Hammerlick brewing case study

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Hamrlick Brewing had been operating at a loss since the introduction of its critically acclaimed Saxonbrau beer two years ago. The company faced an urgency to increase revenue from sales and break even. It considered selling the Saxonbrau beer through distributors, as a marketing strategy to bring about profitability and increase Saxonbrau's branding as a super premium beer.

To do so, Hamrlick Brewing had to first determine if there was a distribution agreement that would meet its needs, otherwise it could continue distributing its products by itself. Hamrlick Brewing considered different distribution agreements from distributors Kalagwine Corp, Bistwells and Hansrife Beverages, and included the option of continuing direct distribution of its products. Each of these options had different strengths and weaknesses in their abilities to improve the revenue of Saxonbrau beer.

After analysing the strengths and weaknesses of the four options, Bistwell provided the best fit in meeting Hamrlick Brewing's needs to promote the Saxonbrau brand, maximise the value of Saxonbrau beer, and optimise the company's retail structure.

Branding

By branding Saxonbrau as a “ super premium” or an “ import and specialty” beer were, Hamrlick Brewing could be certain that the demand for its beer would increase. Sales of the “ super premium” and the “ import and specialty” beer segments had been projected to grow by 15% in 2011.

Also, the market size of this segment was worth $7. 6 billion in 2010, with no single brewery dominating the market space. Also, since Hamrlick Brewing aimed to increase Saxonbrau beer's sales and revenue, and given the limited production capacity, Hamrlick Brewing could aim to sell Saxonbrau at the highest possible price possible. As a result, Hamrlick Brewing may not want offer attractive price competitiveness, and so it would need to differentiate Saxonbrau in terms of branding.

If Saxonbrau were to be continually positioned as " super premium" or " import and specialty", it would command a higher price premium, since consumers in the super premium beer category are less price sensitive and are willingly to pay more for quality. In addition, Saxonbrau's current 61% brandloyaltyis also higher than the industry average of 41%. This would differentiate Saxonbrau beer further, and protect it from price competition. Hamrlick had to avoid the situations where Saxonbrau may be positioned to compete as a " premium" or " popular" beer, even though the demand for these beers was generally higher.

If Saxonbrau was marketed and priced in the " premium" or " popular" segment, it would face very intense competition in terms of branding and pricing. Beer brands in this segment are not highly differentiated from another. Also, customers consuming beer of this segment are relatively price sensitive and tend to make purchasing decisions based mainly on price. Large brewers like SAB Miller could afford to compete on price, but not Hamrlick Brewing, as it did not have the cost structure advantage to do so.

If it insisted on offering competitive prices, it would run into even deeper losses and may be forced to shut down, as shown in its income statement. Of the three distributors, Bistwell intended and was most able to position Saxonbrau within the " super premium" beer category in the Chicago market, given its previous success in developing the market for super-premium beers. This is in line with Hamrlick’s intentions for Saxonbrau’s branding. Hamrlick Brewing could also be assumed to be able to provide for appropriate branding.

However, Hansrife Beverages’ marketing strategy intended to position Saxonbrau within the premium beer category in the Chicago market, which would do more harm than good to Saxonbrau’s sales. In addition, even though Kalagwine also proposed to establish Saxonbrau as “ speciality beer” and its distribution network was greater, expanding to other parts of Illinois and neighbouring states, it would not be able to secure Saxobrau’s branding. Kalagwine specialised in distributing wine and it did not have any prior experience in beer distribution.

As a relatively late entrant to the beer distribution business in an already mature industry, Kalagwine would most likely face resistance from premium drinking outlets and liquor stores for display and storage space. In consideration of the above analysis, other than Hamrlick Brewing distributing its products by itself, Bistwells is the best- positioned amongst the three distributors to promote Saxonbrau’s branding in the super-premium beer market.

