

Good example of labatt brewery pestel analysis case study

[Business](#), [Marketing](#)



\n[[toc title="Table of Contents"](#)]\n

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1. [PESTEL analysis](#) \n \t
2. [Economical factors](#) \n \t
3. [Social factors](#) \n \t
4. [Technological factors](#) \n \t
5. [Environmental factors](#) \n \t
6. [Legal factors](#) \n \t
7. [Conclusion](#) \n \t
8. [References](#) \n

\n[/toc]\n \n

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The Labatt brewery was a well-established brewery in Ontario, Canada, owned by John Labatt. The case study discusses Labatt's expansion into Chicago, USA and consequently his retreat. In the first part of the case we discuss the various factors which led to Labatt's decision to make an entry into the US market. The major push factor responsible for this decision was the incessant price-cutting of beer in the Canadian market which led to declining profits for Labatt. The major pull factors for Labatt were the market size in America and the potential profits & prestige to be gained in America. In the next part of the case we analyze the reasons for Labatt's failure in the US market and his exit. This analysis forms the crux of the case and classifies the factors responsible into entrepreneurial and structural factors. The entrepreneurial factors include Labatt's over-confidence in his beer and

his inability to adapt to the new market culture & practices. The structural factors include Labatt's low size as compared to the established American competitors, the changing culture & tastes of the American market, the import tariff Labatt's beer was subject to and lastly, the low monetary resources at his disposal. In this paper, we conduct a PESTEL analysis of the case to understand the general environment surrounding Labatt brewery.

PESTEL analysis

Political factors

The major political factor that affected Labatt was the import duties levied by the American government on beer. Such duties are designed to protect the local players from international competition (Ketchen and Short, 2011). The import duty had a negative impact on Labatt as he could not price his product competitively. Price cutting practices were prevalent in the American market as well, but Labatt could not indulge in the same and suffered.

Economical factors

Economical factors had both a positive and negative impact on the environment affecting the brewery industry. In general, the US economy was growing at the time and this was favorable for Labatt. The disposable income of the population was on the rise as well. These factors meant that the market for beer had the potential for growth. A growing market is attractive to a new entrant (Walker and Mullins, 2010) and hence led to Labatt's decision to enter the US market. However, at the time, despite the growing income of people the market was saturated with existing players and price-cutting was prevalent. The low prices of the American beer had a negative

impact on the environment. Labatt could not lower his prices as he had to cope with the high import tariff. Price-cutting was one of the major factors that had led to Labatt's decision to explore out of the Canadian market in the first place.

Social factors

The population of Chicago was a favorable factor for the brewery industry. Chicago's population at the time was one-fifth of the entire population of Canada and thus, was a huge market to exploit. Also, a beer drinking culture had developed in the market. It was general practice for the laborers in Chicago to consume beer during and after work. The per-capita consumption in Chicago was nearly twelve times that of Canada. Compared to the Ontarian market, the market in Chicago was huge and hence attractive for Labatt.

However, not all social factors were favorable. Labatt had hoped that the quality of his beer would help in dealing with the competition. He was confident that his beer tasted better than the American variety. However, the tastes of the Chicago populace were changing. Labatt was manufacturing ale, but the market was moving towards the lager. Ale is more robust than lager. Lager is a light beer. Also, lager is served cold while ale is served at a warmer temperature (Dietz, 2007). In the warmer temperatures of Chicago, therefore, there was a growing preference for lager. These factors decreased the acceptability of Labatt's beer. The reduced acceptability was one of the most important factors contributing to Labatt's failure.

The selling practices were also different from the Ontarian market. In

Chicago, selling beer in a salon involved buying rounds for the loyal customers. This increased the expenses and was not favorable for Labatt. Also, there was a lot of prevalence of tied-up salons. These salons would only sell one manufacturer's beer exclusively. Labatt neither had the ability nor the inclination to indulge in this. All these social and cultural factors created a negative environment for Labatt.

Technological factors

Technology had the biggest positive impact on Labatt, specifically, the development of the railroad. This development had earlier allowed Labatt to expand in the Canadian market. While most of the brewers in Canada at the time were small scale brewers serving the local market, Labatt had expanded beyond the confines of Ontario to different parts of Canada. The railroad allowed for quick and easy transportation of beer across long distances with minimum wastage. In Chicago, this acted as a double-edged sword. It allowed Labatt to transport his beer to Chicago relatively cheaply, but it also allowed other beer manufacturers to establish themselves in the city and hence, increased the competition.

Another technological factor which affected the industry was the improvement in the brewing technology itself. American brewers had highly mechanized factories and this allowed them to increase their beer production and enjoy economies of scale. The high volume of production allowed them to expand quickly. Labatt could not capitalize on this change in technology and hence proved no competition to the large American brewers.

Environmental factors

The only environmental factor which played a role in this case was the temperature difference between Canada and US which has been discussed previously. In Canada, Labatt had success because it has a cold climate and hence, ale consumption was prevalent. US had a warmer climate as compared to Canada and hence had a growing preference of lager which is served cold. Another factor that may be considered here is the Great Chicago fire, though this may not be environmental. It destroyed many local brewers in Chicago and allowed the national, wealthier brewers to establish themselves in the market making it difficult for small brewers like Labatt to gain a foothold in the market.

Legal factors

A major legal factor which played a role in Labatt's decision to enter the US market was the lack of laws to prevent predatory pricing. In Canada, predatory pricing was prevalent with many brewers selling at a loss, as per Labatt. While there were measures taken to prevent these, by forming cartels to fix prices, they did not have any legal back-up and hence were not sustainable. Currently, anti-trust laws like Sherman law would prevent such predatory pricing (Ketchen and Short, 2011; " Antitrust", n. d.).

Conclusion

A PESTEL analysis shows that there were various factors in play that made Chicago a favorable market, but also prevented a brewer like Labatt from succeeding. The key positive elements were the huge population of Chicago, the increasing disposable income and the development of the railroad.

However, the import tariffs levied by the government, the changing culture & tastes of the populace, the differences in advertising practices and the huge power of the American brewers overshadowed any favorable factors. Hence, Labatt failed.

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