Bacardi limited: competitive position

Introduction

Bacardi Limited is an international firm that is one of the leading alcohol producers in the world. Company has expanded its product line from rum drinks for young, partying teens to expensive, “ premium” drinks for sophisticated drinkers. The variety of products was gained from merges of several large liquor companies.

The purpose of this report is to analyze Bacardi Limited competition position and give recommendations on internationalising its products. It will include a description, competitive analysis of the company, analysis based on choice of potential market (PESTLE, SWOT) and product to enter with into the market with decision making on the choice of mode of entry.

1. Description of company

BACARDI Limited is the world’s largest privately held spirits company. With its headquarters in Bermuda and several operating subsidiaries around the world, BACARDI produces, markets and distributes a variety of internationally recognized spirits such as BACARDI rum, GRAY GOOSE vodka, DEWAR’S scotch whiskey, BOMBAY SAPPHIRE gin, CAZADORES tequila and many more (Bacardi Limited, 2009).

The company recorded revenues of $5, 334. 707 million during the fiscal year ended March 2009 (FY2009). The operating profit of the company was $1, 071 million during FY2008, an increase of 12. 9% over FY2007, however it dropped 4% during the FY2009. The net profit was $805 million in FY2009, an increase of 1% over FY2008.

Bacardi currently operates in 110 different markets worldwide with the 39% of sales less excise taxes in North America, 51% of sales less excise taxes in Europe, Middle East and Africa, 10% of sales less excise taxes in Latin America and Asia Pacific for Fiscal 2009 (Bacardi limited Annual Report, 2009).

Barriers to entry

The spirits industry is highly competitive business, where the major global spirits producers hold approximately 60% of the market share. There are often new entrants into the market as it is relatively inexpensive to enter the spirit market but the larger companies such as Diageo and Bacardi which already have established brand identities make it difficult for the smaller companies to succeed within the market place. So hence it would be fair to say that in this industry innovation plays a vital role. Even though not all the new innovations always succeed, the multinationals still hold the advantage of higher potential to invest large amounts of money into the market (ICAP, 2006).

Threat of substitutes

Bacardi has a range of non alcoholic drinks which is not included in its portfolio: beer, wine, cider and even non alcoholic drinks which could be a potential threat to Bacardi’s market share. Apart from the market rivals, the growing health awareness continues to have a negative impact on alcohol consumption and hence affects the alcohol market on the whole.

* “ Healthier” types of drinks: low-alcohol and non-alcoholic beer, reduced-sugar, low-alcohol products such as wine with a lower ABV, beauty alcoholic drinks, added Fibre Beer.

* Rising obesity means consumers more aware of calorie content of alcoholic drinks: Light, Low-calorie and Low-carbohydrate beer, soy-based carbohydrate-and gluten-free vodka. Alcoholic drinks with flavor extensions: Pear, peach, pomegranate and grapefruit were popular flavor launches in 2006 and 2007 (Euromonitor, 2008a).

* Energy and soft drinks: Red Bull, Burn

* Traditional drinks: Chinese liquor, or baijiu.

Bargaining power of buyers

Bacardi s products present in various places around the world. Bacardi has relatively strong power over the retailers because of brand awareness and the high quality of the products. Most of brands in Bacardi’s portfolio are well-known therefore end-customer will definitely look for them. Since the economic situation is getting better and better after recent recession, customer will have more purchasing power and Bacardi will likely to gain benefit from it. However, company heavily driven by consumer preference and tastes, which is different from country to country.

Bargaining power of suppliers

The bargaining power of the suppliers within the industry is relatively small. For example, in the case of Bacardi, the production depends upon the availability of sugarcane, molasses, barley, wine grapes etc. hence any change in prices of these raw materials effects the price of the spirit (Purwanto, 2009). However bargaining power of suppliers within the alcohol industry would be relatively small: there are substitutes for what supplier group provides. Fully-owned operation is its most popular method and is prevalent in all Bacardi's major markets. The company operates 27 production facilities, including bottling, distilling and manufacturing facilities, located in 17 countries including Puerto Rico, Scotland, Italy, France, Spain, Germany and Mexico (Bacardi limited Annual Report, 2009).

Rivalry

Bacardi is the world's sixth biggest spirits company and world's third largest international company, behind Diageo and Pernod Ricard (Exhibit 1), with almost 2% of global volume sales in 2007(Euromonitor, 2009a).

