Majestic wine plc uk marketing essay

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Majestic Wine Plc. opened its original wine warehouse in 1980. This Wood Green, North London warehouse merged in 1991 with Wizard Wine, which, at that time belonged to Iceland, the frozen food group, (Sunday Times, 2010, p1). Majestic Wine was listed on the Alternative Investment Market in 1996. In 2009, it acquired Lay & Wheeler, a Burgundy and Bordeaux wine specialist (Sunday Times, 2010, p1). The retailing of wines, beers and spirits is its principal business activity (Majestic Group, 2009, p1).

This business report analyses the group performance for two financial years, to 29th. March, 2010. It recommend, on basis of appropriate performance ratios, (detailed in Appendices 1 – 4), that shareholders should buy more shares and augment their investment significantly if the group management shows a more aggressive and focused plan of expansion, accompanied by expansion of stores, the deployment of a more aggressive capital gearing ratio, and sharper operations management.

Majestic has grown more than 12 fold from 1985, when it had only 12 shops, to 152 shops n 2010. It aims to expand its shop strength to 250 during the coming decade (Sunday Times, 2010, p1). Its sales are at a 10 year high, post the discarding of its policy of retailing only 12-bottle cases.

Off-licences, (establishments selling alcohol for consumption off the premises), could in the 1980s operate only for a few hours every day, and even fewer over weekends. Warehouses circumvented this rule by posturing as wholesalers, thus compelling their customers to buy bulk 12-bottle cases (Goodway, 2010, p1). Steven Lewis, the feisty CEO of the company, tested and subsequently rolled out, from November 2009, a model allowing customers to buy a minimum of six bottles at a time (Goodway, 2010, p1). The policy was instrumental in increasing the number of customers by 54000 to 472000 in the course of a year (LSE, 2010, p1).

The objective of this Business Report is to recommend to the shareholders of Majestic Wine PLC on augmentation or reduction of their investment in the company.

The profitability ratios of the company reflect a marked improvement in terms of revenues, cost of sales and ROI.

Most organisations opt to keep their debt low and cut their debt at the earliest (Jablonsky & Barsky, 2001). Whilst such inclinations arise from the need to be conventional and secure in business, excessive eagerness to diminish debt frequently leads to poor utilisation of obtainable debt, higher costs and uneconomical capital gearing (Jablonsky & Barsky, 2001, p 7-15).

The practically unchanged working capital ratios reflect the maintenance of sub-optimal liquidity levels. The weak acid-test ratio can lead to a difficult situation if the need for liquidity arises on account of contingencies that need to be swiftly addressed.

The long-term debts ratios reflect under capitalisation. The low gearing ratio reflects risk adverse tendencies, which can lead to slow growth in future.

2. 2. Group Performance

The group turnover for the 52 week period ending 29th March, 2010 at £33. 2m was up 15. 6 percent, with the profit before tax at £16. 0m rocketing by an incredible 117 percent (LSE, 2010, p1). Appendix 4 summarises the group performance, as reported in the Preliminary Results for 2010.

The Group has experienced strong cash generation during 2010, with operational cash-flows of £21. 2m during the year. This figure is £5. 7m more than the £15. 5m generated during the previous year, and has essentially come about from the improvement in the underlying profit before tax during 2010.

The Distribution and Administrative Costs have increased by 15. 6 percent during 2009-10 as compared to the previous year. The EBIT (Earnings before finance costs and taxation) rose by 118. 3 percent during the same period. The Profit before Taxation (PBT) grew sharply from £7. 4m to £16. 0m during 2009-10 year, registering an increase of 117 percent.

The sales to private customers, which make up the mainstay of the business, have shored up well, even though sales to corporate customers has been unsatisfactory. The company's French operations have been hurt by a stronger Euro (Majestic Group, 2009, p1). This contributed to an exceptional non-cash charge of £5. 33m in 2009, which arose from the writing-down of the carrying value of the company's French retailing operations, Wine and Beer World (Majestic Group, 2009, p1).

The company's purchase policy of reducing the minimum purchase of 12 bottles to 6 has led to excellent results, even as it needs to be recognised that it may be difficult to replicate this year's soaring profits next year, because of challenges in manoeuvring even more supermarket customers through its shop entrances (O'Doherty & Kuchler, 2010, p1).

Majestic is nevertheless working towards seizing mid-market space with a number of value-adding schemes like developing sales to gastropubs, increasing its wine-tasting programmes, and growing its fine wines business (O'Doherty & Kuchler, 2010, p1).

Majestic's market share at 3. 4% leaves abundant room for growth (O'Doherty & Kuchler, 2010, p1). With its share trading at 20. 3p per share at approximately 14 times its forecast earnings for 2011, higher than the average trading of its peer retailers at an average of 12 to 13p, Majestic, O'Doherty & Kuchler, (2010, p1) feel merits the premium and some more. The company's results are remarkable, considering that the underlying profit growth of 26 percent in 2010 has been achieved after accounting for the reduction of £5. 3m in the carrying value of the French operations (Hemming, 2010, p1).