Value for Customer, Collaborator, and Company

Besides branding, cost structures and the resultant margins for each stakeholder in the distribution channels are also crucial to deciding a distributor is the impact of the decision on the cost structures and the resultant margins for each of the stakeholders in the channel. The cost structure should encourage and provide values for all the stakeholders in the distribution channel, namely the customer, collaborator and company. If any of the stakeholders does not enjoy any perceived value in the form of profit margin or lower pricing, then the demand, and subsequently in the sales, for the product may suffer.

In analysing the cost structures of various distribution channels, Bistwells provided the highest overall value for the customers, for themselves as distributors and for Hamrlick Brewing. In terms of customer value, Hansrife offered the lowest price for the retailers at $108 and $29. 5 per keg and per case respectively. However, Hansrife largely distributed “ popular” beers and intended to market Saxonbrau beer as being “ premium”, instead of “ super-premium”. Such a position would dilute Saxonbrau’s brand and subject it to unnecessary competition with other more established and “ popular” beers.

As Saxonbrau was already recognized as a super-premium brand and had a loyal customer base, customers were like to value its branding and perceived quality more than the competitiveness of the price. Based on the previous analysis on branding, Bistwells, other than Hamrlick Brewing’s own distribution, would be the best of the three distributors to deliver customer value. In terms of value for collaborators, after taking into account the shared cost of distribution, the distributors that would enjoy the highest margins were Bistwells in its sales of kegs (56%), and Kalagwine in its sales of kegs and cases (56% and 73%).

Both distributors’ sets of margins were estimated to be well above the industry norm of 33%. With this high value from distributing Saxonbrau’s beer, the distributors would be more inclined towards promoting the product, which would be to Hamrlick Brewing’s advantage. Naturally, Bistwells and

Kalagwine would be more motivated than Hansrife. In terms of value for Hemrlick Brewing, Bistwell offered the highest value for the company as it provided the highest price to trade (PTT) of $92. 70 and $24. 30 per keg and case respectively after sharing 25% of the significant distribution costs.

Bistwell's cost structure also provided value to the Hemrlick Brewing by eliminating the latter's distribution costs, if it were to continue self-distributing. The savings could be up to $779, 000 per annum, and this was a sizeable sum that is lowering overall profit margin. Considering all of the above, Bistwell offers the best overall distribution option, maximising all three types of value for customer, collaborator and company.

Hemrlick Brewing Retail Structure

The loyal customers that Saxonbrau's branding attracted favoured off-premise retailers.

Feedback from these customers indicated that they sought variety when purchasing Saxonbrau beer, and off-premise retailers, like liquor stores, large retailers and the smaller mom-pops stores, could provide the variety of alcohol. Also, surveys showed that loyal customers are willing to drive to a bordering suburb for these offpremise retailers to purchase large lot sizes of Saxonbrau beer. Besides the potentials and customer preference, Hemrlick Brewing had also attracted demand from offpremise retailers like some major grocery stores.

Even though there was an indication of high demand and potential in offpremise retailers, Hemrlick Brewing only had 30% of its sales from off-premise retailers, way below the average in Chicago area (69%). Thus, in order to increase revenue and sales, Hemrlick Brewing could place more emphasis on off-premise retailers. All three distribution companies and Hemrlick Brewing itself could emphasise more on off-premise retailers. However, Bistwells offered the most favourable conditions amongst all the options.

First of all, given that Hemrlick Brewing was a small company that was promoting the sales of only one brand of beer, many retailers would be less willing to spend time liaising Hemrlick Brewing, as compared to distribution companies which had several brands to offer. Also, off-premise retailers like large outlet stores were difficult for a small company like Hemrlick Brewing to penetrate. At the same time, mom-pop stores required expansive distribution networks to reach, which only established distribution companies would be able to achieve.

As a result, Hemrlick Brewing would have to rely on other distributors if it would like to reach out more to off-premise retailers. Secondly, Bistwells had maintained a good relationship with on- and offpremise retailers, with a track-record of 80% sales through these retailers, whereas Kalagwine mainly focused mainly on on-premises sales, and Hansrife did not have a specific track-record selling through these retailers. Bistwells' successful experience in off-premise retailing could help Hemrlick Brewing. Thirdly, Bistwells had the largest sales force compared to the rest of the distributors.

