

October 28, 2017

Dear Students:

I have now completed grading your case write-ups for Case 2: Competition in Energy Drinks. It has not been neat and clean, as I think you will see. I write this to explain what may have been some sources for confusion, give you general reactions to your case write-ups, and explain how you might tackle the case most effectively.

1. Question 1: The Key Characteristics of the Global and US Beverage Industry

The text and case questions are confusing here. It is critical to focus precisely on what the question asks for and to define terms.

The question asks for the “strategically important characteristics” of the global and US beverage industry macro-economic environment. There are two sources of confusion: 1) the publisher’s use of terms in the text and PowerPoint presentation, and 2) the point of the question in the case.

The first is diddly—but significant. Chapter 3 of the text opens by talking about “Strategically Relevant Factors in the Company’s Macro-Environment.” (page 47). These are the factors *outside of the industry and in the macro-environment* that affect the profitability of the firm and industry. The text even refers to “the most strategically relevant factors *outside of the firm’s industry boundaries*.” (p. 48, emphasis added). The text then goes on to identify “The Six Components of the Macro-Environment” on page 50, which include Political, Economic, Sociocultural, Technological, Environmental, and Legal factors, all summarized in the acronym PESTEL.

In this, the text appears to make these two terms mean the same thing, equating “Strategically Relevant Factors in the Company’s Macro-environment” with “The Six Components of the Macro-environment.” Why not use the same term and be consistent? Moreover, the text is not consistent with the PowerPoint presentation for the chapter, “Class Preparation Notes, Class Meeting 3, Evaluating a Company’s External Environment”, which addresses these on slides 19 and 20. It calls these factors “Dominant economic traits.” Now this is still minor, but it gets a little perplexing for you, the student, to figure out what the question is asking for.

The largest problem, however, is that the publisher of the case considers only three items in its analysis of the case in answer to this question—and these fall outside of its definitions. It asks the same two case questions we ask you in 1a and 1b. However, its case teaching notes answers these by focusing on three and only three items: Market size, market growth rate, and segmentation.

Unfortunately, these three factors are *not* “Strategically relevant components” or “strategically important characteristics” of the macro-environment, whatever term you want to use. Rather, they are *features of the industry*. The macro-environment is the set of conditions in which the industry operates, that fall outside of industry boundaries, and that impact the industry. The industry is the set of competitors that compete in the macro-environment and that create the market in doing so. So the publisher is asking for apples when it really wants hula-hoops.

And unfortunately, understanding the market size and rate of growth is at the heart of the case. You need hula-hoops to solve the case.

Given this, the correct answer to question 1 in the unfortunate way that it is worded is to discuss the strategically important characteristics of the industry macro-environment. These are all of the PESTEL factors. Sadly, these are of second-level importance to the case. They are factors that contribute to the growth of the category—when what you need is the net, net growth.

Of critical importance, I gave you students a “Hint” here, to use the size of market and rate of growth in your answers. I pointed you toward analyzing the numbers for the right factors to understand the case. In hindsight, I did not think that you would answer the question as it stood, discuss PESTEL factors, and overlook the Hint. However, probably 90% of students did address the PESTEL factors and did not consider the Hint. **I would appreciate it if you would pay attention to the Hints in cases! It will help us get where we want to go more quickly.**

To get back to the case analysis, the Hint tells you the factors at the heart of the case, which are: the size of the market, rate of growth, and market segments. So the Hint in question 1a is asking you to identify these three factors and pull data from the case to quantify them. BTW, I suggest that you use the dollar value of the markets, not the gallon volume, for simplicity. (Or, if you want to use gallon volumes, translate them to the dollar values).

Given this, in 1a and 1b first identify the sizes of the markets then calculate the rates of growth using the data given for the market sizes year by year in Exhibit 1, Exhibit 3, and Exhibit 5.

- a. So, to be explicit, question 1a asks you to first identify two numbers: 1) market size and 2) rate of growth, and do so for each of the overall 1) Global and 2) US Beverage markets. This calls for 4 data point answers.
- b. Following this, you need to identify the 1) market size and 2) rate of growth for the 1) Global and 2) US Alternative Beverage categories as well as the overall markets that you identify in a above. This calls for 4 more data points.
- c. **Importantly, in this, you really do need to calculate the actual average rates of growth.** Just saying that a market is growing is not useful in decision-making; how can you decide which one to invest in if you don't know the specific rates of growth? You can calculate each year-to-year increase and then average these (Sam's method!). Alternatively, you can use the method that I showed you in class to calculate the growth over a period of say, five years, in one calculation. If you are looking for the average rate of growth over **five** years, then the first year times x^4 = the most recent year. So, x^4 = (most recent year/ first year) or x = (most recent year/ first year) $^{(1/4)}$.
- d. This means that you need to come up with 8 data points all told to answer question 1a. I would suggest that you set up a spreadsheet that allows you to show all of these succinctly.