The business is well positioned to capitalise on its core strengths as the economic environment starts improving (Majestic Group, 2009, p1). The company’s acquisition of Lay and Wheeler’s fine wine business in 2009 has contributed £12. 4m to 2010 sales (LSE, 2010, p1).

It is to the credit of the group that the total dividend for the year has been raised by 5. 1 percent, to 10. 3p per share, against last year’s 9. 8p, despite continuing market pressures (LSE, 2010, p1).

The Underlying basic earnings per share (EPS) for 2010 at 18. 4p were 31. 4% higher than the 2009’s 14. 0p. The underlying diluted EPS for the same period at 18. 3p rose 30. 7% against the previous year’s figure of 14. 0p. The basic EPS for 2010 at 18. 4p was 247. 2% more than the 2009’s 5. 3p. The diluted EPS for 2010 at 18. 3p was 245. 3% more than the 5. 3p achieved in 2009 (LSE, 2010, p1).

The average transaction expenditure at £129 for 2010 is 4 percent lower than 2009, despite a growth of 14. 6 percent to 1. 7m in transaction numbers (LSE, 2010, p1). The UK like-for-like sales for the 10 week period from 30th. March, 2010 to 7th. June, 2010 rose 7. 3 percent (LSE, 2010, p1).

The company is expected to improve its sales in future. The retailer’s professional credentials and good service levels have produced considerable loyalty amongst its patrons, which will be of assistance in the present economic climate. Majestic will also probably not be impacted by the recommended changes to alcohol pricing as its focus is more on the superiority of its offering than on its price (TradingMarkets. com, 2010, p1).

It is recommended that shareholders should steadily increase their investments. Larger positions should be taken if the group management shows persistent and aggressive efforts to achieve its growth target of 250 sites within a decade and change its conservative capital gearing. The company however needs to address its short term liquidity in order to be ready for short-term contingencies.

2. 3. Mission Statement

Majestic Wines progresses its mission of providing wine of high quality backed up with superior customer service through its clearly differentiated retailing model, with its core excellent value straddling the price range, its captivating product offering, and most of all, its compelling and distinguishing customer service proposition (Majestic Group, 2009, p1).

The company’s commitment to its mission is exemplified by the recognition accorded to it as the “ High Street Chain of the Year”, in 2008, by the International Wine Challenge Awards. The Group was also awarded The “ Specialist Wine Chain of the Year” by Decanter magazine in 2008 (Majestic Group, 2010, p1).

The company’s strength in customer services emanates from its ability in recruiting and retaining high quality graduate level staff, its continual investment in comprehensive training programmes, (widely accredited as best in the wine industry), and its focus on customer service, product knowledge and management (Majestic Group, 2010, p1).

Majestic augments its specialist credentials by focusing on its staff training. New staff members tend to take the course qualifying for the “ Wine and Spirits Education Trust’s (WSET) Advanced Certificate” in six months. In fact, several employees train further: 149 staff members presently have, or are qualifying for the WSET Diploma, even as 7 of Majestic's personnel received Excellence Awards from WSET in January 2010 (TradingMarkets. com, 2010, p1).

Majestic distinguishes itself from its competitors is by cultivating strong customer relationships (TradingMarkets. com, 2010, p1). The company hosts numerous events, like wine tastings, and courses to enhance customer knowledge of wine (TradingMarkets. com, 2010, p1). Such approaches, combined with high service levels, have facilitated the retailer in trading its clientele up the value chain (TradingMarkets. com, 2010, p1). The latest annual results disclose that the average value for a bottle of still wine increased by £0. 21 and sales of bottles more than GBP20 grew by 22. 7% in relation to the previous year (TradingMarkets. com, 2010, p1).

Majestic aims to enhance its fine wine credentials by putting up fine wine display sections in all its stores in the next two years. Approximately around 50 percent of its present stores have such sections (TradingMarkets. com, 2010, p1).

2. 4. Environmental Policies

Many companies tend to confuse green concerns relating to their own businesses with elementary cost savings measures. This adversely affects the larger green issues that are related to implementation of green processes, products and technologies across such organisations.

Environmental issues the company including the collections, reprocessing and disposal of the recyclable waste material.

A pioneering lightweight British-designed bottle has facilitated the UK wine industry in meeting aggressive targets on reduction of its carbon emissions and glass waste (Greenwise, 2010, p1). The 300 grams (g) screw-cap bottle, the first worldwide, weighs 188g less than the average wine bottle and 40g less than the earlier lightest bottle produced in Britain (Greenwise, 2010, p1). It has been designed and developed, through the Waste & Resources Action Programme (WRAP), by Quinn Glass and is currently being deployed by key supermarkets like Tesco (Greenwise, 2010, p1).

