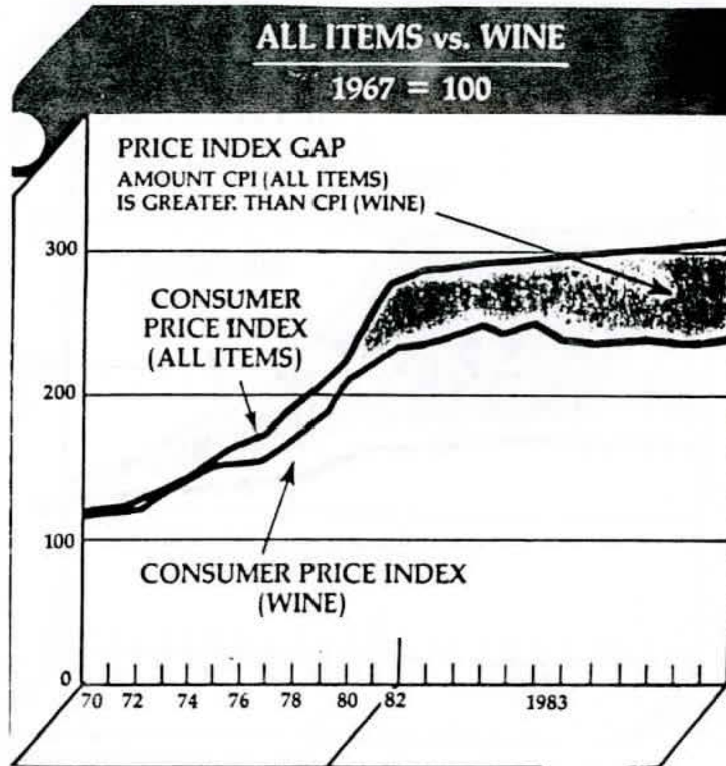
The CPI vs. Beer is still well below the average CPI increase since 1967. This is a great benefit to the industry's prime target the blue collar worker. For the Beer Industry, however, it reflects an opportunity to gradually increase prices to match the CPI. Once this is achieved, a profits will be realized.



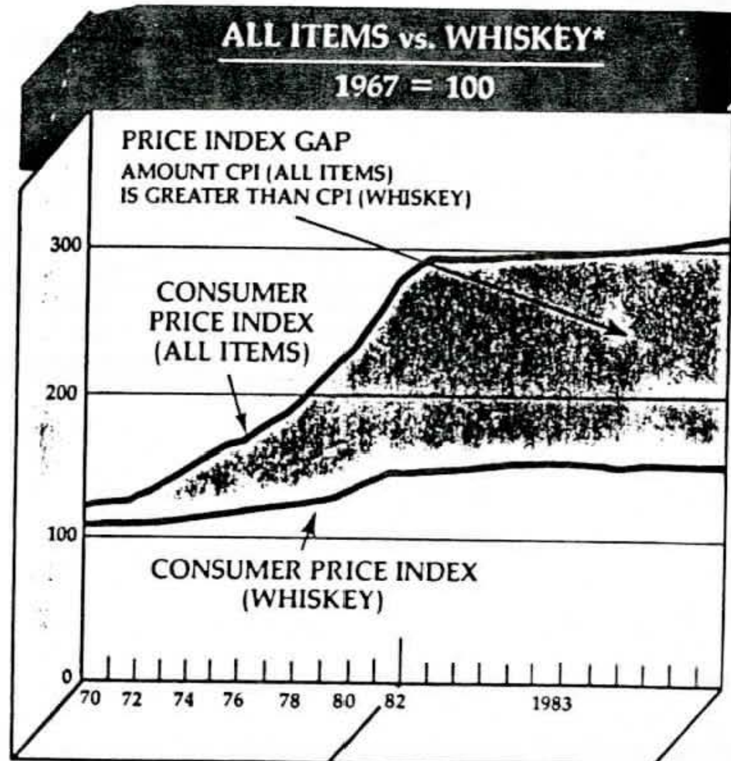
22

Pricing (cont'd)

The wine industry has attempted to follow the CPI until 1980. This year represents the beginning of bumper crop harvests of grapes. The over-abundance of supply started the fight for market share among the industry giants. Until production is under control, CPI wine isn't expected to meet the CPI all items.



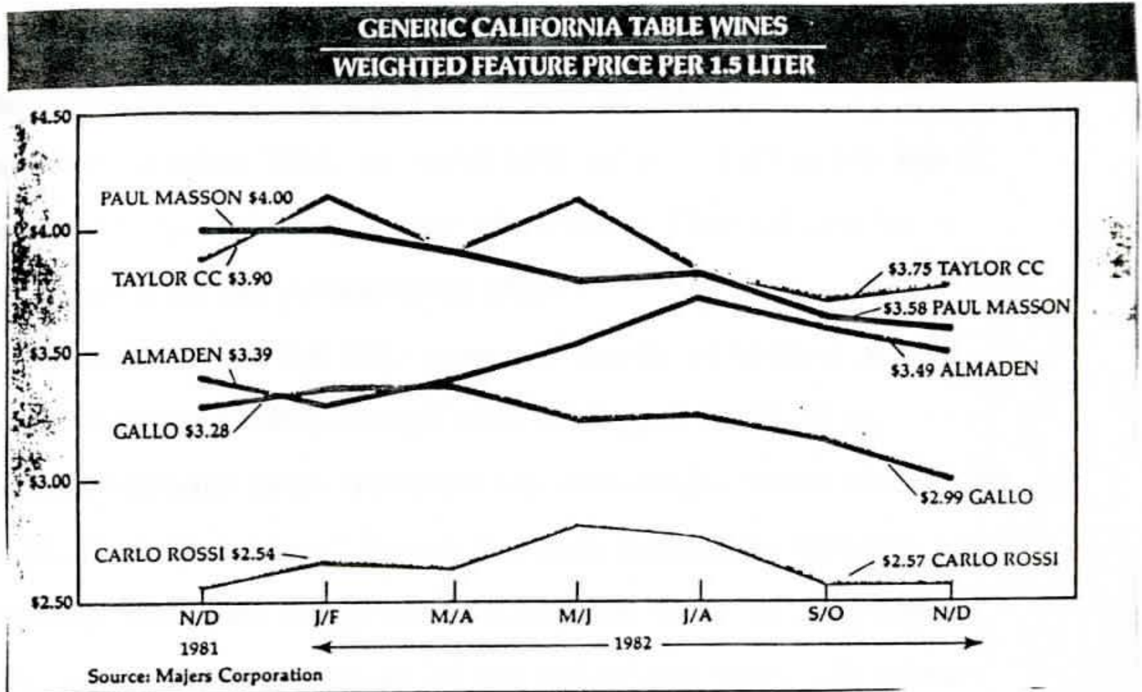
The CPI spread of almost 50% is cause for alarm to the spirits industry. This industry has taken measures to correct its own pricing problems. Its action is faulty. Discounts to retail are not the industry answer. Fewer labels will increase demand allowing retail prices to go up as a result of increased demand.



*Both imported and domestic whiskey.

24

Pricing (cont'd)



25

Major brands of Generic California Table wine have been waging an intense price war, especially in the 1.5L or Jug size, to maintain sales in a difficult economy.

As the graph shows, Paul Masson (Vintners International) was the highest priced of all brands tracked in November/December 1981 at $4.00, but dropped to the second highest priced brand one

year later, at $3.58 after following a smooth downward trend throughout 1982. Taylor California Cellars (Vintners International) followed the most erratic pricing schedule of all the other wine brands tracked. Priced at $3.90 in November/December 1981, it ended 1982 with a $3.75 price tag 12 months later, following a year of constant fluctuations as illustrated in the accompanying chart.

Almaden (Grand Met PLC) remained the third highest priced brand throughout 1982, except when it dipped to $3.23 in January/February 1982, undercutting even Gallo, which was priced at $3.35 at that time. Except for that deviation, Almaden steadily increased its price to a high of $3.75 in July/August 1982, then dropped to $3.49 at the end of the year, .10 cents higher than its price on year earlier.

Gallo, the number one ranked wine brand in America, consistently followed the most aggressive pricing strategy, always priced below the other premium brands. Gallo had a $3.28 price tag in November/December 1981 and followed a fairly regular downward trend to $2.99 one year later, about .50 cents below Almaden and approximately .40 cents above its own lower-priced Carlo Rossi brand. Carlo Rossi has remained at a steady price level, $2.54 in November/December 1981 and $2.57 one year later. It swung up once in May/June 1982 to $2.83.

The strategy for Gallo product line is for the Gallo premium table wines will be priced at the low end of the premium wine segment. Carlo Rossi is positioned as an economy, or popular priced wine, known for quality with an economy price.

H. Geographic Concentration or Dispersion

The following chart shows the top ten United States markets for wine.

Leading U.S. Market For Wine (Cases)

State	1978	1979
California	33,228,169	34,790,152
New York	15,932,758	16,680,831
Illinois	7,417,363	7,749,799
Florida	6,248,345	6,911,528
New Jersey	6,468,436	6,752,725
Pennsylvania	5,539,899	6,024,051
Texas	5,342,537	5,911,515
Michigan	5,481,833	5,514,540
Massachusetts	4,971,603	5,210,356
Ohio	4,722,612	4,681,485
Total Top Ten	95,353,555	100,226,982
Total U.S.	146,457,838	154,374,652
Top Ten to U.S.	65.1	64.9

Source: Standard and Poor's Industry - Surveys Jan. 1982.[26]

The significance of the chart shows that 23% of the wine business originates in California. California consumes slightly over twice as much as the second leading wine consuming state, New York. New York accounts for 10% of total consumption. New York is responsible for the largest consumers of imported wines. Illinois, the third largest consumer of domestic and imported wines is the number one consumer of Sparkling wines. Illinois accounts for 5% of total wine consumption.

I. Earnings

Based on the cost per case to the wholesale trade, the earnings on the brands are as follows:

1983 F.O.B.* CASE PRICE OF MAJOR CALIFORNIA CHABLIS BRANDS (1.5 liter size)

Brand	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
GALLO Chablis Blanc	$10.79	$13.29	$10.79	$13.29	$10.79	$13.29	$13.29	$12.79	$10.79	$12.79	$ 9.79	$12.79
CARLO ROSSI Chablis	8.76	8.76	8.76	8.76	8.76	8.76	8.76	8.76	8.76	7.76	8.76	8.18
ALMADEN Mountain White Chablis	12.85	14.85	14.85	14.85	12.85	14.85	12.85	12.85	12.85	14.85	12.85	14.85
CALIFORNIA CELLARS Chablis	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50
PAUL MASSON Chablis	13.85	11.90	13.90	11.90	13.90	11.90	13.90	11.90	13.90	11.90	13.90	11.90
INGLENOOK Navalle Chablis	12.61	15.11	12.61	15.11	12.61	15.11	12.61	15.11	15.11	15.11	15.11	15.11
COLONY CLASSIC Chablis	$12.69	$10.19	$12.69	$ 9.69	$12.69	$ 9.38	$12.69	$12.69	$ 9.37	$ 9.34	$ 9.34	$ 9.34

*Free on board—Supplier's price to wholesalers in affirmation states, excluding freight and state taxes.
Source: Massachusetts Beverage Reporting Service

27

Average Gallo case is $12,08, average profit per case to wholesale is $3.03 a case or 22%.

J. Technological Innovations

A fundamental shift in the wine and spirits industry's new product activities is taking place. The approach to new product

development has become more systematized and is based on better consumer research. In some cases, it is carried out by separate departments, most of which have been set up in the last five years. With spirits, the goal is to find growth areas in a declining industry, its growth is slowed compared to expectations. Product innovation is the way to expand volume and protect market share, but it carries great risks and rewards.

Seagrams has been one of the more experimental companies, another innovator sees much of the new product activity as imitative. With one of the most widely copied product services, Bailey's, International Distillers and Vintners (I.D.V.) has a unique perspective on the market. A few years ago, the deluge of new introductions followed Bailey's. The current situation is somewhat different, but the emphasis now seems to be on the low alcohol beverages, with a refreshment orientation; either wine or spirit level. Such new product activity is a positive development that reflects the growing competitiveness of the industry. What I.D.V. has done is attempt to read consumer preferences and develop products that address those preferences.