According to Euromonitor (2009a) report the company is facing high pressure from all sides, as if compare to its two main rivals Diageo and Pernod Ricard, Bacardi has under-performed in growth terms in both organic and inorganic terms over the 2002-2007 period.

Company's poor performance has meant that its global volumes were less than half both Diageo and Pernod Ricard in 2007. The company achieved growth of 15% over the 2002-2007 period, compared to Diageo's 22% and Pernod Ricard's 84%, from much high 2002 volume growth.

Source: Euromonitor, 2008b. Global Alcoholic Drinks: Buying and Winning Share in Global Spirits 2008 25 p

Mission of Bacardi is distribution its portfolio of international brands to trade clients and consumers all over the world. As it is a major producer of distilled liquors, the goals of the company seem logical: to expand the sales of the products internationally is the goal of most mainstream companies, and to expand the product line successfully is to expand the profit. Also from the competitive analysis it can be seen the company's poor performance compared to its competitors, which is also drive to further internationalisation (Bacardi Limited, 2007).

2. Analysis on choice of entry country.

Prior to making a choice of entry country, it was required to analyse existing markets and look at other potential markets as well.

Primarily, Bacardi's main focus is on developed economies as 76% of volume sales were from North America and Western Europe, where expected growth in these markets is CAGR of 1% and 0% respectively over 2008-2013.

Considering Bacardi has only 10% of its volumes sales in other markets combined, it is missing out on opportunities to grow its non rum brands.

Secondly, Bacardi's over reliance on rum which accounts for 60% of its global volume sales in 2007, reveals a major flaw as white rum is being outperformed by dark rum in all markets. And where white rum market is growing, the brand has reached saturation point.

To recover market share, Bacardi should consider growth in emerging economies as many Bacardi's brands are expected to grow in these markets. For instance, Chinese and Thai markets are expected to grow by 24 million litres and 11 million litres respectively in blended Scotch whiskey over 2008-2013. In India, expected growth of vodka and rum is about 71 and 56 million litres respectively.

There is potential growth of blended Scotch whiskey, cognac, premium vodka and tequila in the Russian market, whereas in Brazil, vodka and blended Scotch whiskey have strong growth prospects. (Euromonitor, 2009)

Bacardi should focus its attention in BRIC countries viz. Brazil, Russia, India and China. The rationality for this approach are the following reasons: these countries account for 43% of world's population

Show real growth prospects in the near future i. e. 5-20 years as compared to developed economies (Exhibit 2).

Chinese economy will probably overtake both UK and German economies by year 2015 and expectation is that it will deliver around 1 billion new consumers over the next quarter of a century

Fundamental advantage of BRIC countries is that, as they develop, money filters down to the general population, which in turn increases their purchasing power. (LearnMoney. co. uk Ltd, 2009)

Source??

With regards to answering which country within the BRIC should Bacardi invest in, the data of products in Bacardi's portfolio will analyzed (Appendix A). After consideration, we cerebrate that Chinese market looks the most promising for investment as it has the largest market size and its predicted growth rate is around 24. 8% from 2008-2013 which makes its volume growth two times the size of India, which comes in second (Dash, 2007).

To further examine the business environment and the market for spirits in China, PESTLE analysis is done:

Political:

The China's accession to WTO brought about many changes to the business environment. It is considering drafting a flat tax rate of 25-28%, regardless of the company being foreign or domestic. China is considering reducing taxation on its middle class to improve consumption. Recent success of Chinese IZ policy and incentives has resulted in massive inflows of FDI (China-Britain Business Council, 2009a).

Economic:

* Growing annually at 10% Chinese economy is the second largest worldwide. Typically, Chinese expenditure is 20-30% lower than India and immune to pay inflation and worker turnover (Devott, 2009).

* Expected growth of 5% between 2008 and 2013 (Euromonitor, 2009b).

* Disposable income is rising in the middle income group, though this doesn't hide the underlying income inequality.

* China employs a progressive tax system which advances with income from 5 to 45%. Accounting for 12% of global spending, Chinese elite still allow themselves to splurge on luxury items (Euromonitor, 2009c).

* Buying of premium spirits will continue increasing during the forecast period, with champagne, scotch and cognacs in high requirements.

* Prices increased significantly up to 9% mostly due to companies increasing their product pricing (Euromonitor, 2009c).

