

Guinness:

How can the iconic Irish beer brand compensate for declining sales in home market?



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0. Introduction

Since Guinness was founded in 1759, the brand has developed into becoming a market leader within the stout market in several regions. Guinness is brewed in 50 and marketed in over 70 countries. Despite the strong position, Guinness is facing decreasing sales in several markets due to an increased competition and changing consumer preferences. Firstly, this paper will examine the market position of Guinness. Following this, the MACS approach will be used to determine the optimal country to launch a new product. In hopes of compensating the declining sales in the home market, Guinness is aiming to differentiate the new product based on the analyzed optimal segmentation. Further, a marketing mix is conducted to create the most successful implementation of the new product including adaptation strategies and a marketing plan to increase the profitability to sustain a competitive position within the stout-market.

1. Analysis of market position

The market position of Guinness is analyzed by utilizing the SWOT-analysis. Only the most important factors will be further elaborated to keep the analysis concise.

1.1 Internal

Guinness has several internal factors that increase the perceived quality of its products. A high brand awareness and brand equity has made Guinness become the world leader within the stout market counting for 60% of the worldwide stout-consumption. Combined with its diverse product portfolio it has strengthened its position as becoming the biggest stout brand in 5 out of 7 regions.

Despite its strong position it has faced declining sales of 5% in recent years, which could be explained by the attempt to raise prices while decreasing the marketing expenditure. Despite capturing a high market share in the stout market, it only counts for 0.6 percent of the whole beer market. This could be due to the lack of differentiating its product to target broader than the relatively small stout market.

1.2 External

Shifting preferences and switch towards off-trade consumption, possess a crucial threat to Guinness as they mainly focus on on-trade consumption. On the other hand, it creates an opportunity to target the changing consumer tastes and especially targeting the young demographics by increasing its product portfolio appealing to current trends and the increasing middleclass. Also, the growth within using online channels creates an opportunity to improve its online positioning through marketing as well as engaging in sport sponsorships.

2. International Market Selection

To appraise the options for Guinness' new product launch in order to improve its future market position, a preliminary screening and a fine-grained preliminary screening was conducted. The preliminary screening narrowed the potential markets down to six. The MACS approach is applied



to find the most attractive market. This is done by taking the score of the selected criteria's in both the market attractiveness and competitive strengths into account. This approach gives a non-biased evaluation, preventing the self-reference criterion, and thus, avoiding cultural myopia. Every criterion is important, but only the ones with the highest weight will be further elaborated.

Market Attractiveness		Weight	USA	Chile	Germany	China	Japan	Czech Rep
GDP per capita PPP (2018)	10		60	20	50	10	40	30
Stout market size (sales in million litres, 2018)	20		120	60	80	100	40	20
Beer market size . On-trade (sales in million litres, 2018)	15		45	15	60	90	30	75
Population in the age between 20 to 39. (in millions)	20		100	40	60	120	80	20
Expected stout market growth (2020-2025)	15		30	15	60	90	30	75
Infrastructure (LPI index scores)	10		40	10	60	20	50	30
Psychic distance from Home Market	10		60	20	50	30	10	40
Total	100		455	180	420	460	280	290
Competitive Strength		Weight	USA	Chile	Germany	China	Japan	Czech Rep
Brand awareness	20		120	20	100	60	80	40
Product fit to demand	10		50	30	60	30	40	10
Country Of Origin Effect (AGP)	15		30	15	60	45	90	75
Psychic distance from Home Market	10		60	20	50	30	10	40
Market Knowledge (based on Diageo net sales 2018) annual re	20		120	20	100	60	40	80
Competition intensity (1: high competition, 6: low competition)	15		30	90	15	60	75	75
Consumer loyalty (based on uncertainty avoidance)	10		20	50	30	10	60	40
Total	100		430	245	415	295	395	360
			USA	Chile	Germany	China	Japan	Czech Rep
CS			455	180	420	460	280	290
MA			430	245	415	295	395	360
Total Scores			885	425	835	755	675	650

2.1 Market attractiveness elaboration

The market attractiveness criteria are based on seven weighted criteria that describe favorable market characteristics. The highest weighted criterion is the stout market size. As the new product is assumed to be a stout-beer, the new Guinness product belongs to this category. Guinness need to have a large market for a new high-quality product to quickly overcome the R&D- and marketing cost for the new product. The biggest stout market of the six countries is USA followed by China and Germany, whose massive market in terms of population creates a big market potential and is less vulnerable to become saturated. Further, the population between 20 to 39 is weighted high. This supports the fact that a large market within this age group is crucial when entering a market. This criterion is also important as it is considered a threat in the SWOT as the product is not appealing to the preferences of the young consumers. It is further included in the opportunities which makes it attractive in order to pursue a conversion-strategy turning the external factors into a strength.