Size of the sales force of a distributor is very important for penetrating the off-premise retailers, as they compete for limited shelf spaces. Bistwells had 40 sales representatives focusing on Chicago selling beers, whereas Hansrife only had 29 in Chicago area. Kalagwine had 80 sales representatives covering 17 cities/areas, but it had less sales representatives in Chicago area than Bistwells. Last but not least, from the various distributors' marketing plans, Bistwells showed confidence in boosting sales through grocery stores.

In grocery stores, the most common method to assist customers to choosing Saxonbrau beer was through point of sales displays. Bistwells had a plan to develop and supply such displays. Kalagwine did not have a relevant plan and Hansrife's plan, though similar, would cost Hemrlick Brewing more than Bistwells' marketing would. Moreover, for Hemrlick Brewing, implementing the same promotion plan itself would cost even higher than Bistwells, as it would be full cost, as opposed to Bistwells' discount of 75% if Hemrlick Brewing were to distribute through Bistwells.

Considering Hemrlick Brewing's need to emphasis more on off-premise retailing so it could boost its sales and revenue, Bistwell had the most favourable conditions to help Hemrlick Brewing do so.

Other Considerations

After analysing all the different strategies that are aimed at increasing revenue and sales, Bistwells would be the distribution channel that Hemrlick Brewing should take up. However, choosing Bistwells would only increase some revenue, and even after factoring in the increased revenue, Hemrlick Brewing would still suffer from deficit in the same year.

Hemrlick Brewing's low operating efficiency was a big consideration. Based on Hemrlick Brewing's current cost structure and operating gross margin of 6. 7%, it would take 21 years to break even. If Hemrlick Brewing could optimize its operations to a 40% margin, the company would break even within less than 6 years. With the purpose of meeting profitability target, Harmlick Brewing should strongly consider increasing revenue and decreasing costs more aggressively.

To increase revenue, on top of taking advantage of the forecasted 15% growth in the market, Hemrick Brewing could divert its attention from holding special events to offpremise sales. In this way, the cost of special events could also be used to yield higher returns from the off-premise retail sales, especially when there was comparatively lower competition there, higher profit margin and higher ready demand there. Besides, Hemrlick Brewing no longer had to worry about promoting the brand using the special events, because Bitswells would be in a more cost-effective and experienced position to do so.

More rigorous strategies to reduce costs would include reducing the cost of raw materials, administration and distribution. Hemrlick Brewing could make use of just-noticeable difference to replace some of the ingredients for Saxobrau bear. Also, the general cost and cost of administration summed up to US$ 823, 244 or 30% of the total cost, which could be dramatically reduced if the company management could evaluate if the administrative processes were efficient. If not, a retrenchment would be able to bring down the operational cost and increase the margins.

The distribution costs that were shared with Bitswells could also be reduced if the companycollaborator relationship grew stronger to the point that the costs that would be bore by Hemrlick Brewing could be further discounted. Summary Hemrlick Brewing faced the issue of financial deficit and was in need of increasing its revenue and sales. Mark Hemrlick had thought the immediate decision that needed to be made was to determine the most profitable distribution channel from the four options available, based on their abilities to increase revenue and support Saxonbrau's branding.

Bitswells was then singled out as the most favourable distribution channel as it was able to strengthen Saxonbrau's branding, and it provided the highest overall value for the customer, for itself and for Hemrlick Brewing. Bitswells was also able to best support Hemrlick Brewing's need to focus on off-premise retailers. Bitswells proved to be best choice out of the four. However, Mark Hemrlick should not stop at deciding which distribution channel to adopt. Even with Bitswells increasing Hemrlick Brewing's revenue and helping to share existing distribution costs, the company would still be in deficit for 21 years.

He would need to consider other more drastic strategies if he planned to break even within a shorter timeframe.