Analysis of the competitive environment

Diageo operates on a very large scale, being the worlds leading drinks company with manufacturing operations in Great Britain, Ireland, United States, Canada, Spain, Italy, Africa, Latin America, Australia, India and the Caribbean as well as trading in 180 countries with office all over the world in 30 countries. Diageo is known as the top beverages company with market capitalisation of £24 billion. The company has demonstrated its success through outstanding production and trade of drinks, operating globally has allowed the company to earn its popularity and to be number one. By operating globally the company was able to manage an efficient and profitable business. (Diageo Plc, 2013)

Growth strategy

The company was established first in 1759 by a man named Arthur Guinness as he acquired a brewery in Dublin. Diageo’s success story started then and developed throughout the years by several stages of development and growth throughout. Every stage required the purchase of a new brand. After the company entered the brewing industry they acquired the company Truman Hanbury, and Buxton Ltd between 1971 and 1973. This is an example of the several acquisitions of companies to develop and create Diageo as well as merging with other companies such as the merge of Distillers Company Ltd with Arthur Bell and Sons to create United Distillers. This strategy was used in the beginning to develop Diageo and finally establish the Diageo company in 1997.

Our Business – Diageo History Family Tree

Mission statement and Goals

The company's main strategy is to focus on premium drinks to grow its business through organic sales and operating profit growth and the acquisition of premium drinks brands that add value for shareholders.

Diageo seeks to be at the forefront of industry efforts to promote responsible drinking and works with other stakeholders to combat alcohol misuse. Diageo's approach is based on three principles: combating alcohol misuse; setting world-class standards for responsible marketing and innovation; and promoting a shared understanding of what responsible drinking means in order to reduce alcohol-related harm

http://www. diageo. com/SiteCollectionImages/In-Page-Images/OurBusiness/our_business_model_550x250. jpg

The company's global success allowed them to trade top brands by combining heritage and innovation as well as managing their global presence through complete understanding of different customers and markets. Their strengths are established through setting targets and goals allowing the company to focus on driving a sustainable and responsible performance and achieve goals such as faster organic sales growth, organic operating margin improvement and Eps growth. By having priorities and leading their employees with specific goals and targets, the company ensures that they achieves maximum profitability and growth The company's employees will have a clear understanding of what Diageo expects to achieve.

The company continues to carry out acquisitions in the future as part of their growth strategy with the purchase of companies such as of Mey Ä°çki in Turkey, Ypióca in Brazil, the Serengeti and Meta breweries in Africa and the investments in Shuijingfang and Halico in Asia. the company is aiming to acquire companies that reflect their values and the service they provide their customers.

Mission Statement:

Diageo’s mission statement is to become one of the worlds most trusted and respect companies. They set out to achieve their goal by delivering and sustaining outstanding performance year in and year out. They expect their business and their people to do the right thing every day, everywhere which would lead to driving the added growth and value of the company

Source: Diageo Plc (2013)

The company’s mission statement clearly states the value of the company which is to be the most trusted and respected companies. They have acquired many companies throughout the years achieving profitable results and outstanding market share. Their success demonstrates how Diageo worked to achieve these values.

Source: Diageo Plc Annual Report (2012)

The diagram above shows how Diageo was successful in achieving their mission statement and goals, by leading the market through 30% international spirits market share. By satisfying customers and following their targets they continue to lead the drinks and spirits market.

Source: Diageo Plc Annual Report (2012)

The company is also expected to continue growing to $28 billion market value in the luxury and spirits market. This demonstrates that through acquisition of companies and a leading service and production. The company is able to continue following a successful strategy.

Yip's model of Internationalization

Ansoff's Matrix

Porter's Five Forces: Analysis of the Competitive Environment

6. 1. Threat of New Entrants

Products in the alcoholic beverages industry are highly differentiated. Diageo has strong branding and quality for its products. For instance, Diageo's Smirnoff vodka is ranked the number one brand by volume and Johnnie Walker whisky tops the ranking for value, according to Impact Databank. (Business Standard Reporter, 2013)

Moreover, the capital requirements are very high. Diageo is spending high amounts of money for warehouses, marketing of the company, for the distribution of their brands globally and also for technology.

Some government policies are also in effect. For example, a higher tax on spirits and wines is imposed in the UK which will lead to lower profits and higher costs. (Thomas, 2013) Furthermore, licences are required to start producing distilled alcohol. (KeyNote, 2012)

All in all, the threat of new entrants is low because Diageo sets high entry barrier. Diageo is a company with a long history, so a “ new player” would need long time to create a popular brand image in the market. The new entrants are also restricted by the government. To add to this, Diageo’s well-known brand is recognized by the customers and this will drive down the new entrant.

Competitive Rivalry

Firstly, the industry in which Diageo operates is an oligopoly. Therefore, there are some major companies such as Diageo itself, Pernod Ricard SA, Beam Global Spirits & Wine, Inc., Bacardi Martini. Most of them are roughly the same size, very competitive and have strong brands. They also target the same buyers. (KeyNote, 2012)

Secondly, supermarket own brands are gaining power recently. Their cheap prices are becoming more attractive to the recession-hit customers which makes the competition higher. (KeyNote, 2012)

And finally, the industry is divided into various sectors which gives the opportunity for “ healthy” competition. (KeyNote, 2012)

Threat of Substitutes

The threat of substitutes is very high due to the availability large diversity of substitutes such as soft drinks,

Power of Suppliers

The concentration of suppliers is very low as Diageo has a large number of suppliers all over the world. For example, Diageo has an agreement with

Casa Cuervo SA de CV, which is a Mexican company and is a bulk tequila supplier. (Diageo, 2012) At the same time CCL label is providing exceptional service from Austria. (CCLlabel, 2013)

The bargaining power of suppliers is low. There are several reasons for that. First of all, Diageo is one of the world's largest producers for alcoholic drinks and purchases its raw material in bulk. Therefore, the supplier will not want to lose a major customer like Diageo. In addition to this, Diageo often uses long-term contracts which restrict the ability of the supplier to change the price for a long period of time. (Diageo, 2012)

There is a low switching cost because the number of suppliers is high and there is no raw material differentiation as most of it is agricultural products. (KeyNote, 2012)

Power of Buyers

The buyers of alcoholic drinks include supermarkets, wholesalers, clubs, pubs and restaurants.

The switching cost for the buyers is high. Considering the oligopolistic nature of the industry, Diageo have competitors that also produce Scotch whiskey and vodka. However, there are no close replacements for Diageo's products.

Moreover the strong brand image gives Diageo the ability to differentiate its products from the competitor's. Two of its brands topped the ranking for most powerful brands- Smirnoff and Johnnie Walker. (PowerBrand, 2012)

Market Forces

Conclusion