Furthermore, Guinness is considered a premium brand, which means high quality and premium prices. Accordingly, the consumers must have a large income to pay the premium price, which is why the GDP per capita (PPP) is included. US has the highest purchasing power. At last, the beer market size for on-trade is included as it is informed that the main source to sales for Guinness is on-trade-consumption which makes it an important factor when measuring the market attractiveness. Here, China has the largest market for on-trade consumption followed by Czech Rep. Overall, the US ranks the highest in Market Attractiveness followed by Germany and China.

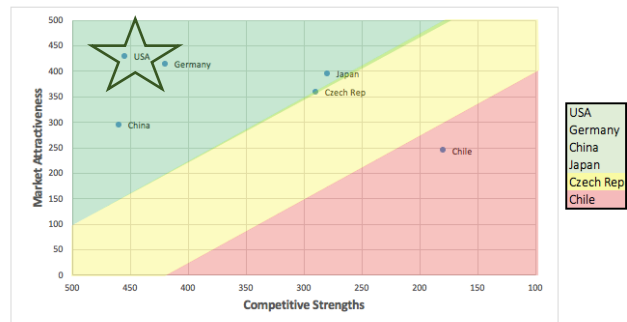
2.2 Competitive Strength elaboration

The competitive strengths are ranked from 1 to 6 considering 6 to preferable based on where Guinness will make most use of its competitive strengths. The criteria carrying the highest weight value is market knowledge and brand awareness. High brand awareness is an important competitive strength as high awareness tend to generate more sales as the consumers is more likely to consume recognizable products than unfamiliar products. (Kopp, 2022). A high awareness prevents rivals from gaining additional market share which makes it a crucial competitive strength to take advantage of for an established strong brand like Guinness when introducing a new product. Further, it easier to successfully introduce a new product if your market knowledge is sufficient. Guinness will be able

to transfer market knowledge including successfully segmentation when developing the new product and possibly avoid critical setbacks in the R&D and marketing process. The US scores highest followed by Germany in both categories showing that they have a large consumer base aware of the brand which is important factors easing the process of introducing a new product. Further the case provided that Guinness is a global brand but still possess a high Country of Origin effect, as many associates the brand with Ireland. This makes the attitudes towards global products (AGP) important for the Irish/UK-based brand in order to succeed. Here Japan ranks highest making them receptive towards global products. Overall, the US ranks the highest followed by Germany and Japan.

2.3 Overall market recommendation

Summing up, the US scored the highest and is categorized as an A-tier country and thus the most attractive country to focus on. The main reason for the high attractiveness stems from the large market potential, high purchasing power (PPP) and Guinness's strong position as a stout market leader in North America. Further, the low physic distance-score allows Guinness for a better understanding of the US market.



The main threat in the US is the relatively low scores according to on-trade consumption-criterion, which have been the focus of Guinness strategy so far. Although it leaves a high market potential to target the off-trade consumption as it covers 78% of beer market in the US. This also allows for increasing the low-scored ‘‘predicted stout market growth’’ criteria by shifting focus. Another threat is the high ranking in ‘‘competition intensity’’, which can make it difficult to penetrate the market, indicating that Guinness may have to focus on differentiating its new product.

Noticeably, Germany, China and Japan are also considered as A-tier countries for Guinness which could be considered attractive targeting in the future.

3. Target segmentation and approach for the American market

The segment is targeted with keeping the conversion-strategy in mind – turning the critical threats and opportunities based on the SWOT-analysis into a strength with a new product launch in order to compensate for declining sales. Geographic segmentation is based on the MACS and is targeted the US – more specific urban areas in the US as they tend to be more open towards new products.

Demographic segmentation	Psychographic segmentation	Behavioural segmentation
Age group: 20-39	Social lifestyle	Usually drinks higher quality (in order to the WTP a premium price)
Income: medium to high	Conscious about quality	Enjoying casually drinking with friends, family etc.
Area: Urban area in larger cities (international, more open to new products)	Perception on ‘‘green’’ products	Mainly off-trade consumption
	Open to experience and try new products	

Since the stout market is rather small and niche based, the targeted segment must not be narrowly defined. On the other hand, the premium quality and price provide an argument to narrow down the

target segment. This makes it important to balance both effects to find the optimal segment. The segmentation is targeted the young segment, where the US is an attractive market with 100 million potential customers in the age of 20 to 39 (almost 30% of the population). Further, the organic food industry is rapidly growing in the US which makes it an attractive way to enter the market and strengthen the market positioning. This pressure a perception on "green" products as an important factor in the segmentation. The US VALS-types is used to capture the above-mentioned points (Strategic Business Insights, n.d.). It is recommended that Guinness primarily target Innovators. The Innovators have the highest income which suits to the premium brand. Furthermore, it is the "greenest" segment, receptive to new products, are future oriented and confident to experiment. The Experiencers are potentially the secondary segment to target. They also have a high income, value self-expression through products and are first in and out of trend adoption. (Strategic Business Insights, n.d.). Moreover, as the case informed, the North American market has the highest beer distribution in off-trade and generally the consumption worldwide is shifting towards off-trade-consumption, which makes the Experiencers a good fit as they see themselves as very sociable. This is an important factor for creating a successful off-trade business strategy because alcohol-drinking is often associated with being social – especially in the young segment.

