

Strategic Management of Channels of Distribution and Integrated Marketing Communications: Essay on the Scotch Whisky Industry

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Abstract

In this 21st century competition no longer comes from the street. Scotch whisky industry, more than 1500 years old business, has been experiencing rapid growth, mostly due to strong global demand. This paper introduces brief history of Scotch whisky industry, and then analyzes the marketing channels including domestic and international market as well as on and off premise locations. Also integrated marketing communication issues of advertising, sales promotion, word-of-mouth, and guerrilla marketing has been analyzed. Managerial implications are also provided at the end of each chapter.

Keywords: Scotch whisky industry; marketing channels; integrated marketing communication.

1. Introduction

Information technology and communication advances have dramatically changed the marketplace in significant way (Clow and Baack 2010). Competition no longer comes from the street, but it may be from a firm 10,000 miles away. Therefore, globalization and competition makes marketing management be more accountable. Also numerous technological developments have changed the levels held by members of the marketing channel. Scotch whisky industry is no exception. Although distilling has been practiced in Scotland for roughly 1500 years, the first recorded entry in Scotland of inventory being kept for the purposes of making a distilled spirit appeared in 1494. Today, Scotch whisky is experiencing record sales. Statistics show (Table 1) that Scotch whisky export sales topped \$4.9 billion in 2009. For example, over 11% growth when compared to sales recorded in 2006. Also sales in 2007 rose by 75% in China, 36% in India, 27% in Europe, and 6% in North America (BusinessWeek 2009). It is safe to say that Scotch whiskies, which have been on the export market for over one hundred and fifty years, are more valuable today than ever before.

Insert table (1) about here

Additionally, approximately another \$500 million was earned in domestic sales (within the United Kingdom) during 2007. Also roughly nine out of every ten bottles of Scotch whisky end up on the export market. The United Kingdom only accounts for about 10% of Scotch whisky sales today. Additionally, only 10% of sales in the United Kingdom come from Scotland. Therefore, as remarkable as it sounds, only a miniscule 1% of total Scotch whisky sales occur within the place of origin (United Kingdom Food & Drink Report 2011).

In order to accommodate the ever-growing, international demand for Scotch whisky, many firms involved in the distillation of the beverage are investing large amounts of capital to expand production capabilities. This significant investment was used to improve or expand distilling capabilities, modernize bottling facilities, and provide additional warehousing space. *Diageo*, whose brands account for approximately 40% of the Scotch whisky sold today, recently invested approximately \$300 million within the industry. Another key player within the Scotch whisky industry, *Bacardi* and Co. Ltd, recently invested roughly \$250 million. *Bacardi*, who sells *Dewar's* White Label (a well known Blended Scotch whisky), also expects to use its expanded capabilities to accommodate growing demand.

While the expansion of distilling, bottling, and warehousing capabilities by the major Scotch producing firms has been large in terms of monetary amounts, even small producers, such as Kilchoman distillery located on the island of Islay, have recently invested in additional production capabilities. Overall, the industry is in the best state that it has ever been in, and while the newly produced whisky matures, it is looking to grow over the next decade (United Kingdom Food & Drink Report 2011).

2. Strategic Implications on Marketing Channels

2.1 Characteristics of Scotch Whisky Channels

“Marketing Channels” or “Placement” in marketing terms means where and how a product gets to the consumer. The “where” is often described by discussing the retailers involved or the channels that are utilized. The “how” is best explained by examining the distribution network or supply chain of a particular product and the steps contained within the supply chain of this product. A successful marketing channel ensures that a desired product is distributed in a desired amount to a desired channel to satisfy the desired consumer (Kotler and Keller 2009). Due to Scotch whisky being manufactured in only one country, but yet available in over two hundred national markets, the distribution network could be considered highly advanced. However, this network has been defined and refined over a period of several decades. Improvements in technology have greatly impacted the area of supply chain management. These technological breakthroughs have allowed better inventory control, production forecasting, and pricing transparency.