Sociological:

* 250 million Chinese middle class is increasing becoming brand aware (UK trend & Investment, 2007).

* Increasingly, consumers are paying attention to the health awareness. Hence drinks with low calorie and alcohol content are the main selling point.

* Demographically being the largest market in the world with 1. 3 billion consumers (China access, 2009).

* The increase in pubs and bars contributes to the popularity of foreign alcoholic drinks like cognac, whisky and rum (Euromonitor, 2009d).

* Chinese consumer prefers gifting premium brands of both Chinese as well as foreign alcohol as ideal gifts for family and friends, with an aim to highlight their generosity and economic status (Euromonitor, 2009b).

Technological:

* Rapid urbanisation has led to major improvements in transportation infrastructure (UK trend & Investment, 2007)

* Regulations are imposed on alcoholic drinks advertisements on televisions and radios (Euromonitor, 2009d).

Legal:

There are many legal requirements in starting an enterprise in China, primarily obtaining an authorized business licence. After that there are nine more government bodies with which the company must register. Various locations have differing policies. It usually takes around 3-12 months to set up business in China (China-Britain Business Council, 2009b).

Though there is no legislation enforcing the legal drinking age, alcoholic drinks are not allowed to be sold to individuals below the age18.

Taxation and Duty Levies on Alcoholic Drinks: alcoholic drinks and alcohol white spirits made from cereal – 25%, white spirits made from potatoes – 15%, yellow spirits – 240 yuan per tonne, beer – 220 yuan per tonne, other alcoholic drinks – 10%, alcohol – 5%.

For television advertising, no more than two advertisements for alcoholic drinks are allowed on any channel between 19. 00hrs and 21. 00hrs, and no more than 10 are permitted per day. Also, TV channels may not show than two advertisements for alcoholic drinks in an hour. (Euromonitor, 2009d).

Environmental:

Chinese government is focusing on attracting FDI in environmental sector, with emphasis on pollution control and water resources management (UK trend & Investment. 2007).

However, main risks and uncertainty factors in Chinese alcohol market also should not be ignored, even market looks attractive: economic crisis, which has a greater impact on high-end products, in our case, our premium spirits brands; natural disasters (earthquakes and flood) might damage manufacture sites.

Choice of product

Before entering into Chinese market it is crucially important to recognize which product or line of products should be produced. Framework for choice of products was prepared based on secondary information from Euromonitor (2009a, 2009b, 2009d).

According to a framework for choice of products (Gupta, 2004), after considering the required degree of local adaptation and the expected payoffs in the Chinese spirit market the most attractive product for internationalization in China is a baijiu, a “ white liquor”, which is the most popular local spirit in China and the world’s best selling spirit by volume.

Choice of location

The difficulties for foreign producers looking to enter the market are presented by a vast size and scope of Chinese market. For analyzing all regions SWOT analysis was done for Bacardi (Leu, 2007):

The entry process from analysis on regions in China (SWOT analysis) shows that Southwest and Central regions are the most appropriate location to start business: high demand on baijiu drinks, local spirits preferences, good transportation networks and low efforts of threats compared to other regions.

Choice of mode of entry

Chinese spirit market by PESTLE analysis is shown as a huge market with strong local and foreign competitors; with unfamiliar preferences for Bacardi limited therefore joint venture (JV) has advantages over acquisition. Even a main disadvantage of forming a JV is that partner shares the profits of the business, but the downside of acquisition method is worse than that since not only a significant capitalisation cost is inevitable, but it also requires Bacardi’s own efforts to build up a complex Chinese market knowledge and supply chain system which will be a very time consuming process and the chance of ending up failure is likely to occur. JV permits firms to share entering market’s costs and risks, allows rapid access to local know-how, and gives managers the flexibility to respond more quickly to dynamic global competition, also allows firms to take advantage of the Chinese partner’s local knowledge, to use distribution channels (Gupta, 2004).

JV undoubtedly keeps the speed of entry to high level which is very important, as Bacardi is losing its leading position every year among competitors (Euromonitor, 2009a). To sum up, a greenfield strategy is not preferred to Bacardi limited and for the reason that Bacardi currently does not have baijiu product in its portfolio, licensing also is not available as a mode of entry.