Two companies with the largest commitment to new product development in the United States are undoubtedly J.E. Seagram and Sons and Grand Met (PLC)-Heublein Spirits & Wines Company, both of which have separate new product development divisions. Heublein actually has one each in its wine and spirits division,

which are coordinated on the corporate level by the Senior Vice President of Planning and Development.

There is a growing concern about health and social concerns about alcohol, and wider female participation in the alcoholic beverage market. These changes are more fundamental than style and fashion. Heublein is now trying to develop beverages to fill the consumer needs implied by such shifts in consumer attitudes and preferences.

The marketplace selection is a survival of the fittist. For every winner there are many more losers. Several years ago, Shiefflin introduced a Proprietary liqueur called Nererra, which researched, had great consumer potential. The flavor was a chocolate sherry liqueur. Consumers seemed to have changed their minds once it reached the marketplace.

Other failures were (Seagram's) Arielle and Von Konig Silbervasser.

K. Substitute Products or Services

While light wines are not by definition a substitute product, they are an alternative to the 10-19% wines and 80 degrees plus spirits.

Light wine was introduced in 1981, and the alcoholic industry enthusiastically predicted it could match the success of light, low calorie products in other beverage categories. The development of the light business was to be part of wine's

initiation into big-time beverage marketing, luring new users to wine and creating new-use occasions for existing wine consumers. Light beer and soft drinks had both achieved 15% of their markets without seriously cannibalizing existing lines, so it seemed logical to assume that light wine products could do the same.

It is still within the realm of possibilities, especially taking a longer-term view, but light wine marketers have become much more cautious in their predictions as the inherent difficulties in marketing their light wine have become apparent. This is not to say that light wine is a complete failure, more than 3 million cases were sold in 1982, a sizable number for a brand new category launched at the beginning of a long, painful recession.

But, acceptance has not been across the board, with some parts of the country resisting the concept. Getting repeat business after initial trial has been a problem for some brands, and many in the industry feel that consumer awareness and trial is still low even though more than $10 million was spent advertising light wines in 1982 and less than $2 million in 1987. Substantial advertising investments are still required, and the major factors, Paul Masson and Taylor California Cellars, are re-evaluating whether those dollars might be better spent developing their regular business.

The potential of light wine as a category largely depends on the decision they make, and in 1983 light wine producers had considerably scaled back their light advertising budgets. Vintners International has dropped all television for the lights and is using a little print as the alternative advertising medium. This has to lessen the categories' growth potential.

Many wineries have, in fact, been discontinuing the light wine production. Case in point, Sebastiani Winery of California.

Light wine, if it continues as a category, will be most successful in the food stores. The following chart will show the light wine share of domestic table wine off-premise (grocery, liquor stores) sales in five major markets. (The table reflects figures when light wine showed potential.)[28]

LIGHT WINE SHARE OF DOMESTIC TABLE WINE OFF-PREMISE SALES IN FIVE MAJOR MARKETS

	1981		1982				
	Sept.-Oct.	Nov.-Dec.	Jan.-Feb.	March-April	May-June	July-Aug.	Sept.-Oct.
5-Market Total	1.5%	1.6%	2.0%	3.3%	3.6%	3.8%	3.5%
New York	0.6	0.8	1.2	2.0	2.6	2.8	2.4
Boston	1.4	1.5	1.8	3.4	4.0	4.3	3.8
Chicago	2.5	2.4	2.1	4.2	5.1	5.3	5.1
Los Angeles	1.3	1.7	2.0	3.7	3.8	3.8	3.7
Food Stores	1.4	1.8	2.1	4.0	4.0	4.0	3.9
Liquor Stores	1.0	1.0	1.7	1.9	2.6	2.7	2.9
San Francisco	1.7	1.4	2.4	3.0	3.2	3.5	3.2
Food Stores	2.1	1.8	3.3	4.3	4.2	4.5	4.1
Liquor Stores	1.2%	1.0%	1.4%	1.6%	2.2%	2.5%	1.9%

Source: A.C. Nielsen

LINDENWOOD COLLEGE LIBRARY

The following table shows brand shares of light wine category.[29]

BRAND SHARES LIGHT WINE CATEGORY	1982	1983E
CALIF. CELLARS LIGHT	32.1%	31.7%
MASSON LIGHT	30.5	31.7
LOS HERMANOS LIGHT	13.7	18.3
ALMADEN LIGHT	12.2	7.3
SEBASTIANI LIGHT	4.6	4.9
OTHER	6.9	6.1
TOTAL	100.0%	100.0%

Source: Market Watch © 1983

For those marketers who have made a commitment to the category, the crucial question is whether to divert resources that could go to build their regular lines. If they choose not to, they take the risk that the category's potential will go unrealized. As the industry likes to point out, the first light beer on the market was a failure, and it took Coca-Cola ten years and $146 million to build Tab up to its current market position.[30]

LIGHT WINE BRANDS
COMPARATIVE ANALYSIS

rand	Type Availability	Size Availability	Alcohol level (Chablis)	Calories per 100 ml. (Chablis)
ALIF. CELLARS LIGHT	Chablis, Rhine, Rose	750 ml., 1.5, 3 liter	7.9%	53
IASSON LIGHT	Chablis, Rhine, Rose	750 ml., 1.5, 3 liter	7.1	49
OS HERMANOS LIGHT	Chablis, Rose	1.5 liter, 4-liter box	8.7	57
LMADEN LIGHT	Chablis, Rhine, Rose	750 ml., 1.5 liter	7.0	48
EBASTIANI LIGHT	White	1.5 liter	9.7%	57

ource: Market Watch © 1983

L. Concentration of Supplier/Customers

The wine industry is headed by E & J Gallo, which is family owned. They make Gallo, Carlo Rossi, Andre, Polo Brindisi, Bartles & Jaymes and others. Gallo has approximately 44% of sales in the total wine market.

The shares for the seven leading wineries are in the following chart.

Leading Wine Marketers[31]

(In Millions of 9 Liter Case Depletions)

Operation	1985	1986	Cases	%	Share'86
Gallo	64.2	54.8	- 9.4	- 14.6	43.5
Grand Met	23.0	21.3	- 1.7	- 7.4	16.9
*Seagrams	4.0	9.3	+ 5.3	+132.5	7.3
Banfi	11.6	9.5	- 2.1	- 18.1	7.5
Canadaigua	13.2	8.2	- 5.0	- 37.8	6.5
Brown-Foreman	16.9	4.9	-12.9	- 76.3	3.8
TOTAL	156.6	125.9	-30.7	- 19.6	

*Coolers

The top three states for wine consumption and concentrations are California (38 million cases), New York (20 million cases), and Illinois (12 million cases).

M. Changes in End-Use Patterns The consumer profile has stayed much the same. Marketers said they were going after an upscale, college-educated, working, male/female, between the ages of 25 and 49. There has been slight adjustments from brand to brand. Seagram's sees a stronger development in the 21 to 35 age group for coolers. Almaden is targeting a younger group, 21 to 25. The Taylor brands has assessed its market as slightly more male than their original estimate of only 30%.

Wine consumption in the United States has been on an uptrend for more than 15 years. There is a lot of room for expansion on a geographic basis in the United States. Most of the wine consumed is in the Western and Eastern parts of the country. The Mid-Eastern and Central parts of the United States form a large area that has the potential to expand.

As the chart indicates, the growth of consumption is in the away from home market. This growth is coming at the expense of at home consumption.

Table 25: Personal Consumption Expenditures for Alcoholic Beverages at Home and Away from Home; 1976, 1982-1986, and 1987

(in millions of current dollars)

Year	Alcoholic Beverage Expenditures: At Home		Away from Home			PCE for All Food and Beverages
	Value	Share	Value	Share	Total	
1987[1]	35,712	59.6	24,245	40.4	59,957	513,177
1986	35,896	60.8	23,149	39.2	59,045	497,802
1985	35,017	62.3	21,231	37.7	56,248	472,799
1984	32,950	62.3	19,910	37.7	52,860	448,453
1983	33,306	63.8	18,866	36.2	52,172	421,888
1982	31,749	64.1	17,801	35.9	49,550	398,825
1976	20,338	64.3	11,269	35.7	31,607	236,158

[1]Estimated

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis. Estimates by International Trade Administration.

34

U.S. industrial outlook - 1988 - Food.

Beer has increased in all age groups. The 21 to 35 age groups are the biggest consumers of beer. Beer consumption has been rising at a rate of 3.4% annually, making it the first

fastest growing beverage. The United States is the seventeenth largest consumer per capita and is the third largest producer. The average adult consumes about 182 gallons of liquid per year, only 2.5 gallons of which are wine, 1.6 spirits, and 23.9 beer. It is estimated that all beverage growth is coming from water consumption.

Trends in U.S. liquid consumption
(In gallons per capita, ranked by estimated 1986 totals)

Beverage	1977	1978	1979	1980	1981	1982	1983	1984	1985	E1986
Soft drinks[1]	30.8	32.1	33.3	34.5	35.2	35.7	37.0	38.9	40.8	42.1
Coffee[2]	28.0	27.0	27.7	27.4	27.2	26.6	26.6	26.4	26.0	25.4
Beer	22.5	23.1	23.8	24.5	24.7	24.4	24.3	24.0	23.8	23.9
Milk[3]	21.5	21.3	21.0	20.7	20.4	20.0	20.0	20.0	20.3	20.3
Tea[2]	7.7	7.7	7.6	7.3	7.5	7.5	7.2	7.3	7.2	7.4
Juices	6.8	6.5	6.7	6.9	6.7	6.8	7.8	6.6	6.2	6.3
Powdered drinks	5.9	6.1	6.0	6.0	6.0	6.0	6.5	6.4	6.0	6.1
Bottled water	1.6	2.2	2.5	2.7	3.2	3.6	4.0	4.6	5.2	5.7
Wine[4]	1.8	1.9	2.0	2.1	2.2	2.2	2.2	2.3	2.4	2.5
Distilled spirits	2.0	2.0	2.0	2.0	2.0	1.9	1.8	1.8	1.7	1.6
Subtotal	128.6	129.9	132.6	134.1	135.1	134.7	137.4	138.3	139.6	141.3
Water consumption[5]	53.9	52.6	49.9	48.4	47.4	47.8	45.1	44.2	42.9	41.2
Total	182.5	182.5	182.5	182.5	182.5	182.5	182.5	182.5	182.5	182.5

E-Estimated. [1]All soft drink numbers have been revised. [2]Coffee and tea numbers are based on three year moving averages. [3]Certain milk figures have been changed based on revisions in USDA data. [4]Includes wine coolers beginning in 1984. [5]Assumed water consumption.
Source: *Beverage Industry*

N. Regional/National/Foreign Opportunities/Competition

Imported wines were taking an ever increasing share of the total United States wine market, accounting for 17% of American table wine consumption in 1975-80. It is a trend that began in the early 1970's and accelerated toward the end of the decade. The California wine industry was relatively unconcerned until recently. Imports more than doubled their table wine volume from 16.8 million cases in 1975 to 35 million cases in 1986. But, the

increase California table wines had in the same period was more than imports total volume, and in 1986 California table wine shipments stood at a healthy 586.6 million gallons.

Imports of table wine by country of destination was off in 1986 by 25.5%. The decline of United States exports is considered an economic one. With the strength of the United States dollar in foreign countries, the cost per unit has been driven up at the consumer level.