For Scotch whisky, marketing channel focuses on two broad categories that relate to where the drink is consumed: on-premise and off-premise. On-premise refers to whisky that is consumed at the location that it is purchased. On-premise locations would include restaurants, nightclubs, bars, and entertainment venues. Off-premise refers to whisky that is purchased at one location, but the consumption will take place elsewhere. Typical off-premise locations are package stores, grocers, specialized spirits markets, and on-line spirits retailers. Total Scotch whisky sales are derived from a combination of these on-premise and off-premise locations. Due to the importance of both of these categories, firms that sell Scotch whisky are constantly attempting to gain access to the outlets that are suitable for their particular brands.

In other words, in the world of premium spirits, a consumer will often become introduced to a drink at an on-premise location. However, for the sales of a spirit to become meaningful, consumers must repeat their purchase at an off-premise location. For instance, if a consumer makes two Scotch whisky purchases at an on-premise location they will have bought and consumed only a few ounces of product. Therefore, two one-ounce shots of Scotch whisky are equal to 59.14 ml. At the same time, when one makes an off-premise purchase of a “fifth” (a commonly sold size in the United States) of Scotch whisky, they have purchased 750 ml at one time. This one off-premise purchase is the equivalent, from a volume perspective, to twenty five one-ounce purchases. “On-premise sales can create the growth of a drink, but off-premise sale is where the money is made”. The effective servicing of on-premise accounts is also extremely important in the geographic markets that have fewer off-premise locations to drive repeat or larger-scale purchases. Such geographic locations must serve a dual purpose of providing a point of introduction to a premium spirit and serving as an outlet for continued repeat purchases. Often, this pattern is common in large, condensed urban areas and developing international markets devoid of a large network of off-premise retailers.

With off-premise accounts being the primary point of sale in mature markets, why exactly would a firm that sells Scotch whisky brands be so concerned with marketing efforts in the on-premise category? As was earlier stated, the on-premise locations are often where a consumer may actually be introduced to a particular product. Therefore, firms involved with Scotch whisky brands want to make sure that their products “match up” with the demographic groups frequenting a particular on-premise account. For example, a firm that has a large Single Malt whisky portfolio with many super premium level brand expressions (such as *Macallan*) is going to use considerable efforts to seek out and have selections on display at exclusive, five-star restaurants. Not only would the average clientele at these exclusive restaurants match the demographic profile of the typical *Macallan* consumer (which could lead to repeat purchases by customers familiar with the brand), the five-star restaurant also provides a fitting atmosphere where the product can be sampled for the first time by a potential repeat customer in the presence of onlookers (potential future customers).

Another placement decisions in the Scotch whisky industry is the Blended whisky sold in the United States. Blended Scotch whisky sales in the United States are showing very little growth.

From 2002 – 2007, the Blended category grew by only 1.2% (The Scotch Whisky Association). While this relatively stagnant growth pattern has a multitude of contributing factors, firms involved in the industry would be wise to examine the placement aspect of the marketing mix. For instance, a firm should ask “are my Blended whisky brands maximizing the potential channels?” or “are the existing locations sufficient to drive desired sales?” It is highly likely that much of today’s conversations pertaining to the placement of Blended whiskies in the U.S. market focus on the key off-premise retailers. However, in the future, it is expected that a greater emphasis will be placed on Blended brands (much like the Single Malt brands) and the exposure they are receiving at on-premise accounts. Distribution to key on-premise accounts can assist in rejuvenating a stagnant brand by making it look “hip” again. If the on-premise perception improves, future off-premise sales should increase due to repeat customers purchasing in larger quantities.

2.2 Future of the Scotch Whisky Channels

One of main topics when considering future product placement concerns the growth of key developing markets. While some developing countries are among the largest consumers of Scotch whisky in the world (Venezuela, Brazil, Mexico, Russia, South Africa, and China), one large, developing economy, India, is notably absent (Nation's Restaurant News). This absence is not because Indians do not drink whisky. In fact, Indians are the largest consumers of whisky in the world (over 70 million cases were consumed in 2006). However, only 1% of total whisky sales in India came from Scotch whisky. Historically, India has had very high tariffs placed on imported whisky. This handicap, in combination with a thriving, local whisky industry, has made it difficult for Scotch whisky to achieve record success in this market. However, recent tariff reductions, an economy that is among the world’s fastest growing, and the sheer size of the Indian middle-class (approximately 80 million), should allow firms involved in selling Scotch whisky to see better returns all the way from Delhi to Mumbai. This anticipated growth will drive the industry to more closely examine the key points of product distribution and consumption patterns within India over the coming years. Through proper understanding of the retailers, the distribution network, and the desired on-premise accounts, the Indian market, in the future, could easily grow to become one of the largest sources of revenue for the Scotch whisky industry (Balasubramanyam and Forsans 2010).