Due to the fact that more than 18, 000 baijiu producers are existing in China (Yang, 2009), the largest company should best suit with the scale of Bacardi company. Joining forces with strongest Chinese partner will not only be beneficial for the company to sell directly to every region of Chinese domestic market by the used of its superior existing distribution network and relationship with local retailer. It also enables Bacardi to perceive quickly the implications of promoting, marketing and to understand Chinese culture and habits in each particular region. Moreover, Bacardi will get know-how of the process to produce premium baijiu product, hence extend its portfolio further in the area of spirits in which perfectly match with the company’s main focus.

Tables on Company Shares of Spirits by National Brand Owner 2003-2007 and Company Shares of Spirits by Global Brand Owner 2003-2007 in Chinese spirit market (Appendix C) show Sichuan Yibin Wuliangye Company Limited is the leading company in spirits in China, with 2 % of volume sales in 2007

(Euromonitor, 2009e) and with 1. 8% Company Shares of Spirits by National Brand Owner 2007. The company supplies the local market from in country, with almost all products of Wuliangye Group Co Ltd being produced in Yibin, Sichuan.

After all analyses and considering assessed characteristics, the decision was made that the best method to enter to Chinese market for Bacardi Company is to distributing its brands with baijiu product through joint venture (JV) agreement with Wuliangye Yibin Company Limited while Bacardi possess the controlling stake. As Wuliangye Yibin Company's brand is well-known in China, Bacardi's brand is more famous as an international brand, which appears as the third place in the world's most powerful spirits & wine brands 2008 report (Intangible business, 2009), the second place as The Strongest Brand by Brand Score and as The Most Powerful Brand by Share of Market. Therefore it is recommended to use the existing brand for this premium baijiu product and every product later on in this JV. Doing this is not only reflecting the primary objective why Bacardi make an investment in China but also it helps strengthen Bacardi brand awareness in the Chinese customer mind. In this way, all other products from Bacardi will also receive the benefit from this effort.

While Bacardi concentrates on selling premium baijiu product with its JV partner, it can acquire knowledge about the Chinese market and adjust their marketing campaign accordingly, which will help them to optimally penetrate the market and gain dominance for their product portfolio.

After adjusting to the Chinese spirit market with premium Baijiu, it is suggested to use China as the base of production for expanding into Asian-Pacific region. Subsequently to increase production of alcoholic products, thereafter it is recommended to change the mode of entry by either increasing a share in the JV or acquire controlling stake in Yibin wuliangye distillery company.

Conclusion efficiency

This report introduces Bacardi’s current situation in the world market through the Porter’s five forces analysis. Analysis is done to find a suitable entry country and a strategy to overcome its growth stagnation. After intense study of the prospected target, it was decided to enter the Chinese market which has the largest market size and good growth rate in the spirits industry. To add up, China is considered as a gateway to Asian-Pacific market, which is strategically important for Bacardi limited. Understanding Chinese market is also crucial before taking any actions, so PESTLE has been used. Since China is an enormous country, SWOT analysis was done to find an apt region to start business.

Premium baijiu spirit was chosen as a most attractive product according to the framework of choice of product. The recommendation on conducting JV with Chinese domestic company – Yibin wuliangye distillery was done based on the PESTLE analysis and trends in Chinese spirit market.

The controlling share of the JV with a Chinese domestic company will give an opportunity for Bacardi to penetrate the Asian market.

Two main limitations need to be addressed here,

* firstly relating to the type and range of data used here, which is secondary data. It is advisable that Bacardi should perform more research into marketing with updated information from both primary and secondary data;

* taking into account both risk management and other uncertainty factors, which many of them are not covered in this report, and could have significant impact in reality to a business;

* in depth financial aspects, the critical part for the real-world investment, as well as competitors' strategies were not included in this report. Retaliation from competitors against any movement in the market which have ignored in this report, should be considered in reality. All in all, intensive feasibility study with the latest information is suggested before Bacardi makes any decision.

The second limitation is related to its JV partner. The question to be answered is that whether Wuliangye yibin Company interested in doing JV with Bacardi. It depends on many uncontrollable factors for example the current situation in the market, financial term of the company or the decision from CEO. Even if they agree to do JV, the negotiation process will need to be focused to ensure it meets both Bacardi's and Wuliangye yibin's expectations. If Wuliangye yibin is not interested in this deal, Bacardi might have to consider the other Chinese local company instead.