Targeting the two segments makes a good combination. The Experiencers is an important segment in order to increase brand awareness due to the fast adoption of new trends whereas Innovators is important to prolong the lifetime cycle as they can be sceptic with advertising in the beginning but they also provide an important role in the diffusion of new ideas to the masses. The Innovator- and Experiencer-segment make up 20% of the American population (University of Minnesota Duluth, 2008). This is sufficiently large to profitably market the product given the massive size of the US market.

4. Choice-based-conjoint analysis

The marketing research department conducted a Choice-Based-Conjoint study to configure a new product based on the customers' rankings on different characteristics and attributes. It is possible to determine the optimal product configuration by calculating the total utility, the expected market shares and willingness to pay for the given product options. This is done in the following sections.

4.1 – Total utility and market share

The table in the provided question summarizes each of the product options' total utility and expected market shares. Moreover, Guinness will only launch one of the two product options explaining why the market share calculation is based on how each of the options will perform against San Miguel 1, San Miguel 2, Desperados and the no-choice option.

Specifications	Guinness 1		Guinness 2		San Miguel 1		San Miguel 2		Desperados		No choice	
	Attribute	PU	Attribute	PU	Attribute	PU	Attribute	PU	Attribute	PU	Attribute	PU
Brand	Guinness	3,5	Guinness	3,5	San Miguel	2,5	San Miguel	2,5	Desperados	3	n/a	n/a
Flavor	Tequila	2,8	Lemon	2,1	Lemon	2,1	Peach	0	Tequila	2,8	n/a	n/a
Alcohol	8%	2	2%	0	4%	2,2	2%	0	8%	2	n/a	n/a
Organic	No	0	Yes	2,5	No	0	Yes	2,5	No	0	n/a	n/a
Price	5	0	3,50	2,5	3,5	2,5	2,5	4	3,5	2,5	n/a	n/a
Total Utility		8,3		10,6		9,3		9		10,3		6
exp (Utility)	4024		40135		10938		8103		29733		403	
exp (No-Choice)	403,43											
Market Share Guinness 1	7,6%				20,6%		15,2%		55,9%		0,8%	
Market Share Guinness 2			44,9%		12,2%		9,1%		33,3%		0,5%	

Based on the calculations the optimal product configuration with the highest overall value is Guinness 2. The product consists of lemon-flavor, an alcohol-percent of 2%, and is furthermore an organic product with a price of 3.5€. This gives us a total utility of 10.6 compared to 8.3 for Guinness 1. Guinness 2 also gives the highest expected market share (44.9%). Guinness 2 differs by combining an organic option with an attractive price. The sales volume of the product is approximately six times higher than the sales volume of Guinness 1 ($44,9/7,6=5,9$). This means that unless the profit per unit

is 1/6 smaller than profit per unit for Guinness 1, they maximize profits by launching Guinness 2. It is recommended that Guinness use the configurations from Guinness 2 due to higher utility and expected market share, which will strengthen its competitiveness.

4.2 – Consumer's Willingness to pay

A calculation for the consumers' willingness to pay (WTP) is conducted aiming to specify given preferences against each other. (see appendix 3)

(a) Organic instead of non-organic product

Based on the results the WTP for an organic product instead of a non-organic product, the costumers are willing to pay 1.33€ more for an organic product. The main ingredient for producing Guinness beer is barley. Using organic barley is typically 175 to 200 percent more expensive compared to conventional barley, which makes the production more expensive. (Held, Lisa Elaine, 2020) It has not been possible to find estimates on the specific costs of organic versus non-organic beer-production, but presumably, the cost difference is below 1.33€ per unit. This, together with increased consumer focus on environmental awareness and sustainability combined with a major brewer liker Guinness including incredible resources, massive scale and an assumed vertically integrated supply chain would be an investment towards increasing the brand image, brand value and increasing scale economics in the long run. Therefor Guinness shall definitely use the organic option rather than the non-organic option to keep up the current trends. This recommendation is also strengthened by the CBC-analysis, where the organic-attribute scored a utility of 2.5 compared to the non-organic with a utility of 0.

