

Mountain man brewing company

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Mountain Man Brewing Company| To:| Chris Prangel| From:| 001706975| CC:| David Nasser| Date:| 3/4/2013| Re:| Bringing the Brand to Light| Comments:| For the first time in the company's history, Mountain Man Brewing Company is experiencing declining sales in response to changes in beer drinkers' preferences. Mr. Prangel's response to this problem is introducing a "light beer" form of the popular Lager. In the past six years, the "light beer" industry as increased at an annual rate of 4% while sales of traditional beer has been declining annually by 4%. Although this seems like a probable solution, there are two major problems Mr.

Prangel is facing: 1.) Mountain Man's current target market will not approve of this new beer, and 2.) bringing in a light version of the Mountain Man Lager could ruin the brand image and ultimately destroy the company. Mountain Man's biggest target market currently, and pretty much since it started in 1925, is males ages 45-54. Most of these males are blue-collar, hardworking males. It has been known as "West Virginia's Beer" known for its authenticity, quality and its toughness. To the younger beer drinkers, the market the light beer appeals to, view Mountain Man beer as too strong and a "working man's" beer.

Not only do the younger beer drinkers have their negative thoughts about Mountain Man developed, but the blue-collar customers account for a huge percentage of sales. The brandloyaltyrate for Mountain Man Lager is 53% which is higher than any of its competitors. The "light beer" appeals to the younger generation, especially the females, and Mountain Man Lager has always appealed to the older, rugged, blue-collar male. The appearance of

Mr. Prangel's dilemma is very evident. Based on the evidence, Mountain Man should not introduce the light beer.

The light beer industry is growing, that can't be denied, however for Mountain Man, it is not in their best interest yet. Although the quantitative reasoning is included below, it would be in Mountain Man Brewing Company's best interest to take the \$750, 000 and spend it elsewhere: create a new beer (non-light) that can appeal to more than the current target market without losing its brand image, spend more money for advertising to the younger beer-drinking market. Mountain Man Brewing Company needs to have a wider target market before introducing a completely new product that could potentially destroy the company if it were unsuccessful.

THE PROS AND CONS OF INTRODUCING A LIGHT BEER

The most beneficial pro of introducing Mountain Man Light will be reaching the younger beer drinkers. It is shown that the younger beer drinkers enjoy the light beer better, and also in their twenties, usually haven't committed to a brand yet. Mountain Man is very well-known by the younger beer drinkers, however, they tend to buy and consume in quantity; the Mountain Man Lager is not on their top preference, along with other lagers and full-flavor beers. Introducing this light beer could reach the younger beer drinkers and potentially lead to brand loyalty amongst them. A few cons could be losing brand loyalty amongst the older generation, losing sales of the Mountain Man Lager due to cannibalization, and a lower contribution margin.

THE BRAND NAME OF A LIGHT BEER

If the light beer were introduced, the name Mountain Man Light is not the best option for the market Mountain Man is already in. A 53% loyalty rate is great for a company that produces one flavor of a brew. If the company that they have seen as for years as a rugged, authentic, " West Virginia's Beer", puts out a " light" version, its image could be lost immediately. In response to the introduction of a light beer by Mountain Man, it was the man in his fifties and early thirties that found it to be absurd.

BREAK EVEN AND BREAK EVEN IN MARKET SHARE IN 2 YEARS

By keeping the same price for light as the lager, breakeven in dollar amount is almost \$10, 000, 000 which then translates into 100, 473 barrels. Within two years, Mountain Man Light will have to produce almost \$10, 000, 000 in sales and sale 20% of what Mountain Man Lager has worked almost a century to sale. As for the market share, Mountain Man Light will need to gain a 26% of the market share in 2 years to break even.

This seems very unrealistic since the leading brand light beer now consumers 32. 9% and the second leading brand holds 17. 8% of the market. Mountain Man Light will have to become the second leading brand in the market within only 2 years (assuming that the sales of " light beer" continue to grow annually by 4%).

CANNIBALIZATION RATE

Because Mountain Man Lager produces so many units and produces such high sales already, the difference in cannibalization of 5% to 20% is pretty significant (almost 1, 000, 000). Two year contribution with a 5% cannibalization rate is \$32, 895, 226. 2 compared to \$31, 988, 859. 59 with a

20% cannibalization rate. This is a major loss in sales of the Mountain Man Lager. If cannibalization is inevitable, the lower percentage of cannibalization is the best option, it yields a higher contribution. Anything above 20% is unnecessary and definitely not worth introducing the Mountain Man Light.

BUDGET FOR THE LAUNCH

The budget of \$750, 000 added onto the \$900, 000 already annual cost of SG&A costs is not appropriate. Not only is it adding that money onto the annual SG&A costs, it adds \$4. 9 more per barrel in variable costs. Yet, the price of the light will still be the same as the lager. It will produce a 60% awareness level for Mountain Man Light, however, reduces the contribution margin by 16%; the price remains the same and cost of goods sold increases. Adding an expense like \$750, 000, a company should expect it to be better for the company. A 16% decrease in the contribution margin is not good for a company like Mountain Man that has its one specialty product in which it is known for.

THE LAUNCH

Although it is not recommended to introduce this Mountain Man Light because of the previous stated concerns, Mountain Man should not stop there and let the company fail. Mountain Man can take their \$750, 000 and introduce another beer just not a “ light beer”. Keep the authentic, rugged brand image by introducing a different type of brew that will continue to appeal to the target market. Mountain Man should try to increase its target market with its original idea before it tries to introduce a new brand.

If this is not ideal, the \$750, 000 can be spent on gaining, and retaining, a younger, beer drinking crowd. There is always a way to appeal to a younger crowd, Mountain Man needs to find the window of opportunity and take those consumers. With the high awareness of Mountain Man Lager by the younger beer drinker, however, Mountain Man could change their marketing strategy and discover a way to appeal to the younger market. | Contribution of Lager and Light Breakeven in Dollars and Units (Barrels) Market Share Cannibalization of 5% Cannibalization of 20%