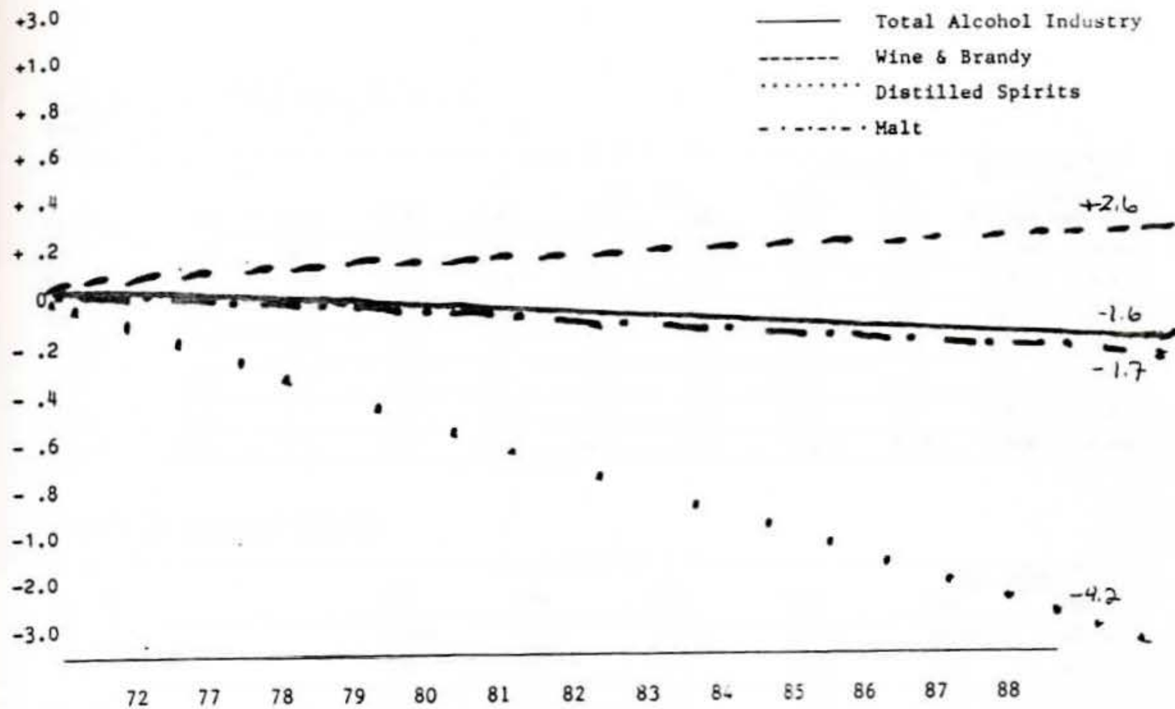
The following table will show the imports of table wine by country of origin.

Imports of wine by country of origin
(In thousands of gallons)

Year	Italy	France	W Germany	Spain	Portugal	Other countries	Total
1986	50,511	30,043	9,656	7,835	4,051	6,503	108,699
1985	68,763	32,728	14,827	8,297	4,829	7,260	136,704
1984	73,154	32,002	16,369	9,096	5,138	R6,652	142,411
1983	71,487	25,351	15,429	8,090	4,705	5,944	131,006
1982	70,017	20,339	13,482	7,893	5,188	5,370	122,089
1981	66,287	17,539	13,275	7,150	5,505	4,957	114,713
1980	59,545	13,294	11,874	7,469	5,798	4,527	102,507
1979	48,402	15,133	11,669	6,603	6,059	4,103	92,169
1978	45,437	16,352	13,941	7,455	6,454	4,437	94,076
1977	29,067	13,315	10,511	8,458	5,888	3,483	68,722

Source: Wine Institute, as published in *Wines & Vines*.

36


EMPLOYMENT GROWTH/ALCOHOLIC INDUSTRY
Total Alcohol Industry
Wine & Brandy
Distilled Spirits
Malt
+3.0
+1.0
+ .8
+ .6
+ .4
+ .2
0
- .2
- .4
- .6
- .8
-1.0
-2.0
-3.0
+2.6
-1.6
-1.7
-4.2
72
77
78
79
80
81
82
83
84
85
86
87
88

This next chart, share of market trend, shows the change in share of imported wines. As the chart indicates, all major countries are in a decline.

IMPORTS OF TABLE WINE INTO U.S.

(millions of nine-liter cases)

Country	1975	1980	1985	1986	Jan. - Sept. 1986	Jan. - Sept. 1987	Growth Rate[1,2] 1975-1980	Growth Rate[1,2] 1980-1985	Percent Change[2] 1985-1986	Percent Change[2] Jan.-Sept. 1986-1987
Italy	5.0	22.8	24.6	16.6	12.7	9.5	35.5%	1.5%	-32.4%	-25.6%
France	3.1	4.8	11.6	10.3	7.6	5.4	9.0	19.4	-10.8	-28.8
Germany	2.6	4.9	6.0	3.9	3.0	2.1	13.8	4.2	-34.6	-28.5
Portugal	2.8	2.4	1.9	1.5	1.0	1.0	-3.3	-4.7	-18.2	9.0
Spain	1.8	0.7	0.6	0.6	0.4	0.4	-17.1	-1.7	-8.5	-4.1
Other	1.5	1.4	2.2	2.0	1.4	1.4	-1.4	9.7	-12.0	-1.4
Total[3]	16.8	37.0	47.0	35.0	26.1	19.8	17.2%	4.9%	-25.5%	-23.9%

SHARE OF MARKET TREND

Country	1975	1980	1985	1986	Jan. - Sept. 1986	Jan. - Sept. 1987
Italy	29.8%	61.7%	52.4%	47.5%	48.8%	47.7%
France	18.6	12.9	24.7	29.6	29.2	27.3
Germany	15.3	13.3	12.9	11.3	11.3	10.7
Portugal	16.9	6.5	4.0	4.4	3.7	5.3
Spain	10.4	1.9	1.3	1.7	1.6	2.0
Other	9.0	3.8	4.7	5.6	5.4	7.0
Total[3]	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

[1] Average annual compound growth rate
[2] Based on unrounded data
[3] Addition of columns may not agree because of rounding

Source: IMPACT DATABANK © 1988

MARKETING REQUIREMENTS

A. Patterns of Distribution

The beer, wine and spirits industry is a three tier industry. The supply chain of manufacturer (importer) -- distributor -- retailer -- consumer is traditional in most stores. Out of 50 states, 18 are Control States which means the sale of alcoholic beverages must be conducted through state owned package stores. Of these 18 Control States, 13 states may sell wine in grocery and drug stores. Distilled spirits in all cases must be sold in state controlled outlets. State control impedes the chances to improve the sales of all brands in the industry.

B. Chains Are Discovering Wine

During the past decade, the supermarkets and drug chains have become more interested in handling wine and, to a lesser extent, liquor. In 1978, 43% of all supermarkets sold wine, according to Progressive Grocer Magazine. By 1980, the percentage had grown to 48% representing approximately 1,650 more supermarkets stocking wine. Only 15% of all supermarkets carry liquor.

C. Traditional Consumption Patterns

The emphasis on beer is part of the supermarket's continuing philosophy of offering one-stop shopping. Starting in the late 1960's, and progressing throughout the 1970's, many supermarket chains have added specialty departments to the business taking away from competing retailers. For many chains that feature one-

stop shopping, beer and wine are upgrading their presentations in an effort to increase sales. Beer and wine are rarely displayed on a four-foot section in the middle of the grocery aisles; rather, it is given a prime perimeter location, near meat and produce. According to most supermarket executives, beer and wine has become a hot department due to consumer demand.

Research conducted by R. H. Bruskin Associates (visiting 2,504 households representing a cross-sectional sample of the United States) found that of those houses containing alcoholic beverages, distilled spirits were in 45%, beer in 38% and wine in 34% of these homes surveyed. Regionally, there were no alcoholic beverages in 57% of the Southern homes compared to 28% in the Northeast. Of those homes without alcohol, 20% had incomes of $35,000 or more. Wine was in 33% of the blue collar homes, while 45% of the whitle collar homes reported having it. The Pacific, New England and Mid-Atlantic regions and the States with the most consumer dollars spent on wine, repectively.[38]

D. Bases For Purchase/Sale

The alcoholic market is currently being segmented by price as either popular (mass market), premium (better quality) or super premium.

The pace of the alcoholic market is picking up as well as competition and will continue to do so in the popular and premium priced segments. Alcohol consumers are starting to trade-up in

their perceived selection of wine. The more image conscious an alcohol beverage is, the better its chances of survival on the retailer's shelf.

Apparent beer consumption by type
(In millions of barrels)

Type	1975	1980	1983	1984	*1985	% chg. 1984-85
Popular	65.4	30.0	30.5	38.0	34.8	− 3.3
Premium	71.6	102.3	94.6	87.0	85.3	− 2.0
Super-premium	5.0	11.5	10.1	9.5	9.2	− 3.2
Light	2.8	22.1	34.1	35.3	38.5	+ 9.1
Low alcohol				0.6	0.4	−33.3
Imported	1.7	4.6	6.3	7.2	7.9	+ 9.7
Malt liquor	3.8	5.5	6.4	5.8	5.5	− 5.2
Ale	N.A.	1.9	1.7	1.4	1.4	0
Total	150.3	177.9	183.7	182.8	183.0	+ 0.1

N.A.—Not available. *Less than 50,000 gallons. *Latest available.
Source: *Impact* Databank.

39

E. Promotion Patterns

Many chains believe beer and wine complements cheese and other foods related to entertaining. Most stores are placing beer and wine next to the gourmet cheese centers. They are usually positioned after the meat sections so shoppers can choose a good beer or wine to complement their main dish.

For retailers who rely on alcoholic beverages for a majority of sales, the months of November and December determine the fate of the entire year. Unless stores operate in states with strict price controls, most supermarkets will slightly lower their retail price of wine during the holidays. Accustomed to wheeling and dealing on groceries throughout the year, supermarkets are

apt to jump on any deals offered by the distributors and pass along these savings to customers. Beer, on the other hand, has its highest consumption May through September. Instead of dictating to store managers what brand will be displayed during the holidays, many supermarket companies permit the man at the scene to participate in the decision. By doing this, the chains can better match merchandise they display to the taste of local consumers.

ORGANIZATIONAL PATTERNS

Very few manufacturers have implemented vertical integration into their channels of distribution. The advantages of this are: 1) manufacturer gains maximum control over the manner in which its goods are physically distributed and promoted through all of the channel stages.

To implement this program, the manufacturer must have strong capital commitments and the producer's product line is broad and sales volume high. Unit distribution costs will generally be greater than traditional channels where used.

Only a few firms engage in vertically integrated distribution channels. Gallo and Foremost-McKesson own and control up to 10% of their distributors. In these few markets, the distributors have greatly increased their share of the market. The vast majority of firms do not have the economic capability to own their resellers and find themselves in an increasingly severe competitive struggtle with their integrated rivals. To counteract the advantages associated with vertical integration

and avoid having to make the needed financial commitment, many of these firms are adopting a strategy of distributor programming, in which an integrated marketing system is developed by contractual agreements between a manufacturer and its members of the reseller organization.

FORECASTS OF FUTURE

A. New Products & Processes

1988 has been the year of "me-too" brands following in the wake of I.D.V.'s Baileys, the most successful new brand are the cream based spirits category and coolers. It is expected that much new product activity will be initiated.

Four years ago, the deluge of new introductions followed Bailey's. The current situation is somewhat different, but the emphasis now is on low alcohol beverages with a refreshment orientation, either wine or spirit based, example wine coolers. This development is viewed as a positive development that reflects the growing competitiveness of the industry.

A great discouragement to new product activity is the lack of broadcast media, ratio and television. The alternative is print media. This form of advertising is very difficult to build awareness but less expensive. Further legal restrictions, with regard to sampling programs, make it difficult to achieve trial by the consuemr.

The two successes are Bailey's and California Cooler.

The "Cooler" movement at the consumer level seems like it shot out of nowhere. With 1983 case sales of approximately

1,700,000 of 9 liter cases of wine and fruit juice blend, this is another super success.

The California Cooler's 1983 performance represented a twenty fold increase over its 1982 sales of 80,000 cases. In the first nine months of 1983, it was the tenth largest winery in California. This was achieved without any advertising, without national distribution, by a small company established to produce and market California Cooler. The success has been recognized by some of the biggest names in the business, J. E. Seagrams and Gallo, who are now fully into this category with their own versions of the product.