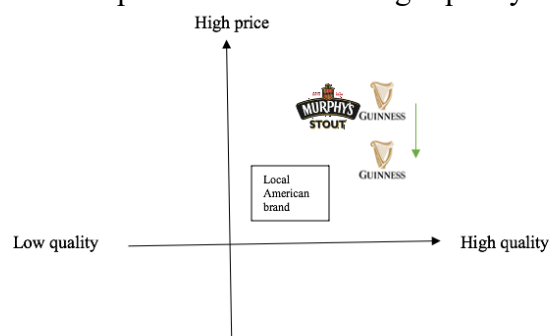
(b) Tequila instead of Strawberry flavor

Based on the calculated negative WTP of -0.11€ (see appendix 3) for tequila flavor instead of strawberry flavor the customers are not willing to pay for extra for tequila-flavor. By looking at the given utilities for the tequila and strawberry flavor, it makes sense as the strawberry flavor utility (U=3) is higher than the utility of tequila flavor (U=2.8). Based on that, it does not make sense and is thus not recommended to introduce tequila flavor. The high strawberry-utility could also suggest that strawberry flavor could be an option for the new Guinness product.

5. Competitive strategy, marketing mix and break-even-analysis.

5.1 Competitive strategy

Guinness's competitive strategy for the new product can be defined using a macro-perspective including Porter generic competition strategies. Guinness is focusing on the differentiation strategy by introducing the lemon-flavored organic beer perceiving a unique position within the stout market by understanding the preferences and needs relevant to the target segment. This will make the Guinness perceive a leadership within differentiation. The lower price but remained high quality is done by taking advantage of their position in the market combined the US's high infrastructure resources (also seen in MACS)(World Bank, 2018) and the already established strong distribution channels in terms of own breweries and distribution contracts in the US-market allowing for cost-efficient production and distribution. By keeping a cost focus in mind, it is driving down Guinness's new premium product in the perceptual map - creating higher value and strengthen its competitive position in the market for stout beer.



The Strategic Triangle, CCC, is used to determine how Guinness can develop a competitive consumer-focused, company-focused and competitive-focused strategy.

Consumer-focused: Guinness adapts to the growing demands for flavored beer, organic products and generally taps in to current trends to target the young segment.

Company-focused: Guinness has a strong market position and brand image which allows for crucial knowledge resources that helps Guinness successfully adapt the consumer-focused strategy.

Competitor-focused: Compared to the main competitors in the US market (Murphy's and Local American brands) Guinness surpass them with over 80% market share. Since information about quality comparisons has been difficult to find, it is assumed that the other perceive a lower quality due to Guinness's big market share and the resources available for a big established brand like Guinness.

These strategies are pursued in order to successfully increase its competitiveness by taking all the three C's into account.

5.2 Marketing mix and break-even analysis

5.2.1 Marketing mix

5.2.2. Product

Guinness aims to introduce a lemon-flavored product inspired by the conducted CBC-analysis. The beer will be based on their regular stout beer but a lighter, more fresh, organic and a slightly bitter version with an alcohol percent of 2. This product is considered a good fit for the younger urban American segment, which may have lighter taste preference based on a rapid growth in demand for fruit flavored beer (Sensory Value, n.d.) and that Guinness hasn't yet succeeded to target this segment. The lemon flavor seems to be a great fit according to success of the citrus-flavored Kronenbourg 1664 Blanc and "Radlers" and "Shandies" in especially the young-segmented European market. (Sensory Value, n.d.). Also, the organic non-food industry is facing a rapid growth in the US market due to increased social awareness (OTA, 2020) By following the current global trends, it provides a competitive entry-level product for the new potential Guinness drinkers. Targeting the Innovator and the Experiencers, the product can easily tap into their needs and preferences as the product adapt current beer-trends, is innovative and is social conscious but still prioritizes quality.

By keeping the stout-beer-type, Guinness can differentiate from its competitors both in the stout market and the established citrus flavored lager-beer types and create an innovative product that target more young consumers in the stout beer market and hereby gaining a higher market share in the whole beer market.

5.2.3 Price

When looking at the given information in the different attributes in CBC analysis, it is seen that utility increases as price decreases. However, it is important to keep awareness of Guinness's premium brand image, which is why a premium pricing strategy is used. As seen in MACS, USA ranks high on GDP per capita, which can suggest a high willingness to pay for products. This also suits well with the Innovators and Experiencers as they both is considered have a high income (Strategic Buisness Insights, n.d.). The price of the new product is recommended to be \$4.99 based on the suggested price of 3.5€ in CDC-analysis (converted to USD using 2018 average exchange rate)(Exchange Rates UK, 2018) Since Guinness is targeting a broad younger segment it is additionally making use of psychological pricing strategy (Kumar and Pandey, 2016). This pricing makes the new product less expensive than the average price (\$6.70) for a Guinness in the US while still keeping a premium pricing (Koeber, 2022). By adapting its price to the market it targets the young segment while keeping its premium brand perceptions. Giving that Guinness has a very high market share in the US

Guinness can take advantage of being a first mover setting the pricing strategy and create brand loyalty before competitors make a “counter-attack”.