The growth in commerce done on the Internet should also assist the Scotch whisky industry with sales. This “place” provides not only a marketplace for purchasing transactions, but also an easy way to educate and inform potential customers about the various Scotch whisky brands. While legal restrictions prohibit the sale of alcohol on the Internet in some markets, it is expected that future sales growth may come partly from online shoppers. The expanded use of Internet consumption will be particularly useful to Single Malt brands that may have limited distribution channels or that are not as well known as their larger competitors. Online whisky merchants, attempting to increase brand awareness, have the ability to provide in-depth product information to would-be consumers and seasoned, Single Malt connoisseurs alike. In addition to becoming more familiar with obscure, not-easily-available brands through Internet purchasing, these connoisseurs will also be able to categorize their purchases as “exclusive” or “not even available on the shelves”.

In the hopes of capturing a younger, hipper target market, Scotch whisky firms will continue the trend in mature markets of increasing the placement of its products in the sophisticated on-premise environment. The brands served at on-premise locations will vary based on the clientele that frequent the establishment. However, those in charge of growing the Scotch whisky category with younger purchasers will utilize the high end and super premium selections available in their portfolios. Due to this approach, it will be more likely in the coming years for a trendy, upscale bar or nightclub (particularly in a concentrated, urban environment) to have a Single Malt selection that is much more advanced in terms of available expressions than what is the norm today.

3. Strategic Implications on IMC

3.1 Advertising as an Integrated Marketing Communication

When one thinks of “Promotion”, often the first thing that comes to most people’s minds is advertising. While many companies do spend more on advertising than other promotional efforts, it is not uncommon for many firms to utilize, in some shape, form or fashion, the entire spectrum of promotional tools. This is why Integrated Marketing Communication (IMC) has been introduced in the marketing (Danaher and Rossiter 2011) and includes advertising, personal selling, sponsorships, public relations, sales promotions, and merchandising. Not surprisingly, companies that own the best-selling brands in the Scotch whisky category often find themselves actively engaged in all of the promotional mix elements.

However, over time, the composition of the promotional mix has changed in order to grow sales and strategically benefit firms due to trends that are occurring in markets throughout the globe. Scotch whisky brands have been faced with various hurdles that seemed unconquerable. Scotch whisky, at least in the mature, developed markets, seemed “stuffy”. It was a spirit that, while it often did come across as high-end or well-to-do, seemed destined to be the drink of choice only for those who were upwards of 45-50 years old, college educated, overwhelmingly male, and Caucasian. The typical Scotch drinker was much more likely to be sixty-five than twenty-five. Therefore, much of the promotional energy that went into Scotch whisky was used to ensure repeat purchases by members of this demographic group. Print advertising, in magazines such as *Fortune* and *Conde Naste*, served as a constant reminder to the target market that, still in existence, were brands such as Chivas Regal, Johnnie Walker, J+B, Dewar’s, and Cutty Sark. Occasionally, sales promotions would be utilized primarily within the off-premise environment, due to some seasonality involved in the purchase of the whisky, in order to increase purchases and reward brand loyalty. Promotionally speaking, the brands were also limited in some geographic markets (such as the United States) by voluntary restrictions placed on television advertising. Possibly, without the voluntary advertising restrictions, a younger generation of Scotch whisky drinkers could have developed during this time period, but up until recent times, this was not the case.

Insert Figure (1) about here

Scotch whisky, as late as the mid or late 1990’s, did not offer much in the way of revolutionary promotional efforts that would distinguish it from the other premium spirits with which it competed for market share. In many people’s minds, the Scotch drinker was either wealthy (at best) or pretentious (attempting to emulate the wealthy). This perception also carried over in international markets. Many developing markets received little in terms of promotional energy. More than likely, the consumers in these markets that could afford the drink had learned of it through travel or interaction with a successful peer group. This positive word-of-mouth advertising made promotions more efficient in markets, such as China, Vietnam, or India, where fewer numbers of spirit consumers had the financial ability to regularly afford the products and the firms involved in the industry knew exactly where to find their target market.