The target market for the cooler is assumed that the consumer is relatively young and more female than male, but she/he cuts a broad swatch in terms of race, income and lifestyle. The beverage industry is unsure as to exactly which beverages are being abandoned for wine coolers. The product is consumed most heavily during the summer months, with drinkers most likely coming from beer and soft drinks, as well as table wines. To date, the wine coolers' biggest markets are in California and Texas, two of the most important alcoholic beverage markets in the country.

Top 20 cooler brands in the U.S. — 1986
(Ranked by depletions, in millions of nine-liter cases)

Rank	Brand	Depletions 1985	Depletions 1986	% chg 1985-86
1	*Bartles & Jaymes*	7,500	17,000	+126.7
2	*California Cooler*	10,750	11,900	+11.2
3	*Sun Country*	5,000	10,000	+100.0
4	*Seagram's Wine Coolers*	4,000	9,300	+132.5
5	*White Mountain Cooler*	3,200	6,800	+112.5
6	*Calvin Cooler*	2,800	5,700	+103.6
7	*20/20 Wine Cooler*	1,800	1,800	0
8	*Dewey Stevens*	0	1,500	NM
9	*LaCroix Sparkling Cooler*	810	1,000	+23.5
10	*Champale Coolers*	0	950	NM
11	*Florida Wine Cooler*	800	850	+6.3
12	*Seagram's Golden Spirits*	0	800	NM
13	*Country Cooler*	640	525	−18.0
14	*Amante Cooler*	100	450	+350.0
15	*Diamond Wine Cooler*	400	400	0
16	*Steidl's*	775	350	−54.8
17	*Margarita Wine Cooler*	175	300	+71.4
18	*Quenchette*	160	275	+71.9
19	*Wild Irish Rose Cooler*	525	250	−52.4
20	*Bambry's Champagne Cooler*	110	250	+127.3
	Total Top 20	39,295	70,200	+78.6

NM—Not meaningful.
Source: Impact Databank

To demonstrate the volatility of this category, in just two years this picture has changed drastically. Though solid numbers are not in, Seagrams' coolers are in the number one position followed by Bartles & Jaymes at number two. The rest of the picture has changed also.[40]

OUTLOOK

After two decades of impressive growth in the sixties and seventies, how effectively and imaginatively will U.S. Vintners and marketers respond to increased competition - - foreign and domestic in years ahead?

While the U.S. wine industry's recent performance has created some doubts about its future, the strides of the sixties and seventies can be maintained if foreign and domestic vintners institute certain reforms.

It is recommeded that more reasonable production goals, less brand proliferation, particularly of cheap, non-support brands, and a sharp shift away from prevailing marketing practices that wine increased market shares to some supplier at the expense of others, but do nothing to expand the business. Such practices include predatory pricing, coupons, deep discounts, dealer incentives and the use of advertising themes that say no more than "our products are no better than their products."

In 1988, wine and beer makers are expected to fare reasonably well in comparison with recent years. Consumption of table

wines, especially of moderately priced wines, is expected to strengthen somewhat, but imports are unlikely to increase because of exchange rates. Demands for wine coolers is expected to taper off. Domestic beer shipments are expected to rise, but not as much as imports, whose growth is expected to duplicate the 1987 level. Spirits consumption is expected to sag still further. Adjusted for inflation, the value of alcohol beverage industry's shipments is forecast to rise about 2.3% in 1988.[41]

For the malt beverage company, it appears that the single most important factor driving long-term trends in beer consumption is the so called graying of America. With a large and growing segment of the population moving into the health and diet conscious, over 40 age group, it appears that the long term growth in beer consumption may be no ore than 1% to 2% annually.[42]

In the spirits category, since 1980 the leading distilled spirits makers have introduced approximately 169 new products, 86% of which are still available. In 1986, these new products amounted to 7.4 million cases, or 6.6% of the top companies' total volume, and 4.4% of all distilled spirits shipments.

Many of the new lines are no more than product line extensions of premium or super premium labels of yore, but they have helped shore up the retail sales and ease strains on profitability. Margins also have been sustained by lower advertising and promotion outlays. Decreasing support since 1982, liquor marketers spent 19% less on advertising in 1986, and

are not expected to raise budgets significantly above 1986's 245 million at least for the remainder of the decade. Marketing efforts are likely to rest on producers' ability to push more product through existing distribution channels. The ability to pick up new brands through mergers and acquisitions will remain an important part of the struggle to survive an increasingly competitive environment. The ability to generate a variety of choices - even novelties - to a new, more moderate generation of sweet-toothed imbibers will become a major factor in their future success.[43]

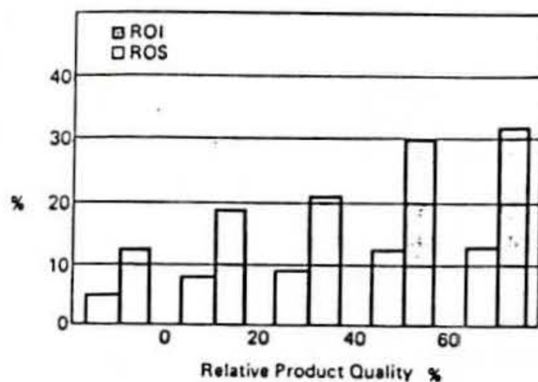
There are two scenarios for the future. The first calls for continuing development of new products, new customers and new markets, which will lad to greater overall growth. The search calls for cut-throat competition in the marketplace, as well as legislation that would ruin for a few vintners larger shares of what might well be a static or declining market.

A. <u>Value of the Price Quality Relationship to the Beverage Industry</u>

When the five year forecast for the beverage industry calls for a very small growth, between negative growth and 2% growth depending on which of the three categories studied, the need to compete on quality should be priority number one. The cost to make up for a tarnished image can be two or more times the original investment to present the proper quality image.

The beverage industry has sought to maintain or improve their profit margin at the expense of marketing support, or quality of their product. Anheuser-Busch is an exception to this trend. They have improved all areas of quality and proven this concept to be correct - their market share continues to increase. When quality and marketing support are cut in the beverage industry, the future will be a negative earnings and growth. The industry needs to recognize this and not mortgage the future.

To understand better the complex question why quality promotes profitability, let us set it against the other important dimension customers consider - price. The following illustration is a value map. The relative price and quality axes represent the statistical distribution of businesses in the PIMS database in terms of these two variables. Over half the businesses fall along the diagonal line, i.e. businesses reporting higher relative quality also tend to report higher prices, while those that discount relative to competition, also tend to report competition to have inferior quality. But, there are also quite a few businesses which, through accident or design, wind up in "unusual" positions, either no premium for high relative quality or charging a premium for inferior quality (figure 4).[44]



Source: PIMS Data Base

Figure 1. Relative product quality boosts rates of return

Long Range Planning Vol. 17

ROI (%)

Relative Product Quality	Low (Relative Market Share)	25% – 60%	High
High – 40%	19	28	38
40% – -1%	14	20	28
-1% – Low	7	16	23

Relative Market Share: Low, 25%, 60%, High

45

46

The businesses offering poor value to their customers, i.e. higher price but lower quality, are losing market share, while their opposites (lower relative price coupled with higher relative quality) are gaining share, on average quite rapidly. When you examine the operational consequences of share loss and gain and its effect on capacity utilization, productivity and relative cost, one of the major benefits of good quality coupled with low prices become apparent, as do the perils of trying to the opposite.[47]

But, the benefits of better volume and production costs are not the only reason for the profit differences we observe, as figure 6 illustrates.[48]

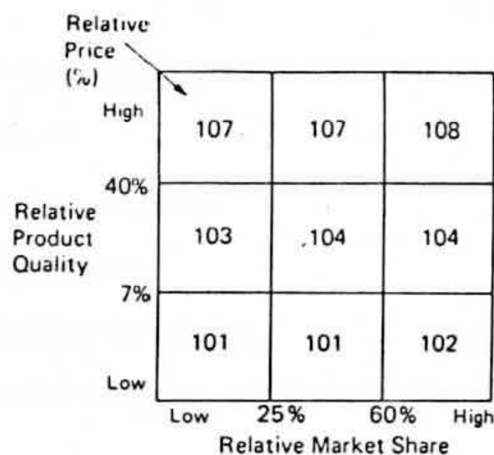


Figure 6

PIMS businesses report both these absolute levels of marketing expenditure and their levels relative to competitors measured as a percentage of sales. As the numbers within the bubbles show, businesses offering poor value spend much more on marketing than businesses which do not, and, despite this, as we have seen, tend to lose share. Indeed, if we compare the few

businesses offering poor value which gained significant share, the contrast is even more startling.

	Very Poor Value	Very Good Value
Marketing/Sales	16%	9%
ROI	5%	33%

In sum, manifold benefits accrue to those businesses which offer better quality:[40]

- . Stronger customer loyalty;
- . More repeat purchases;
- . Less vulnerability to price;
- . Ability to command higher relative price without affecting share;
- . Lower marketing costs; and,
- . Share improvements.

Customers typically respond well to good value offered them, increasing your share which can mean lower relative costs.

DEVELOPING EFFECTIVE PRICE QUALITY RELATIONSHIPS

In many small companies, the general manager will normally react to a competitors move by a price cut. In the short term, this may provide positive results. Long term, this manager (unless uncharacteristically well financed) will deteriorate profits and not solve his problem. A better approach would to identify where the operation's strengths lie. While most small companies to not produce all their internal raw material needs and need to purchase most, if not all, goods from a outside

supplier, there are three good options to succeed in a highly competitive price market.

A. <u>Least Cost Strategy</u>

Often a very difficult strategy to implement, the difficulty comes from producing standardized units and delivering or warehousing them strategically across the market. the business unit should support sub-assembly work, warehousing, or distribution on a massive scale. Firms that use this strategy should strive for efficiency of working within the firm's system. Because coordination is critical to this system, involvement requires structuring multilateral relationships among its various business units.

B. <u>Profitability</u>

The key to profitability according to various groups when working on a per-unit basis of sales, per unit cost typically falls by about one-third with every doubling in the number of ouputs produced.[55]

Because costs per unit decrease with greater production, then the firm that produces the most should have the largest marginal cost.[56] When involved in a highly price competitive market lace, the key to profitability is sales volume. To achieve higher sales volume and market share, an operating business must take action to meet the demand by increasing their production capacity and storage facility. To survive under this strategy as a producer or distributor, one must constantly review all

technological advancements. Operating units must be able to switch production procedures and methods nearly instantaneously. Two examples of industry manufacturers who failed to follow technological advances are the milk container industry and the domestic automobile industry. The largest producer of glass bottles for milk had developed the most stable and efficient technology for glass bottles. This firm had the most to lose; therefore, when the technology shifted waxed cartons replaced glass bottles as containers for milk. When demand for glass bottles was no longer there, the substantial investments made in plant and equipment for making glass bottles had to be written off.

For decades American car manufacturers emphasized reducing cost through cumulative production volume. Management continuously attempted to stabilize technology and reduce further the marginal cost of production. United States car manufacturers did not considser technological innovations that dealt with variables other than reducing the manufacturing cost. Technological developments outside of America - in Japan and German - finally made Detroit realize that consumers preferred innovative cars. When American auto firms adapted aerodynamically efficient car bodies, transactual and transverse positioned engines and such fuel. By introducing cost saving

parts as advanced plastic, graphite fibers, and the dual phased steel, the result was a car that was more reliable and less expensive to operate.[57]

A least cost strategy is dependent on responding strategically to the environmental changes of the business environment. Managers today must realize the competitive forces of cheaper domestic and imported products has transformed the consumer product industry into one with fairly standardized product market dimensions.

C. Differentiation

When a product has product features which is considered unique in the industry, that producer has chosen the strategic option of Differentiation.[58] This strategy is highly dependent on marketing and manufacturing sectors working together closely. This strategy emphasizes combining marketing and manufacturing efforts to allow modification in existing products and quick responses to changes in the nature or volume of demand. With unique outputs, low costs are not of critical importance.[59] Firms can compete effectively with differentiation products. Because lower costs are not vital under this strategy, the firm must bear the cost of any package modification, packaging, distribution, and advertising. A differentiation strategy allows an autoonomous relationship between sales and manufacturing. Marketing acts as the communication link between the two units. Business units are created to work on a market-by-market basis.