5.2.1.3 Place

Guinness main focus so far has been the on-trade consumption. With increasing changes in consumer preferences towards off-trade consumption (especially for target segment), Guinness need to adapt in order to increase its competitive position. According to table 2 (case) the off-trade consumption counts for 78% of the beer consumption in the US. The premium pricing strategy increases the requirements for high-quality distribution. The off trade will be based on retail including slightly more quality grocery stores such as Trader Joe’s, liquor stores etc. (further research need to be conducted).

Although the focus will be off-trade, the on-trade consumption is so embedded in Guinness distribution strategy that the products will be offered on-trade as they probably have easy and less expensive access to distribution opportunities due to already having established a competitive position including extensive network and contracts within the industry. As the urban areas is of target, a high recognizability within these areas is needed to be targeted, such as popular bars, restaurants, festivals etc. This on-trade specifications will fit well with the young segment as it is usually the age group of 20-39 attending these places. Which will increase awareness and sales. Further, by targeting urban areas that often contains a more international environment, the recognizable mix between lemon-flavor and beer could be an advantage due to the highly success in the European market (Sensory Value, n.d.).

5.2.4 Promotion

Guinness’ decreased investment in marketing expenditure need to be changed. Advertising is an expensive cost but without communication with the costumers it is difficult to keep the strong market position and create awareness of the new product launch. Based on that, Guinness should upturn their promotion adaptation in the US moving forward with the organic lemon-flavored Guinness product. Although Guinness is well established as a market leader in the North America and thereby has a great share of market knowledge, the somehow unfamiliar targeted segment should be kept in mind. Here they should take advantage of being a part of Diageo, who has huge market knowledge about targeting the younger-segment through their other spirits-owned companies. This allows for effective adaption and upscaling their promotional strategies to fit the values and habits of the segment.

Firstly, an adaption of the labelling for its the new product is needed; creating a more modern aesthetic design - but still keeping the iconic harp. This fits well with the younger segment as they tend to value design high when purchasing. (Liu et al., 2016) This also fits with the Experiencer segment as they tend to purchase through self-expression. They should use the green color as it is taps into the heritage of being an organic product and generally is associated with positive perceptions including symbolizing luck in the Western culture. This fits well with the Innovators as they are perceived the most “green” segment with high social and environmental consciousness.

Guinness’s main focus in terms of marketing is to utilize mass advertising on social media through the launch of a celebrity video campaign with a fitting celebrity, such as Harry Styles, who are very popular among the young segment and is further launching a new album by April 1st which makes it a very relevant choice. This would also help reach a diverse segmentation including the female-demographic as the beer-industry can traditionally be associated male-dominated. The main focus of the campaign is “Bringing the joy home” including friends having fun and the innovative, fresh, delight, lively tasted new product while creating awareness and brand equity by the

wow-factor of the celebrity performing in the living room. This is done to target a high value of sociability, off trade consumption, and innovation which is highly valued by the Experiencers and Innovators. The video campaign is going to be broadly introduced and promoted through social media including TikTok, YouTube, Instagram and Facebook due to the segment being highly active and influenceable through social media. Taking into account that the target is larger cities, it should also be visible in the street scene including billboards in the city centers. Lastly, the launching of the new product and celebrity campaign a launching event is created inviting prominent social media-influencers through sponsorships creating awareness of the new product and create more engagement trough social media.

5.2.5 Break even analysis

Based on rough calculations on the costs related to the marketing mix a break-even analysis is conducted. The estimation is based operating profits margin rather than variable cost per unit due to the lack of information. (see appendix 5)

Breakeven cost Analysis		
Profit estimates	USD	Information and Calculations
Price of product	4,99	Based on CBC Analysis
Operating profit margin	30,0%	Based on numbers from The Irish Times.
Contribution per unit	1,497	Net profit margin * price of product
Marketing Costs	USD	Information and Calculations
R&D -cost	\$ 100.000,00	Including research taste combinations and primary market research. Based on Research and Development Costs at Diargo (Guinness)
Developing new labelling	\$ 50.000,00	Based on the product adaptation a new label is needed
Celebrity video commercial	\$ 1.000.000,00	Based on the creation of the celebrity campaign
Mass Social Media Advertisement	\$ 216.000,00	Based on internet source using \$0.97 CPC (WebFX). Instagram, Tiktok, Youtube, Facebook ads with the promotion video
Event including influencer sponsorships	\$ 200.000,00	
Physical advertisement	\$ 600.000,00	Based on billboard ads in city centers
Total Marketing Costs	\$ 2.166.000,00	Sum off above costs
Breakeven Quantity	1.446.894	Total marketing cost/Contribution per unit
Breakeven Revenue	\$ 7.220.000,00	Breakeven Quantity * price of product
Assumed breakeven Quantity	22.700.000	Assuming 5% of Guinness units sold of 454 million (Euromonitor)
Breakeven time year.	0,0637	breakeven quantity/Assumed breakeven quantity.
Breakeven time month.	0,765	Breakeven time year*12