The ground-breaking design is the outcome of a 4 year program known as GlassRite Wine launched by WRAP in 2006 to spot prospects within the wine sector to generate environmental- cum-commercial savings (Greenwise, 2010, p1). WRAP avers that the project currently has accomplished the targets, with which it was launched, of decreasing glass bottle weight by approximately 27, 000 tonnes with using lighter weight bottles and increasing recycled glass usage in UK wine-bottle production by 44, 295 tonnes per year (Greenwise, 2010, p1). In terms of CO2 savings, the project has further contributed almost 35, 000 tonnes per annum (Greenwise, 2010, p1).

Nicola Jenkin, in charge of WRAP's drinks category business, stated that " huge opportunities" are still present in using lighter-weight bottles in the global wine supply chain (Greenwise, 2010). She elaborated that the pioneering 300g wine bottle was presenting considerable potential in UK alone for reducing glass and carbon wastes (Greenwise, 2010, p1). Further, she clarified that use of these bottles for all wine sales within UK itself would produce glass saving of 153, 000 tonnes per annum, equivalent to the weight of over 460 jumbo jets resulting in axing CO_2 discharges by 119, 000 tonnes (Greenwise, 2010, p1).

Another major success of the GlassRite project has been in promoting bulk importation wherein the wine is transported in vats instead of being bottled at source (Greenwise, 2010, p1). Consequently, WRAP has confirmed that emissions have been cut by 40 per cent (Greenwise, 2010, p1).

Majestic Wine would do well to adopt environmental friendly policies in view of the enormous potential for savings possible in adopting green processes and practices along its entire supply chain.

2. 5. Majestic and Major Competitors strengths and weaknesses

The retail wine industry is intensely competitive. The Group competes with numerous retailers of varying size in terms of criteria like quality, range, price and service. Failure to compete successfully could adversely impact the financial results. Apart from monitoring performance repeatedly against competitors in these spheres, the Group lessens its exposure by guaranteeing that the trade is differentiated from the competition by the quality, quantity and diversity of merchandise at every location, provision of wine expertise as well as dedicated car parking (Majestic Group, 2009, p1).

“ We differentiate ourselves by the high quality of our customer service and advice, the diversity and quantity of stock available to purchase at each store, our dedicated on-site customer parking, wines to taste every day, the ability to order in-store or via our website and the availability of free delivery throughout mainland UK” (Majestic Group, 2009, p2).

Constellation Brands along with Foster's Group, owning brands including Lindemans, Hardys and Penfolds and employing thousands of personnel in UK, have charged the Government of demolishing the UK wine business with constant tax rises (Hall, 2010, p1). Both organisations have axed UK jobs and are already shifting investments to other European nations. Last year Fosters cut 10 percent of its UK labour force (Hall, 2010, p1). Peter Jackson, Foster's MD for Europe, Middle-East & Africa division, stated that 55 percent of a £4. 32 priced wine bottle, an average UK price-tag, is spent on taxes; approximately £1. 60 is excise duty, 65p is VAT and 11p is the Common Customs Tariff (Hall, 2010, p1). Research conducted for The Sunday Telegraph reveals that, whilst the price of a wine bottle has risen by 25pc since Labour Government ascended to power in 1997, its duty has increased by 53. 3 percent (Hall, 2010, p1).

Earlier in the month E&J Gallo Winery, makers of wines including Turning Leaf and Carlo Rossi, stated that it will continue curtailing its UK range in 2010, because high levels of promotions and the brutal tax regime make it tough to do business (Hall, 2010, p1).

Cheap alcohol traded by supermarkets has struck off-licence chains very hard. Wine Rack and First Quench owned Threshers collapsed last year benefiting Majestic (Sunday Times, 2010, p1). Majestic steer clear of challenging supermarkets on price but instead claims to provide more products and better service. Majestic's share price has risen 38% in the past year to 272. 5p, valuing it at £167m (Sunday Times, 2010, p1).

The UK is recognized worldwide as a sophisticated wine market and it is surprising that it short-changes sophisticated wine consumers the aspect of procuring fine wine by the single bottle (Sunday Times, 2010, p1). The number of high-quality wine shops has dropped sharply due to competition from supermarkets, which sell over 70% of wine in Britain, and high rents as well as the current growth in online wine sales (Sunday Times, 2010, p1).

However, the finest places in UK to procure expensive wine are within London, where departmental stores like Harrods, Selfridges, Harvey Nichols and Fortnum & Mason proffer fancy bottles at a price (Robinson, 2010, p1).

The 2009-20 financial year results further highlight that specialists can be successful when faced with severe competition from supermarkets if they can offer outstanding levels of quality, service and range (TradingMarkets.com, 2010, p1).