Each independent business unit's market may have diverse product requirements, competitive forces, and economic or political risks. As long as return on investment remains acceptable, top managers will allow local managers great autonomy in marketing decisions.[60]

D. Ramifications for Profitability and Differentiation

Products that are considered unique are normally priced well above production costs. Sales potential is inelastic to price. Consequently, modifications in existing products and quick responses to changes in the nature of volume of demand by far supersede considerations that would lower manufacturing costs.[61]

Some centralized planning and implementation efforts are likely to boost profitability and innovation potentials of enterprises with unique products. For example, a degree of centralized engineering and research and development activities may provide useful inputs into the future product planning of any one business unit of the corporate entity. Some centralized efforts in advertising may save each business unit substantial sums.[62]

The centralized approach allows greater efficiencies in advertising programs. The opportunity to use similar promotions in other markets can reduce production and administrative costs.

With the Differentiation strategy, higher profitability does not correlate with greater or smaller production capacity and market share. Since the Differentiation approach is a unique

approach to positioning your product in the market, the price positioning of a product is not dependent on production requirements or market share.

E. The Niche Strategy

When a business unit decides to offer existing products or technologically new or improved products to fulfill the needs of a particular buyers in the industry, it has chosen the strategic option of niche.[63]

Under the Differentiation strategy and the least cost strategy, the products are well-known, brand franchise products. However, with the niche approach, it is oriented towards needs fulfilling products. This strategy addresses specific groups of buyers within an industry. This strategy is highly dependent upon a large and active research and development department. Low cost production is not as important with niche as with Differentiation. Under the niche option, per unit costs tend to be higher. Since lower production volume and higher marketing costs are associated with niche, operating units should be prepared to face a slow and difficult market to crack open. Without the volume production needs being primarily under this option, the pricing policy can be set very high under the strategy. Under the strategy, all resources are directed towards effectively marketing need fulfilling products with consumer needs.

The market under niche strategy, by its unique and naturally smaller market, have only limited opportunities for wide spread geographic involvement. The target market is considered high income, highly educated targets.

Ramifications for Profitability Under Niche Strategy

The key to profitability with this strategy is to limit production capacity and then charge premium prices for a given product. Low product availability tends to reinforce consumers' high need for the product and also supports a high value concept for the consumer.

Under this strategy, research and development is very key to the success of the industry. As a product becomes successful, the competing technology will follow and copy the success. If the lead industry has a high research and development department to explore opportunity, it must remain flexible to accommodate specific demands for innovation, product or market demands.

Specific product market choices tend to link an enterprise to the strategic option of least cost, Differentiation or niche. But, strategies are subject to change. Selecting need fulfilling products over time may be repositioned to compete as unique and subsequently standardized outputs. The successful firm not only chooses a strategic option but also as the product market changes, adjusts its strategy and repositions its products.[64]

RESEARCH

As indicated in the hypothesis, the alcohol beverage industry is involved in a highly price competitive environment. The industry is not a highly profitable one with few exceptions. A 2% to 5% growth projection is not very appealing to cash-rich companies looking to expand operations or diversify into new growth industries.

The malt beverage industry is expected to keep growing at inflationary levels of 1% to 2% for the next five years. Wine, a growth category for the last two years, has slowed to a 3% growth rate. The wine and brandy industry until recently has suffered from over production domestically and double digit growth in shipments of foreign wine, particularly Italian and French.

The spirits industry has nothing uplifting to talk about. Nearly all domestic producers are simply trying to equal last year's shipment figures which were based on the previous year's decline in shipments.

Profitability is evident in all three segments due to marketing expenditure cutbacks or the consolidation of players within the industry.

So, what is the industry's answer to the five to ten year plan to restore, one, confidence; two, growth; three, employment; and four, positive industry appearance?

A. Confidence and Industry Appearance

The first approach should be the education of potential and actual users of alcohol products. It is not intended to cover this topic, but this point must be made. Education of the consumer to distinguish among various products based on product used, fulfilling social circumstances is critical. Discrimination is a second concern in the education of the consumer and appropriate to this point. Its importance is demonstrated in the selection of quality versus non-quality products. Quality is defined here as having true consumer attributes. For example, there are several medical articles citing the health aspect of beer and wine products. A second example of a true consumer attribute could be social enhancement through moderate consumption. The point is that the consumer must be educated to discriminate for high quality products at moderate consumption levels.

Other industries have successfully done so. Others have educated their consumer to continually search out quality versus absolute low cost alternatives. Several examples are: one, medical industry; two, legal industry; three, drug industry, etc. The list is extensive and it is time for the alcohol industry to join this professional elite.

B. Growth

Uncontrolled growth is the monkey on our industry's back. Before prices can be raised that reflect a strong bottom line, the industry must take bold measures to cut productions to meet consumption levels. When this equilibrium is met, costs will decline, prices will rise, employment will be restored and the neoprohibitionist will de-energize their cause. Why? Because productions will be equal to or similar to consumption.

Remembering our purpose of the price quality relationship, people will pay what they feel a product is worth. This means we would not have to discount our good because supply would be equal to its demand.

Since it is foolish to think one industry can create a perfect supply and demand model, it is not foolish to think that the major elements of a pricing strategy can lead to effective profit opportunities.

C. The Dynamics of Pricing

When a customer compares products measured is the purchase price against the relative value of the performance it expects from the product and the service it expects from its supplier. Of the three factors, performance, service, price - price seems to be the least subjective. (For more on this, see E. B. Ross "Making Money With Productive Pricing.")

The price charged for a good can be disguised to make it appear more attractive than it actually is. For example, some industrial companies will separate the taxable portion of the good from the cost of the product. This allows the retailer to

subdistribute to price the product without double taxing the good. Another example would be to separate the set up costs to maintain the appearance of low unit prices. Others are, volume discounts; year end rebates; credit terms; and inclusion of transportation costs. These and other methods of structuring prices can alternately influence the customers' perception.

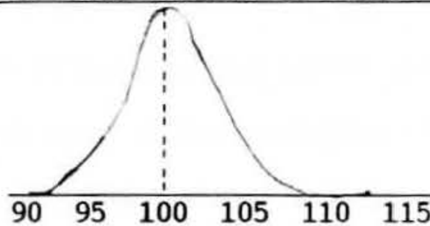
The timing of price changes is another method to influence the customers' perception. An example, an alcohol distributor who follows a competitor's price hike by 2-3 weeks can be considered a low cost distributor who begrudgingly raises their price because their supplier has raised theirs.

Other factors go into determining a price of a good. Faulty information derived from ill conceived reporting forms, or the simple lack of understanding as to why the consumer has purchased the product.

These imperfections determine the degree of pricing freedom and open the door to significant profit improvement through acute pricing.

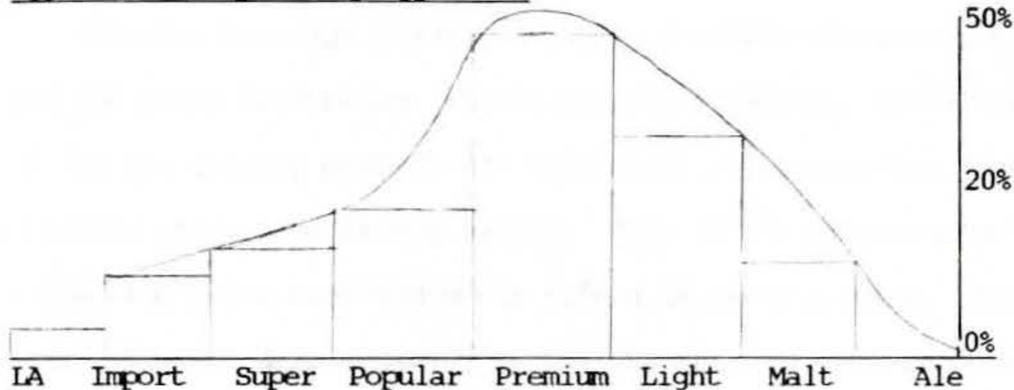
In the alcohol beverage industry, it is rare for a product to be sold to consumers based on quality attributes. The result is the consumer will usually buy the medium priced product. He/she trusts this purchase, feeling they have not purchased "rot gut" or excessive high end goods. The price band in the alcohol industry is not very different than the price band of other industrial products.

Typical Distribution of Orders for a Product



Source: McKinsey & Company

Typical Consumption by Type-Beer



Low Alcohol	.2%
Imported	4%
Super Premium	5%
Popular	19%
Premium	47%
Light	21%
Malt	3%
Ale	.7%

The price band for the beer industry is very similar. Both have a bell shape indicating the majority of the consumers purchase close to a normal frequency distribution curve. For many industries, a spread in consumption on the curve is 10 percentage points. For the malt beverage industry, the spread averages 12.5 percentage points.

The price band exists on the demand side because the consumer tends to stick with the familiar choice. Also, for some brands, substantial price cuts are used to switch the consumer. On the supply side, differences among competitors, such as in run

length, transportation costs, product quality, features, and performance, in service, any pricing terms and conditions, or in sales efficiency and effectiveness - contribute to price variations. Other variables that affect the price band are the level of competition, and the ratio of customers to suppliers. Both will widen the price band.

The malt beverage industry provides a simple illustration of how the price band varies between quality segments. In the case of the low quality product, the equivalent of a commodity, the consumer price band is very narrow. But, in the premium plus range, the price band doubles to $.54 a 12 ounce serving. The price variance depends partly on the way the customers perceive quality and partly on the competitive intensity in each segment.

Quality	Price Band In Beer
Excellent	Mich.$.54
Very Good	Bud. $.49
Good	Natural $.40
Fair	Busch $.37
	0 10 20 30 40 50

Cost per 12 oz. serving based on retail case price.

The degree of strategic pricing freedom open to any supplier depends on two variables. On is the competitive intensity, as defined by the uniqueness of the product or the number of suppliers bidding on an order or market.

The second detriment of the pricers freedom is the products perceived value is to the customer, defined as the benefits the customer expects to achieve from its purchase relative to a substitute product or no purchase at all.

Once marketers understand where their products fit into the quality picture, they can easily take advantage of pricing opportunities.

In combination, these two variables - competitive intensity and perceived value - is the essence of pricing policies.

Any business in the alcohol industry can be assigned to one of four categories within this frame work. In the upper left-hand quadrant are the specialty products such as a fine California boutique wine, premium scotch and super premium beer =

products characterized by high perceived value and low competitive intensity.

Pricing is a high leverage independent variable in such businesses. In the lower right-hand quadrant are products like popular priced beer, generic bourbon and generic table wines = commodity businesses characterized by low economic value and high competitive intensity. Here, pricing is a dependent variable based on the intersection of supply and demand curves. In the lower left-hand quadrant are products like cream liquors, microbreweries, blush wines. In these businesses, competitive intensity is very low, and pricing, though subject to certain constraints, can be considered a largely independent variable. Finally, in the upper right-hand quadrant are imports like imported wine, beer and spirits, characterized by both high economic value and high competitive intensity. For these products, pricing is a semi-independent variable, limited mainly by the competitive intensity factor.

The available latitude for pricing in the alcohol market can be easily seen when the pricing framework is coupled with the concept of the price band. In the speciality quadrant, the price band is usually both wide and easy to shift. Customarily, a threshold product has a wide band that is difficult to move until the market begins to recognize the volume of the product. In the super-premium and import segment, the band may vary in width but is almost always immovable. In the commodity segment, the band is both narrow and fixed.[65]

F. <u>Pricing Bands in the Pricing Framework</u>

Examples:

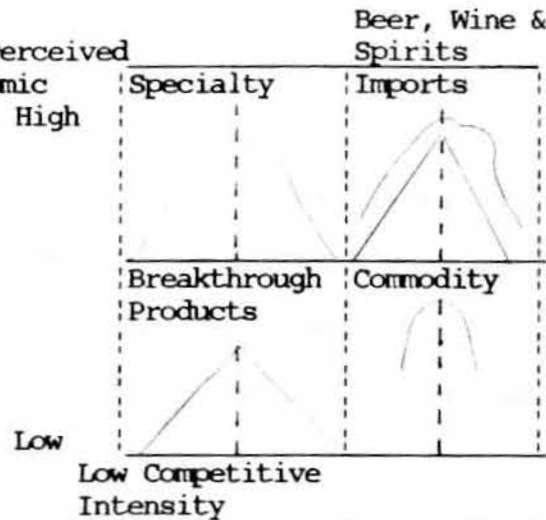
Imported

Calif. Prem. Wine
Prem. Domestic Scotch
Super-Prem. Beer

Perceived
Economic
Value: High

Examples:
Cream Liquors
Micro-Brewers
Blush Wines

Low



Examples:
Popular priced
beer, general
wines & spirits

- Specialty - Pricing is high leverage independent - variable. Price band is wide and easily moved.
- Imports - Pricing is a semi-independent variable. Price band is of varying widths and difficult to move.
- Breakthrough Products - Pricing is an independent variable. Price band is wide but hard to move.
- Commodity - Pricing is a dependent variable based on supply and demand. Price band is narrow and very hard to move.