Based on the break-even analysis the breakeven quantity amount will be 1.446.894 units sold which results in a breakeven revenue of \$7.220.000 when allocating a roughly estimated cost of \$2.166.000 for introducing the new Guinness product. Any sales beyond the break-even quantity will lead to profits. The US market for stout beer is around 263 million liters per year in 2018 (Euromonitor, n.d.). Further, Guinness's market share of 86% in North America is assumed to be mainly in the US market to ease the predictions of the new product launch. This combination amounts $263 \text{ million} * 0.86 = 226,18 \text{ million}$ liters sold by Guinness. Making an assumption of the bottle contains 0.5liter, Guinness sells roughly 452 million units per year ($226,18 * 0.5$) which means selling $452/12 = 37,67 \text{ million}$ unit per month. Guinness assume that this product will count for 5% of its current units sold which leads to selling 227000 million units of the new Guinness product. Based on these calculations it is reasonable to assume that the cost of the product launch will break even within the first month (0.765). This means that the new Guinness product will be profitable already within the first month making the new product highly desirable to launch as it is perceived to be a successful investment for Guinness towards compensating for the declining sales and hereby strengthen its market position.

6. Bass model

Diageo aims to forecast sales after the market introduction using the Bass Diffusion Model. The model is based on the innovation coefficient ($p=0,01$) which is usually the external influences including mass media such as marketing. Further it is based on the imitation coefficient ($q=0,90$) which is the internal influences including adoption an innovation due to social pressure such as the word of mouth-method. Lastly, it is based on the potential market size (m).

Variables		t	Innovators (t)	Imitators (t)	s(t)	S(t-1)
time (t)	4	1	2.500	0	2.500	0
p	0,01	2	2.475	2.228	4.703	2.500
q	0,90	3	2.428	6.295	8.723	7.203
m	250.000	4	2.341	13.420	15.761	15.926

Based on the given information and the calculations the forecasted sales volume after 4 periods is 31.687 units. Based on our price of \$4.99, the Guinness product's revenues are estimated to be $31.687 * \$4.99 = \$158\,118$. According to this result the market introduction of the new product would not be considered particularly successful.

Although the market size of 250.000 is not categorizing our segment, which means that these calculations will not contribute to our conclusion on the product launch. Generally, the US market as well as our targeted segment is much larger than the Bass model suggest. It is counted to be 20% of the US population which means that there should be plenty of market to capture. (University of Minnesota Duluth, 2008). The amount of innovators would probably also be higher in a country like the US according to their high uncertainty avoidance which makes them more open towards new products. (Hofstede, n.d.) This means that the bass model will high likely not be useful to include for further considerations regarding the new product launch.

7. Online channel Marketing and Distribution

7.1 Online channel's influence on the distribution and communication strategy

There is a huge market growth for online retailing – especially in the US and the urban areas. This provides a big potential for the Guinness to succeed focusing on online-channel distribution. Targeting the young segment which is assumed to very active on social media is an incredible opportunity to gain a competitive strength while also being a good way to target the young consumers. By focusing more on its own online channel, it enables Guinness to easily connect and having a more direct interaction with the customers. This allows them to control the provided information and ease the desired brand associations.

As provided in the marketing mix, the online channel will mostly be integrated within the place and promotion to target the broad younger segment the social media because of its impressive ability to increase the brands loyalty and brand awareness.

7.2. Profitability using the CLV approach

The marketing research team aims to analyze the profitability using the Customer Lifetime Value-method. This is done using data from the online shop from 2012 to 2022 to forecast the profitability from 2022 to 2025.

	2022 (n=0)	2023 (n=1)			2024 (n=2)		2025 (n=3)			SUM
Order ID	1	1	2	1	2	1	2	3		
Revenue per order	50	65	120	45	80	50	90	60		
Production cost (22%)	11	14,3	26,4	9,9	17,6	11	19,8	13,2		
Shipping cost (5€)	5	5	5	5	5	5	5	5		
Value of returned products	10	30	60	0	80	25	65	30		
Handling cost (8%)	4	5,2	9,6	0	6,4	4	7,2	4,8		
Profit per order	20	10,5	19	30,1	-29	5	-7	7		
Profit on year basis	20		29,5		1,1			5		55,6
Discounted profit	20		28,1		1			4,3		53,4

Based on the calculations the total profits are \$53.4 per customer from 2022 to 2025, thus the online channel would be profitable. If we assume that the sale of 31678 units from the Bass Model would be suitable for our market Guinness would generate a profit of $53.4 * 31678 = \$1679411$ which makes Guinness online shop profitable. Since the market-segmentation is much larger the generated profits would most likely be much higher.