Finally in Question 1a, the Hint also asks you to consider segmentation. So, you need to define the Alternative Beverage category/ segment. (I will call this “category,” which it is properly, from now forward.) The key category here is the Alternative Energy Drinks category. So, technically, it would be nice to see that you define the category here by listing all of the products in it—or at least list the three sub-categories: energy drinks, sports drinks, etc.

Now, Question 1b asks you to compare the characteristics of the Alternative Beverage Category with those of the Overall Beverage Industry. Of course, the question is asking for the wrong thing again. The text has used the term economic characteristics to describe the industry's macro-environment. Again, the publisher wants to talk about the features of the industry; there is no commonly used term "the economic characteristics of an industry," so it is misusing terms here.

Given the Hint, however, this means compare market sizes and rates of growth. This is the heart of the case! You can do this product by product and add up the non-Alternative Beverages. Alternatively, you can compare the Alternative Beverage Category with the Total Beverage Industry market as one block. I recommend the second, to keep it simple. However, either is acceptable. You will need to compare these for the Global market and for the US market, as these are two separate beasts. So, you need to compare 8 data points all told. Notice that you can really only compare the category with the overall market if you have calculated real numbers...

Just so you know, I have dropped all talk of strategically important economic characteristics and its different disguises in the case questions for my future classes. I have changed the questions to ask students to identify and compare the market sizes and rates of growth and keep life simple.

Lastly in Question 1, Question 1c asks for the underlying factors that could drive change in the economics of the industry. Please note: this is **not** change in general. This is only change in the economics of the industry—i.e. in sales, costs or profitability. This last includes factors such as: change in the long-term rate of growth for the markets, product innovation and/ or industry consolidation—and any sub-factors that contribute to these.

2. Question 2: Competition in the Alternative Beverage Industry

Generally speaking, all of you did a good, solid job here. A few notes;

1. When you describe what competition is like in an industry (or category), first identify the leading players and their market share and then second identify the major battlefronts for competition (usually the same as the Key Success Factors).
2. By and large, you did a very nice job on Porter's Five Forces. To make sure your work is complete, identify whether each force is Favorable or Unfavorable to the players in the industry (or category), which are the same as the rivals in the central circle, and whether each force is Strong or Weak—and mark these on your diagrams.
3. Some of you need to clarify your definitions here. What are incumbents, prospective new entrants, substitutes, suppliers, and buyers in this model? Keep in mind that buyers frequently include both consumers and retail buyers, and that you have to size these up separately. I recommend that you look up the definitions in your text.
4. Lastly, the drive in Porter's Five Forces is to size up the attractiveness of the industry (category). Don't forget the punch line; state this summary in your answers. It is usually sufficient to say that it is High or Low in attractiveness or that it is not attractive.

3. Key Factors for Success and Competitors' Positioning.

Whenever you size up competitors, you should identify all of the major players and their sizes. There are four major players here: Coke, Pepsi, Red Bull and Hansen. Their sizes are their sales revenues in dollars (or one consistent currency). Their size is a critical factor, as it indicates their scale and resources—so for example, whether they have deep pockets for advertising or to retaliate after another player has launched a marketing initiative. If you can, also identify the major players' market shares in the market under discussion, here the Alternative Beverage category.

Key Factors for Success are one of the most important tools in the course. They are the battlefronts that competitors are fighting on. You will find them by looking at what each of the competitors are doing. It might be Advertising, in which case you might compare ad spending. It might be innovation and new product development, in which case you might compare R&D budgets. It might be distribution, in which case you might compare who has what channels wrapped up. (Is price a major factor in this case?) In any event, you will want to identify these as you go through a case or as you get settled into a job. Then, at the conclusion of a case, you will want to see how each competitor is tackling each battlefront and how strong each is in each Key Factor for Success.

Many of you skipped the Strategic Group Maps. Please keep in mind that I am happy to accept freehand drawings. You do not have to make this course about how well you have mastered Excel.

Also, the case introduces two new measures to create the Strategic Group Map: Brand Portfolio Breadth (single, dominant, multi-brand) and Scope of Geographic Distribution (regional, national, international). Do you think that these might be Key Success Factors in their own rights?

4. Industry and Company Trends, Options and Recommendations

In the last set of questions, what key issues affect growth of the category? Here, you might consider the PESTEL factors. Again, these are of second-level importance.

Last of all, for recommendations, I would suggest that you look to see how Coke, Pepsi and Red Bull are doing in each of the Key Success factors. This will give you an insight into how the biggest pieces of the puzzle in this case fit together...

Please note: the grade points in this case are lower than in Starbucks. Keep in mind, we went over Starbucks before you wrote it up. This is the first case that you have had to let go of the dock and swim to the float (I will explain the analogy in class) and commit to analyzing the case before class. I am actually happy with virtually all of your performance on this write-up. This will be a benchmark going forward. You will see your progress against your work here!

Best,

Gordon