G. <u>Pricing Strategy</u> - Price Discrimination

Thus far, we have analyzed the current and projected shape of the alcohol industry and how certain segments fit into the industry. The assumption appears that command of all consumers and every consumer is charged the same price for the product. Companies can at times take advantage of these differences in demand in order to increase their profit and price discrimination is the method by which this is accomplished. Where legal, price discrimination means that the firm charges different prices. For

example, price discrimination can occur when a distributor charges different prices in its super-premium, premium, etc. and imported brands or perhaps when a retailer is capable of purchasing a large quantity to receive a certain discount versus the smaller amount who can only purchase a smaller quantity.

Certain conditions are necessary for the firm to be able to price discriminate. First, a company must possess some market power. Second, the demand factors for the individual consumers or groups of consumers must differ. Third, the different markets must be separable. The company must be able to identify the individuals or groups of individuals and segment them.

Under first-degree price discrimination, the most extreme form of price discrimination, the firm would treat each individual's demand separately. That is, each consumer will be a separate market. The firm then maximizes its profit for each individual consumer. The company realizes a profit as large as cost is not net or exceeded.

* This discussion is adapted from F. M. Scherer, "Industrial Market Structure and Economic Performance" (Chicago: Rand McNally, 1980), pp. 336-37.

A potential application of this method is the automobile industry. Under this system, a sticker price is posted, but then they actually sell the car for a price determined in negotiations between the buyer and salesperson.

First degree price discrimination is expensive to implement since the company must determine each individual's demand faction. Second-degree price discrimination is somewhat simpler because it requires the firm to consider groups of consumers. An example of this would be retailers of luxury goods. The strategy here consists of introducing a new product at a high price. Then after a period of time, the firm reduces the price and sells some additional units. This process is continued until the model is replaced.

Third degree price discrimination is the form most normally encountered. When producing third-degree price discrimination, the firm separates the consumers into two or more submarkets, then sets the prices in these markets that will maximize profits.

Examples of third degree price discrimination are all around us in today's market: drug stores offering discounts on drugs to persons over 65+. Airlines offering different prices for the business traveler versus the vacationing traveler, etc.[66]

Three other pricing models that are frequently used are: one, limit pricing; two, cost-plus pricing; and three, predatory pricing.

Limit Pricing

This strategy is implemented when an attempt to maximize long term profit is concerned. Under this strategy, price would be set so as to discourage or eliminate the entry of new competitors into the market. The concept is simple. In the short-term, the price of a product is so low it discourages any competitor from entering the business. However, the company must forgo profit to limit any competitive entries in the market.

Cost Plus Pricing

This is the method in which most businesses set their pricing. In cost plus pricing, the company determines its average total cost then adds a percentage mark-up, or margin, for profits.

Predatory Pricing

This form of pricing would have as its objective the elimination of rivals. If a firm desires to eliminate its rivals from a market, it is necessary that the firm set a price that is below the average total cost for the rival's firms. Whether or not such a pricing plicy is "predatory" depends on the relation between the price set and the firm's own average total cost. The firm has or to eliminate inefficient rivals. This is a long-run pricing policy.[67]

Predatory pricing is a very controversial policy. Many in the wine industry have accused E & J Gallo (a private company) of such a policy. The existence of their policy came to surface when Coca-Cola entered the market with their Wine Spectrum division. Gallo increased the service and price competitive level to such a degree it eventually forced Coca-Cola to walk away from the wine business.

Full Cost

All these pricing policies are fine and used by many companies in and out of the industry. However, if you are already entrenched into the market, either high or low volume, and you need or desire to raise your price to raise profits, a careful strategy must be employed. The best strategy to use is a full cost method. Under this strategy, all costs such as production, marketing, sales, discounts, training, delivery and administrative should be built into the units cost. If the product is already in the market, this is a great opportunity to implement this strategy and increase your desired margin.

H. Tactical Price Strategies

The tactical approach to establishing an effective price policy is to establish an explicit guideline that indicates whether, because of the company's cost position and the customers' circumstances and characteristics, the price quoted on a given order should be equal to, lower than, or higher than the competition's.

The following grid is designed to provide specific guidelines to control your operation's pricing.

The grid uses two factors, customer's price sensitivity and a company's market share position. In general, when the customer's price sensitivity is high, it makes good sense to match or underprice competitors, the reverse if it is low.

Guidelines for Tactical Pricing

Supplier or Distributors' Market Position		Customers' Price Sensitivity: Low			Customers' Price Sensitivity: High		
High		Share			Share		
	Cost	low	high	Cost	low	high	
	high	↑	↔↑	high	↑	↔	
	low	↔	↔	low	↔	↔	
Low		Share			Share		
	Cost	low	high	Cost	low	high	
	high	↑	↔↑	high	↔↑	↔	
	low	↔	↔	low	↓	↔↓	

↔ Match Competition

↑ Price Above Competition

↓ Price Below Competition

↔↑ Match or Raise Price

↔↓ Match or Lower Price

I. Strategic Price Control

Many operations who wish to set up a pricing department are not aware they already have a structure in place. Most have the structure there, and their need is in organizing and collecting pricing data. The following is a step process to organize the data:

1. Marketers must gather a great deal of information about market and customers' characteristics, competitor capabilities and actions, and internal capabilities and costs. After thorough and imaginative analysis, marekters can use this information to

draw up pricing policies and guidelines that can be translated into customer specific pricing tactics.

2. Collect and analyze price data for each product early in the development process and continue throughout the product's life. Sources of customer and competitor data are the sales force, targeted customer interviews, competitor sales literature, trade publications, security analysis reports, and former employees of customers and competitors. Use information gathered from these sources - data or competitors products performance, cost structure, current and expected capacities, and pricing strategies as well as on customer product expectations and buying process - to stay a jump ahead of the rest of their industry in pricing skill and sophistication. Good market, competitive, and internal data give top management a vital edge in developing pricing strategy and put a potent competitive weapon in the hands of the middle-managers and salesperson who will be making the day-to-day pricing decisions.

3. Successful companies are structured to take advantage of the data needed to support effective pricing. Because this data must be up to the minute and must be drawn from a wide variety of sources, organizing to collect and use it is always something of a challenge. Responsibility for this effort is normally lodged in the marketing function usually not with marketing research staffers but with product or market managers so as to capitalize on their closeness to the customers and daily involvement with competition.

4. Flexible and responsive systems for collecting and using pricing data are characteristic of the most successful pricing practitioners. Many companies have developed special incentives to encourage salespersons to brink the good customer and competitive data especially prices on both won and lost orders. Most also provide their pricing decision makers with on-line linkages to the product cost systems and with quick access to current customer specific costs.

5. Successful prices usually assign more and better people than their competitors to jobs involving collecting, analyzing and using price information. Aware that poor pricing performance is often more a reflection of overworked and underqualified staff than of ineffective pricing strategies or tactics, aggressive companies fill these positions with people who combine quantitative skills with a sense for competitive dynamics.

6. Lastly, effective control and feedback on results are essential to the success of a strong pricing system. Management must have a reliable way of tracking and evaluating the pricing decisions made by each individual with pricing responsibilities in the organization so that it will know many other things, if consistently specified approval levels are being observed in day-to-day practice.

The value of a superior pricing information system can often be measured in hard cash. One company, as an example, determined to improve its pricing information started by revising its accounting data to reflect fixed and variable costs accurately by product and by market. By surveying the sales force, it created

a pricing history by customer and product type of each key competitor as well as profile of the buying process of each major customer. Finally, it provided each pricing decision maker with a personal micro-computer, access to three data bases (cost, competitor and customer), guidelines on pricing strategy, and feedback on individual performance. In less than a year (and at a time of declining market demand), its margins improved by several percentage points, representing almost $25MM in added profits.

For most companies pricing opportunities are waiting to be realized. They exist for a number of reasons. For one, most managers are unaware of the latitude that the price band affords, and hence, if the opportunity costs of passive, purely reactive pricing policies. For another, not many companies really understand their customers' economics and buying behavior.

Taking advantage of productive pricing opportunities, if done intelligently, entails little risk. Improvements in pricing, moreover, are possible in many situations without provoking competitive retaliation, and they are often sustainable because the competitors can not really detect them.

Another atttraction of a quality not cost approach to pricing is that the approach itself carries such a low price tag. Installing a quality approach entails limited investment, minimal added expense, and minor organizational adjustments. But, the payoff is usually both substantial and quick in coming. Given a solid understanding of the dynamics of the price level, structure and timing, knowledge of the customers, an updated data base, and

consistency in execution, any company can successfully use pricing as a tool for building and sustaining profits.[68]

J. Dangers of Experience-Curve Pricing

The experience curve, which has dominated strategic thinking for nearly a decade, is not only logically compelling as a theory but is emphatically verifiable on the basis of PIMS (Profit Impact of Marketing Strategy) data. Higher share businesses tend to have lower relative costs, and therefore, better and more sustainable profitability. Market share is a key strategic variable, but many of the conclusions drawn from this fact have been disastrous.[69]

According to experience curve pricing theory, one can afford to cut prices in anticipation of the cost reductions additional volume will bring. If you can achieve greater volume, i.e. market share, than your competitors, you will probably obtain a relative cost advantage. Your better returns will then permit you to build additional barriers to fortify your leading position, such as outstanding service and distribution systems. Sometimes this works. But, few businesses have achieved success with this kind of strategy.[70]

One explanation offered evidenced that price cuts only bring advantage if you manage to achieve a price lower than your competitions.

The result is not a "winner" or clear leader, but only poor profits for the entire industry.

Of those businesses in the PIMS database that did manage to achieve a major relative price cut, only those that started with a major cost advantage significantly improved their positions after four years.[71]

Market Annual Point Change		Low	98–102	High
	Share	+0.4	0.1	0.0
	ROI	+1.7	0.2	-0.1

Beginning Relative Direct Cost
Low 98 102 High

As the chart indicates, price cutting usually brings results only for businesses which begin with advantages. What is more, businesses which have achieved high relative shares seldom build the protective barriers the theory of experience curve prices suggest they should. On the contrary, PIMS database research indicates that high share businesses, on average, are losing share to competitors. The evidence of the PIMS database shows that most high share businesses see their position erode through

a lack of investment in people, plant and equipment, innovation and research, and product quality.[72]

The evidence is that the most certain way to build share, and to defend it, is through quality. Robert Lucks points out that the evidence produced by PIMS research suggests that, if you cannot attend to both cost and quality, focus on the latter for it will ultimately lead to a higher relative market share.[72]

As David Packard, co-founder of Hewlett-Packard, has stated, "Market share should not be an object, but a reward; a reward for doing a better job than the competition.[74]

If the alcohol industry chooses to adopt the concept of competing on quality and not costs, it will improve their profit and share position dramatically. Members in the industry must learn to price their product backward. In this system all fixed and variable costs are broken down into brand segments and then on per unit basis. To protect a product and improve margins, it must be sheltered in an intensive service system. This system should reflect the research of your customers that give you expert knowledge of a customer's business or of the requirements of their customers.[75]

This allows a company to raise price without appearing to gouge the customer.

As mentioned earlier, to succeed in a whole quality approach, the attitude must be present company wide.