To further increase the profitability of the online shop, the projected marketing mix would increase the awareness and demand and thereby increasing the profitability of the online customers as the consumers is more likely to consume a familiar product.

Another way to directly increase the profitability of the online channel is increasing the focus on the Guinness online-channel. This will probably make some consumes shifts from the third-party wholesale retailer-market. The online-channel option creates the possibility of cutting a link in

the supply chain and thus lowering an important cost-factor (through a given fee per sold unit) increasing the profit margins. Further, it makes it easier to control both the value-chain and supply chain in order to reach scale economics, and by directly promoting strategies towards targeting additional sales, controlled discounts, limited offers and generally keeping the brand image consistent. However, this option requires a well-functioning distribution system which can be costly to establish.

8. Conclusion

This paper analyzed how and where Guinness should focus its new product in order to compensate for the declining sales in the home market. Based on the analysis throughout the paper, it showed that Guinness has several strengths but also critical weaknesses and threats. However, some of these factors is converted into a strength throughout the paper creating a competitive advantage within the stout market. This is done by introducing a competitive product targeting the younger Innovator and Experiencer-segment through an innovative marketing mix focusing on successful and target-specified online marketing. Based on the break-even analysis it seems to be highly effective creating fast profitable success for the Guinness-brand. This is based on the off-trade consumption, to make everyone able to “Bringing the Joy Home”.

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Appendix

Appendix 1 – MACS: Market Attractiveness

Appendix 1A – Market attractiveness (absolute values)

Market Attractiveness	Weight	USA	Chile	Germany	China	Japan	Czech Rep
GDP per capita PPP (2018)	10	63,064,418	25,714,139	55,235,366	15,497,360	42,202,401	41,135,493
Stout market size (sales in million litres, 2018)	20	264,30	12,70	19,40	241,60	4,90	0,50
Beer market size . On-trade (sales in million litres, 2018)	15	26,5	17,2	34,1	51	19	35,7
Population in the age between 20 to 39. (in millions)	20	90	5,8	20,4	397,7	27,2	2,7
Expected stout market growth (2020-2025)	15	3,7	-1,7	4,4	12,2	3,7	9,8
Infrastructure (LPI index scores)	10	3,89	3,32	4,2	3,61	4,03	3,68
Psychic distance from Home Market	10	51	180	100	172	197	137
Total	100	63.504	25.931	55.418	16.375	42.459	41.324

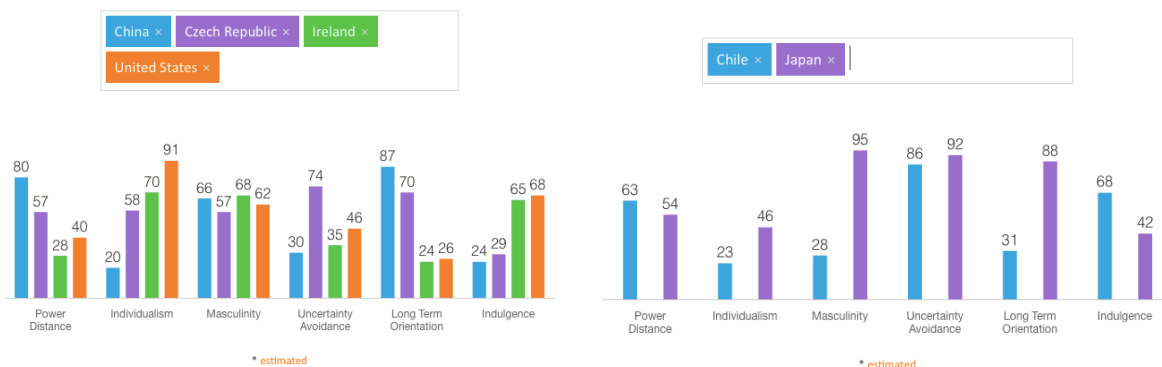
Sources 1: (Euromonitor, n.d.) 2: Euromonitor, 3: Euromonitor, 4: Euromonitor, 5: Euromonitor, 6: World bank, 7: Hofstede

Appendix 1B – Market attractiveness (relative ranking)

	Weight	USA	Chile	Germany	China	Japan	Czech Rep
GDP per capita PPP (2018)	10	6	2	5	1	4	3
Stout market size (sales in million litres, 2018)	20	6	3	4	5	2	1
Beer market size . On-trade (sales in million litres, 2018)	15	3	1	4	6	2	5
Population in the age between 20 to 39. (in millions)	20	5	2	3	6	4	1
Expected stout market growth (2020-2025)	15	2	1	4	6	2	5
Infrastructure (LPI index scores)	10	4	1	6	2	5	3
Psychic distance from Home Market	10	6	2	5	3	1	4
Total	100	32	12	31	29	20	22

Note that the psychic distance from Ireland is inverse (6:low (preferable) 1: high)

Appendix 1C – Physic distance raw data



Source: Hofstede insights (2022) Psychic Distance Comparison.

Appendix 1D –Psychic distance calculation

Cultural (Psychic distance) calculation							
	Home Country	USA	Chile	Germany	China	Japan	Czech Rep
Power distance	28	40	63	35	80	54	57
Individualism	70	91	23	67	20	46	58
Masculinity	68	62	28	66	66	95	57
Uncertainty Av.	35	46	86	65	30	92	74
Long Term	24	26	31	83	87	88	70
Abs. distance		51	180	100	172	197	137
Rank (abs. distance)		6	2	5	3	1	4
Euclidean distance		27	88	66	96	96	69
Rank (abs. distance)		6	3	5	2	1	4

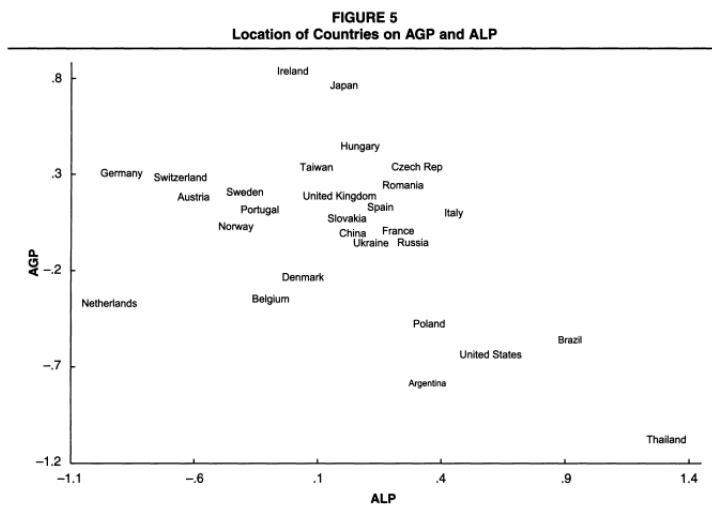
Appendix 2 – MACS: Competitive strengths

Appendix 2A – Competitive strengths (relative ranking)

	Weight	USA	Chile	Germany	China	Japan	Czech Rep
Brand awareness	20	6	1	5	3	4	2
Product fit to demand	10	5	3	6	3	4	1
Country Of Origin Effect (AGP)	15	2	1	4	3	6	5
Psychic distance from Home Market	10	6	2	5	3	1	4
Market Knowledge (based on Diageo net sales 2018) annual re	20	6	1	5	3	2	4
Competition intensity (1: high competition, 6: low competition)	15	2	6	1	4	5	5
Consumer loyalty (based on uncertainty avoidance)	10	2	5	3	1	6	4
Total	100	29	19	29	20	28	25

Source 1: own assumption based on case , 2: own assumption based on case, 3: Steenkamp, J-M & de jong 4: Hofstede, 5:(Diageo, 2018), 6: Case, 7: Uncertainty avoidance (Hofstede)

Appendix 2B – Country of Origin effect (AGP)



Source: (Steenkamp, 1999)

Appendix 3 - WTP

Willingness to pay formula:

$$\frac{(PU_{j,m1} - PU_{j,m2})}{\Delta WTP_{jm1_jm2}} = \frac{\text{Span Utility Price}}{|\text{Absolute Price Range}|}$$

(a) Organic instead of non-organic product

$$\frac{PU_{organic}-PU_{non-organic}}{WTP} = \frac{PU_{min price}-PU_{max price}}{Max price-Min price}$$

$$\frac{2.5-0}{WTP} = \frac{6-0}{5-1.8} \rightarrow WTP = \underline{\underline{1.33\text{€}}}$$

(b) Tequila instead of strawberry product

$$\frac{PU_{Tequila}-PU_{Strawberry}}{WTP} = \frac{PU_{min price}-PU_{max price}}{Max price-Min price}$$

$$\frac{2.8-3}{WTP} = \frac{6-0}{5-1.8} \rightarrow WTP = \underline{\underline{-0.11\text{€}}}$$

Appendix 5 – Break even analysis

Operating profit margin calculation:

Operating profit / Net sales

→ = 3.7 pound / 12.2 pond

→ = 0.3 = 30%

Source: (*Diageo's Sales Rise with Guinness*, 2018), The Irish Times

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