There are four "D's that make a difference in win, place or show:[76]

- Direction. Everyone in an organization, top to bottom, inside-out, must have a clear sense of direction. Where is the organization now and where is it going? This building of the consensus in vision and direction is essential if each person is to commit him/or herself. Direction means a clear sense of goals and objectives, and specifies the role of the individual in making things happen.
- Dedication. Dedication to success and making good things happen must consume everyone in the organization. Dedication means committing yourself and your departments to improve in quality and performance. Dedication is a two way street. Dedication to the organization mandates a dedication to the individual. Superior performance demands superior recognition. This reciprocity builds commitment and more importantly, loyalty. Everyone aims together.
- Detail. You must build an organization with a love for detail. In order to make things happen all of the time, the little things must work. Defect-free performance must be the standard for all members of the organization. Anything other than perfection upsets the paying customer, and that is bad.
- Demolition. Can you ever win by too much? Much of the hue and cry raised in athletic arenas today focuses on running the score up. Who truly cares? Would you ever tell your salespeople, "sell, but not too much?" Would

you ever want an average profit or a mediocre market share? The answer is a reaffirmation of a private enterprise and a resounding "no." Winning and winning big makes all of us better off and that is not all bad.

Talk to winners and losers. Winners will indicate winning is much more fun than second place. Winning can become infectious and fun if you commit yourself and your organization to doing what must and should be done.

EXECUTIVE SUMMARY

The days of broad based growth for the beverage industry are likely gone. The alcohol industry is projecting growth of 1-2% over the next five years. Malt beverage segment projects consumption growth at no more than 1-2% annually.

Distilled spirits continue to be hit hard expecting a steady 24% downward slope. Per-capita consumption tightened its downward spiral with a 7.2% decline to 1.67 gallons down from the previous five years of two gallons per person.

The wine market is experiencing slowing growth in all categories except wine coolers. The domestic market is expected to grow at a modest 1.1%. Excluding wine coolers, however, total wine consumption fell 5.5% last year, after more than fifteen years of solid growth. This decline is mainly attributable to the industry's mainstay, table wines, which lost favor for the thrid consecutive year.

With a national trend of back to a business of primary concern acquisitions have re-shaped the beverage industry. A one-two punch of low projected earnings and the tighter drunken

driving laws, businesses who have built most major brands have shed them to renew their interest in their primary businesses. A quick high light will show the extent of the changes:

- 1987 - Heublein Wine & Spirits Division of RJR Nabisco acquires Almaden Vineyard from National Distillers & Chemical Corporation for $130 million. Heublein becomes the number two producer of alcohol products.
- 1987 - Grand Metropolitan PLC, a British conglomerate, acquires Heublein for $1.3 billion.
- 1987 - Vintners International Company [I.V.L.] purchases Taylor brands of wine, Paul Masson and Gold Seal brands for $200 million.
- 1987 - Hiram Walker, Canadian-based company buys Colium Coolers wine coolers.
- 1987 - James B. Beam Company buys National Distillers distilled spirits brand and facilities for $545 million.
- 1987 - Barton Brands is purchased by a management group from Argyle Group PLC for $480 million.
- 1986 - Guiness/Distillers products acquired the British Distillers Company.
- 1987 - G. Heilman Brewing Company agrees to be acquired by Bank Corporation Holding LTD., Australia for $1.1 billion cash.
- 1987 - John Labalt, Ltd., acquires Latrobe Brewing Company makers of Rolling Rock Beer for $52 million.

Other sales/acquisitions reportedly in the works, Miller Brewing Company $3-4 billion to Elders, the Australian Brewer.

Some industry analyst estimate that a handful of foreign firms with United States production and distribution subsidiaries may control 60-65% of the United States spirits markets. They also cntrol an estimated 25-30% of the U.S. wine production and upwards of 15% of the domestic brewing capacity.

Profitability of the industry is the cornerstone of the industry. In inflation adjusted dollars <1982>, the malt industry is anticipating a dollar growth factor of 2.6%, Wine & Brandy 3.1%, and the spirits industry only 1.6% growth rate.

The alcohol industry has become a domestic hot potato and suffers from two major weaknesses. First, the industry has not adequately linked to the primary corporate goods of maintaining an adequate net profit margin and return on investment, due to questionable assumptions, ill conceived mission or quality problems. Second, industry leaders develop models or frameworks providing strategic recommendations that are either too general (e.g. harvest, grow, divest) or often difficult to implement (e.g. disinvest "dogs").

In order for the industry to embrace a total quality approach, it must first learn to effectively discipline its bottom line. This can be achieved through a margin-return model.

A firm's net profit margin will influence its return on investment. In essence, the return criterion indicates the success of the company's attempt to declare and stake out its future mission and objectives, whereas, the margin criterion indicates the company's present performance on strategic decisions made earlier.

The calculation of Return-on-Investment is:

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Net Sales}}$$

$$\text{Asset Turnover} = \frac{\text{Net Sales}}{\text{Total Assets}}$$

$$\frac{\text{Net Profits}}{\text{Net Sales}} \times \frac{\text{Net Sales}}{\text{Total Assets}} = \text{Return on Assets} \times \frac{\text{Total Assets}}{\text{Net Worth}} =$$

$$\text{Return on Assets} \times \text{Leverage Ratio} = \text{Return on Investment}$$

Most companies tend to set a target level of net profits as a percentage of sales to reflect operations efficiency and similarly a target level of return as a percent of the capital asset base to reflect cost of capital and dividend policies.[81]

Current levels of margin and return can be inadequate indicators of the organization's actual value and probable future performance. Therefore, management should estimate what the firm's margin and returns will look like over a several year span based on variations in the costs of capital, working capital and investment requirements per sales dollar, and environmental pressures or industry margins, as well as the riskiness of the investment.

In most cases a firm should seek objectives and follow the strategies for the quadrant in which it is currently placed.

Margin-Return Model[82]

Targeted Margin	Targeted Return: Satisfactory	Targeted Return: Unsatisfactory
	Quadrant One	Quadrant Two
Satisfactory	1. Market Entrenchment a. Share Protection Strategy b. Repositioning Strategy	1. Volume Improvements a. Sales Stimulation Strategy b. System Selling Strategy
Satisfactory	2. Market Expansion a. Multinational Strategy b. Full Line Strategy	2. Capital Restructuring a. Distribution Productivity Strategy b. Reseller Alignment Strategy
	Quadrant Three	Quadrant Four
Unsatisfactory	1. Margin Improvement a. Repricing Strategy b. Cost Control Strategy	1. Corporate Retrenchment a. Overhead Reduction Strategy b. Reorganization Strategy
Unsatisfactory	2. Product Improvement a. Migration Strategy b. Vertical Integration Strategy	2. Corporate Restructuring a. Divestment Strategy b. Diversification Strategy

A satisfactory margin and return situation is, of course, the ideal one for a company. The alcohol beverage industry should be allowed to enjoy the benefits of good performance with respect to operations and strategy, it should also plan to ensure its continued viability. This can be achieved by setting and attempting to reach two objectives.

The Market Entrenchment Objective. The immediate strategic objective should be market entrenchment where the firm attempts to maintain and solidify its current position in the marketplace.

There are two specific marketing strategies that can be used to achieve the market entrenchment objective. The first is a share protection strategy. Defending the company's market share can be achieved based on over-all cost leadership and/or differentiation while focusing efforts on its major customers.

A second and slightly longer-term strategy to achieve market entrenchment is the repositioning strategy. In light of changing market needs and societal lifestyles, the firm attempts to enhance the position of its current product lines by changing and extending their image through mass advertising or personal selling.[83]

Market Expansion Objective. The market entrenchment objective to ward off potential competition is extremely useful in the short run if the share protection and repositioning strategies are effectively implemented. Ultimately, the company must think strategically to convert a competitive 〈zero sum〉 game into a coexistive 〈positive sum〉 game. This can be achieved by

setting the managerial objective of market expansion. A company in this quadrant will have the money, resources and borrowing capacity to fund a relatively costly expansion program.[84]

There are again two fundamental strategies associated with this objective. The first is to redefine the market boundaries from the domestic to worldwide markets, a multinational strategy. This may include both marketing and manufacturing operations. For example, Coca-Cola has remained a profitable company by deciding several decades ago to bottle and distribute locally its soft drinks on a worlwide basis.[85]

The market expansion objective can also be achieved by expansion of the firm's product line. This is referred to as full line strategy. As the name implies, this strategy expands the range of products and services offered by the company. In high technology industries, it is usually associated with product line stretching. In the process, the firm should seek out and serve each desirable target segment in the industry through a differentiated marketing approach.[86]

A second mechanism of the line strategy is to offer product assortments. Different products and services capable of satisfying different market needs are offered to the same target segment.

The market expansion objective is clearly more risky than the market entrenchment objective because it requires significant changes in the manufacturng, distribution and marketing operations to greater capitalization of resources and manpower commitments. If a company is not careful in its expansion

efforts, it can easily overextend itself and, as a result, move from the ideal quadrant to another less desirable quadrant in the model.[87]

Since market expansion is directly tied to longer term capitalization of assets, a major factor in its critical success rests on long-term interest rates and the country's monetary policies.

Satisfactory Margin But Unsatisfactory Return Situation

A company in quadrant two has a satisfactory net profit margin. However, due to heavy capitalization relative to sales volume, it is still below the targeted level of return on investment. In general, this situation is most common among companies in the early stages of their life cycles or companies that have undertaken major expansion programs.

The Volume Improvement Objective

The short run objective for a company in this quadrant is to increase asset turnover through volume improvement, since each incremental dollar of sales revenue will contribute toward reaching the targeted return objective. There are two basic marketing strategies available to the firm to achieve its volume improvement objective. The first is sales stimulation through aggressive selling and promotion to both intermediaries and end users. This utilizes the fundamental push strategy with resellers of its products through incentive programs. The pull strategy must be used in conjunction utilizing strong advertising and sales promotions.

Two cautions are in order here. First, firms need assets to generate sales; and, if sales are increased, assets must also be expanded <e.g. raw material, work in process, finished goods inventories, delivery vehicles>. Increases in sales beyond a safe range can actually hamper the firm in its drive to increase its return if increase sales can result in a serious decrease in the firm's net profit margin if taken too far. Promotion expenses and any discounting in price must be carefully controlled so that the margin will not decrease below its targeted level.[88]

The Capital Restructuring Objective

Unfortunately, there are situations where the volume improvement objective simply does not work due to temporary economic conditions.

In this situation, a company can hope to improve its return on investment by instituting a capital restructuring program, definitely a longer-run approach. Capital restructuring entails abolition of some of the firm's fixed relatively non-controllable costs of doing business. In the marketing area, this objective can be carried out by focusing on the company's physical distribution, channel relationships and value added services.[89]

First, a company can attempt to restructure its capital through promoting distribution efficiency, a distribution productivity strategy. Here the emphasis is on decreasing the firm's level of current assets by effectively managing inventory and accounts receivable. Adopting improved inventory control procedures while coordinating the ordering process and order

cycle with associated firms would decrease resources tied up in inventory.[90]

A second way to achieve capital restructuring is the reseller alignment strategy, where the firm centers its efforts on decreasing levels of its fixed assets in the distribution channel. If the firm currently has a company owned physical distribution system, some trucks and warehouses could be sold while using independent distributors, trucking firms and some public warehousing. By streamlining it sales force through the use of manufacturers' representatives and agents, or by instituting telemarketing programs, a company can significantly reduce its fixed selling costs. Similarly, if a company has a corporate vertical selling system, it can convert it to a franchised selling system so that its capitalization in retail locations can be restructured.[91]

In some cases, it is also possible to consolidate distribution and selling functions by joining agreements between two or more companies. For example, Pillsbury currently utilizes Kraft Foods' sales force and refrigerated trucks for its dough line instead of buying and maintaining its own fleet of trucks.[92]

Capital restructuring is decidedly a much riskier corporate objective than volume improvement. First, it requires some reorganization and, therfore, there is generally strong resistance from all parties impacted by the dfecision. Second, the impact of strategies implemented to achieve capital restructuring is long-term; top management must have patience and confidence to sustain implementation. Third, capital

restructuring strategies are inherently more risky since they require greater long-term capital commitments. Finally, fixed costs should not be reduced beyond a safe range as this will hamper the firm in having adequate capacity and customer coverage in a prosperous economy.

Satisfactory Return But Unsatisfatory Margin Situation

In the third quadrant, a company is experiencing satisfactory return on investment but an unsatisfactory net profit margin. In general, this is true of mature industries and companies, partly due to depreciated book values of its capital assets, partly due to its lower interest rates on long-term debts secured under more favorable terms, and partly due to erosion of margins and a consequent profit squeeze created by intense price competition in the industry.[93] An example of this is the present financial situation of the alcohol beverage wholesalers where net profits are generally less than 2% of sales, and yet most of them are still able to achieve a satisfactory return due to favorable mortgage rates and depreciated book values of buildings and fixtures. The company in this financial situation should set the following two objectives: margin improvement and product improvement.

The Margin Improvement Objective

This short run objective refers to increasing the gross margins as well as net profit margins of products and services. Under this strategy, this is an excellent opportunity to evaluate improved product margins through repricing strategy. The price charged by the firm may be too low on certain products relative

to the firm's cost of goods sold. Thus, tighter controls on pricing may be required along with a revision in pricing policy. Buyer selection and the evaluation of present customers become a relatively important consideration; current customers should be dropped if they are unwilling to buy the firm's products at acceptable prices. For example, in an attempt to ensure adequate gross margins, a number of cross sectional alcohol wholesalers do not allow their salespeople to deviate from list price unless they receive prior approval from upper management.[94]

Repricing can also be achieved in other ways. For example, one can change the packaging size or shape and the form of the product to improve the margin. Another mechanism is the switch from buying to leasing desirable goods.

A second strategy to be used in reaching the margin improvement objective is the cost control strategy. A firm's net profit margin is improved by reducing fixed and variable costs associated with the manufacturing and marketing of products and services. The focus of this strategy is on the productivity of different functional areas of the business. Because increasing sales volume in itself is not a primary goal here, promotion costs may be kept at relatively low levels. By increased efficiency in the firm's inventory control and logistics systems, ordering, warehousing, inventory and delivery expenses can be decreased. Increases in fixed costs <e.g. purchase of computer control systems, newer delivery vehicles> can be incurred in the drive to decrease variable costs.[95]

The Product Improvement Objective

A second longer-term strategic objective for an improved net profit margin is product improvement. Alterations of the company's product and market mix as well as its vertical relationships with suppliers, wholesalers and retailers.

First, a cannibalization strategy should be considered. It entails assessment of margin contributions for each product or service, and adding or deleting products and services to improve tohe overall margin.

In general, the marketer is interested in retaining loyal customers while motivating them to buy higher quality products with higher margins. Another way to achieve the product improvement objective is through a vertical integration strategy that will provide economies of scale, increased control of sales and distribution activities, and overall cost efficiency in manufacturing and marketing operations.

This is a difficult strategy to implement because of significant changes in manufacturing and marketing operations. Also, it takes a very long time to innovate products or to vertically integrate. Finally, any wrong decision may literally push the company into the fourth quadrant of an unsatisfactory margin and unsatisfactory return on investment. The margin improvement objective must b sought before attempting to achieve the product improvement objective.

Unsatisfactory Margin and Return Situation

When a company finds itself in the fourth quadrant of the matrix, it has neither the margin nor capital leverage to fall back on.[96]

To bounce back from this problem, a company would enter the retrenchment stage. This objective referes to the organizational pruning and shaping so that the company becomes a more efficent, lean organization. An analysis of companies' overhead and uncontrollable costs and finding ways to eliminate them. Obvious controls are staff reductions, cut backs in consumer affair programs and customer training.

A second strategy to achieve corporate retrenchment is reorganization. In general, it entails a greater degree of centralization, increased span of control, reduction in hierarchical levels, and institution of incentive compensation plans. Also, it is common to divest of manufacturing or marketing operations to concentrate on the strengths of the organization.

The Restructuring Objective

This objective refers to restructuring the corporate mission and definition, entailing issues related to divestiture and diversification.

If a firm is careful and engates in strategic planning, it is possible for it to initiate a diversification strategy early enough to revitalize itself from impending financial disaster. Here, the company can, one, acquire other businesses, or, two, reallocate resources from one group of products to another group

that will facilitate movement to its desired position in the marketplace.[97]

CONCLUSION

For the alcohol beverage industry, the quality approach and the margin return model serves many useful functions in strategic market planning. First, it clearly subordinates all other functional goals and objectives such as market share, productivity, and growth to the more fundamental and essential corporate objective of quality products and specific financial goods.

Second, the model enables the management to rank its strategic objectives and consequent marketing based on the company's financial performance. Third, it is recommended short-term and long-term objectives and strategies for each financial situation with a clear emphasis that the short-term objectives should be sought first along with high quality. Fourth, this system stresses the appropriate role of marketing strategies for the business organization. Fifth, the quality high price concept will lead to higher market share. Sixth, the traditional elements of the marketing mix <promotion-selling and distribution> are most appropriate when the company has a statisfactory margin but unsatisfactory return on investment. On the other hand, the other two elements of the marketing mix <product and price> are more appropriate when the firm is

experiencing a satisfactory return but an unsatisfactory margin. Seventh, this system can be used for a competitive analysis.[98]

FOOTNOTES

1. D. L. Kistiel, Business Marketing, p. 21, January 1987.
2. R. H. Luchs, "Successful Businesses Compete on Quality Not Cost." Long Range Planning, Vol. 19 (Feb. 1986), p. 4.
3. Ibid, p. 8.
4. Ibid, p. 9.
5. Ibid, p. 9.
6. Market Watch, (June 1984), p. 7.
7. Thomas Peters and Robert Waterman, Jr., In Search of Excellence, (New York: Harper & Row Publishers, 1982), p. 236.
8. Ibid, p. 236-38
9. U.S. Industrial Outlook, January 1988, p. 42-28
10. STD & Poor Industry Survey, October 8, 1987, p. 26.
11. Ibid, p. 26.
12. Ibid, p. 25.
13. U.S. Industrial Outlook, January 1988, p. 28.
14. Ibid, p. 28.
15. Market Watch, May 1985, p. 23.
16. STD & Poor Industry Survey, October 8, 1987, p. 29.
17. Ibid, p. 29.
18. Market Watch, April 1983, p. 26.
19. U.S. Industrial Outlook, January 1988, p. 42-28.
20. Ibid, p. 42-28.
21. Ibid, p. 42-38.
22. Industry Surveys, October 8, 1987, p. 31.
23. Ibid, p. 31.
24. Ibid, p. 37.

25. Beverage Industry, December 12, 1980.

26. Simmons, "Study of Media & Markets," SMRB, p. 217.

27. Market Watch, March 1984, p. 38.

28. Market Watch, June 1984, p. 8.

29. Market Watch, April 1983, p. 3.

30. Ibid.

31. Ibid.

32. STD & Poor Industry Survey, January 1982.

33. Market Watch, June 1984, p. 12.

34. Market Watch, April 1983, p. 3.

35. Ibid, p. 10.

36. Ibid, p. 10.

37. Ibid, p. 10.

38. STD & Poor Industry Survey, October 8, 1987, p. 31.

39. U.S. Industry Outlook, January 1988, p. 29.

40. Ibid.

41. Standard & Poor Industry Survey, October 8, 1987, p. 20.

42. Ibid, p. 32.

43. Market Watch, January 1988, p. 12.

44. Simmons "Study of Media & Markets," SMRB, p. 217.

45. STD & Poor Industry Survey, October 1987, p. 24.

46. Industry Survey, October 1987, p. 31.

47. U.S. Industrial Outlook, January 1988, p. 30.

48. Ibid, p. 28.

49. Ibid, p. 30.

50. "Long Range Planning," Vol. 17 June 1984, p. 93.

51. Ibid, p. 93.

52. Ibid, p. 94.

53. Ibid, p. 95.

54. Ibid, p. 95.

55. Long Range Planning, Vol. 19 Feb. 1986, p. 15.

56. G. Allan & J. Hammond, Note on the Use of Experience Curves in Competitive Decision Making. Cambridge, MA, Harvard Intercollegiate Clearing House of Cases, 1975.

57. Peter Wright, Business Horizons, "The Strategic Option to Least Cost Differentiation and Niche," (March/April 1986), p. 22.

58. Ibid.

59. W. S. Comanor & T.A. Wilson, "Advertising & Market Power," Cambridge: Harvard University Press, 1974.

60. Peter Wright, Business Horizons, "The Strategic Option of Least Cost, Differentiation & Niche." (March/April 1986), p. 24.

61. Ibid, p. 24.

62. Ibid, p. 25.

63. Ibid, p. 25.

64 Peter Wright, Third World Business Unit Performances. "Application of Strategic Elements." Strategic Management Journal, (August 1984).

65. Peter Wright, Business Horizons, Strategic Option of Least Cost Differetiation & Niche," (March/April 1986), p. 26.

65. E. B. Ross, "Making Money with Productive Pricing," Harvard Business Review, (November/December 1984), pp. 145-50.

66. S. L. Maurice, C. W. Smithson, ed., Managerial Economics, (Homewood, IL: Richard D. Irwin, Inc., 1981), pp. 396-409.

67. Ibid, pp. 398-403.

68. E. B. Ross, "Making Money with Productive Pricing," Harvard Business Review, Vol. 19, (1986), p. 16.

69. R. Luchs, "Successful Businesses Compete on Quality - Not Cost," Long Range Planning, Vol. 19 (1986), p. 16.

70. Ibid, p. 16.

71. Ibid, p. 17.

72. Ibid, p. 17.

73. Ibid, p. 17.

74. Ibid, p. 17.

75. M. Hanan, "Sales Strategies," Sales & Marketing Strategies, (January 1984), p. 98.

76. "Winning Ways," Sky, April 1988, p. 124

77. J. N. Sheth, G. L. Frazier. "A Margin Return Model for Strategic Market Planning." Journal of Marketing, (Spring of 1983), p. 100.

78. Ibid, p. 100.

79. Ibid, p. 101.

82. Ibid, p. 102.

83. Ibid, p. 102.

84. Ibid, p. 102.

85. Ibid, p. 103.

86. Ibid, p. 103.

87. Ibid, p. 103.

88. Ibid, p. 103.

89. Ibid, p. 103.

90. Ibid, p. 104.

91. Ibid, p. 104.

92. Ibid, p. 105.

93. Ibid, p. 105.

94. Ibid, p. 105.

95. Ibid, p. 106.

96. Ibid, p. 107.

97. Ibid, p. 107.

98. Ibid, p. 108.

BIBLIOGRAPHY

Creating a Mass Market for Wine." Business Week, pp. 109-111, 114, 118, March 15, 1982.

Department of Commerce. Wholesale Trade. January 1988 sic. 2413.

Klutzinck Phillip M. & Courtaney M. Slater. "U.S. Industrial Outlook for 200 Industries with Projections for 1988.

Department of Commerce, January 1988.

Standard & Poor Corporation. Standard & Poors' Industrial Surveys, Vol. 3, p. 41-42, New York: Standard & Poors Corporation 1988.

"Study of Media & Markets," Simmons SMRB. New York: 1979, p. 217.

"Wine" Beverage Industries, Vol. 12, pp. 29-30, December 12, 1980.

Marketwatch, 1983-1984, 1988.

"Sucessful Businesses Compete on Quality - Not Costs." Long Range Planning, Vol. 19, pp. 3-11, Feb. 1986.

"PIMS: A Tool For Developing Competitive Strategy." Long Range Planning, Vol. 17, pp. 92-97, June 1984.

"A Margin Return Model for Strategic Marketing Planning." Journal of Marketing Vol. 47, Spring 1983 pp. 110-109.

"The Strategic Options of Least-Cost, Differentiation and Niche." Business Horizons, March-April 1986, pp. 21-6.

"Making Money with Proactive Pricing," Harvard Business Review, November-December 1984, pp. 145-155.

"Getting Things Done," Harvard Business Review, September-October 1985, pp. 28-32.