Exactly what are the brands doing today in order to not only maintain the loyalty of the traditional Scotch whisky drinkers, but become more attractive to the younger crowd that is involved with pioneering trends and continuing consumption in the future? The answer that can best describe the approach would be “all of the above” – in a reasonable fashion. Scotch whisky brands are still being promoted through traditional print media, which is driven primarily by magazine advertising. However, print media advertising dollars are not being used exclusively with the publications read by the “older” crowd. Today, it is just as likely to see Scotch whisky print ads in *GQ* or *Maxim* as it is in *Forbes* or *Time*. In fact, the magazines catering to the younger crowd may receive a larger share of the print media advertising pie than the “old standards” due to the overall decline in magazine readership by all age groups that has occurred over the last few years (Clow and Baack 2010). Over time, due to the decline in magazine readership and the availability of other mediums to gain information (primarily the Internet), it is conceivable that the firms within the Scotch whisky industry will become more demanding of their print media advertising investments as they continue to taper off. But, it is also likely that the remaining future investments in print media advertising will skew more and more towards the younger and trendier demographic groups.

3.2 Sales Promotion As an Integrated Marketing Communication

Sales promotions (often around specific holidays and advertising campaigns) benefiting the consumer are continuing to be utilized. The buying public, even on an item that would be considered to some a status-oriented purchase, does enjoy a better price. In order to facilitate the consumer sales promotions, often whisky producing firms within the industry will also engage in trade promotions. Consumer-directed, price-oriented sales promotions are primarily taking place in the off-premise category (with the exception of the universal “happy hour” price reduction which is still utilized by on-premise providers). Further fueling this trend is the emergence of the “Big Box” package or liquor store. The presence of these Wal-Mart-esque retailers, much like the presence of larger on-premise crowds during “happy hour”, has proven that price elasticity does exist in the premium spirit industry. Smaller, independent retailers have had to adjust prices downward in order to be competitive. The lowering of prices (and margins) on a Scotch whisky cannot be done without at least attempting to promote the change. Therefore, it makes sense to use the sales promotion, whether a large or small retailer, in conjunction with high purchase holidays (such as Father’s Day or Christmas) or with television or local print media advertising campaigns.

Continued, and more concise use of the off-premise sales promotion is to be expected in the foreseeable future, especially if the economic conditions in the mature, large volume markets (such as the US, France, and Spain) continue to deteriorate.

3.3 Other Tools as an Integrated Marketing Communication

Sponsorships are, and will continue to be, utilized as firms within the industry attempt to more precisely target new or high-potential markets. For instance, firms may choose to sponsor up-and-coming elements of culture that resonate with the desired consumer segments. Art or jazz festivals, independent musicians, and new entertainment venues may all end up recipients of promotional dollars. Today, *Diageo* uses its *Johnnie Walker* brand to sponsor a Formula One racecar driven by Kimi Raikkonen of McLaren Racing. Although, these sponsorships can be extremely pricey (*Diageo's* deal with McLaren Racing costs roughly \$28 million per year), if the desired demographic groups are paying attention, it should be considered money well spent. Firms within the industry will also look to financially reward key influencers (such as national or local celebrities) that are charged with promoting the products. Such key influencers may be bar or nightclub owners (to increase on-premise sales in a specific market) or simply well-connected, socially-driven people who are respected in their market (which could lead to both on and off-premise consumption pattern changing amongst the key influencers "sphere of influence") This approach has been used in the past and should be a good way to help illustrate "lifestyle choices" to consumers in the future.

Guerrilla marketing campaign is one of the more recent developments in the field of marketing (Kotler and Keller 2009). The use of these unorthodox, get-exposure-by-any-means-necessary methods have gained in acceptance over the last few years. Scotch whisky firms involved with the marketing and sales of Scotch whisky have begun to engage in the use of guerilla marketing efforts (Murphy 2008). Paid spokespeople representing the Scotch brands have shown up at various social events (with people from the desired demographic groups in attendance) in high population centers in order to generate excitement about the brand. Although it is difficult to calculate an exact return on investment when using guerilla marketing techniques, it is highly likely that the use of this tactic will increase in the foreseeable future.

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Tables

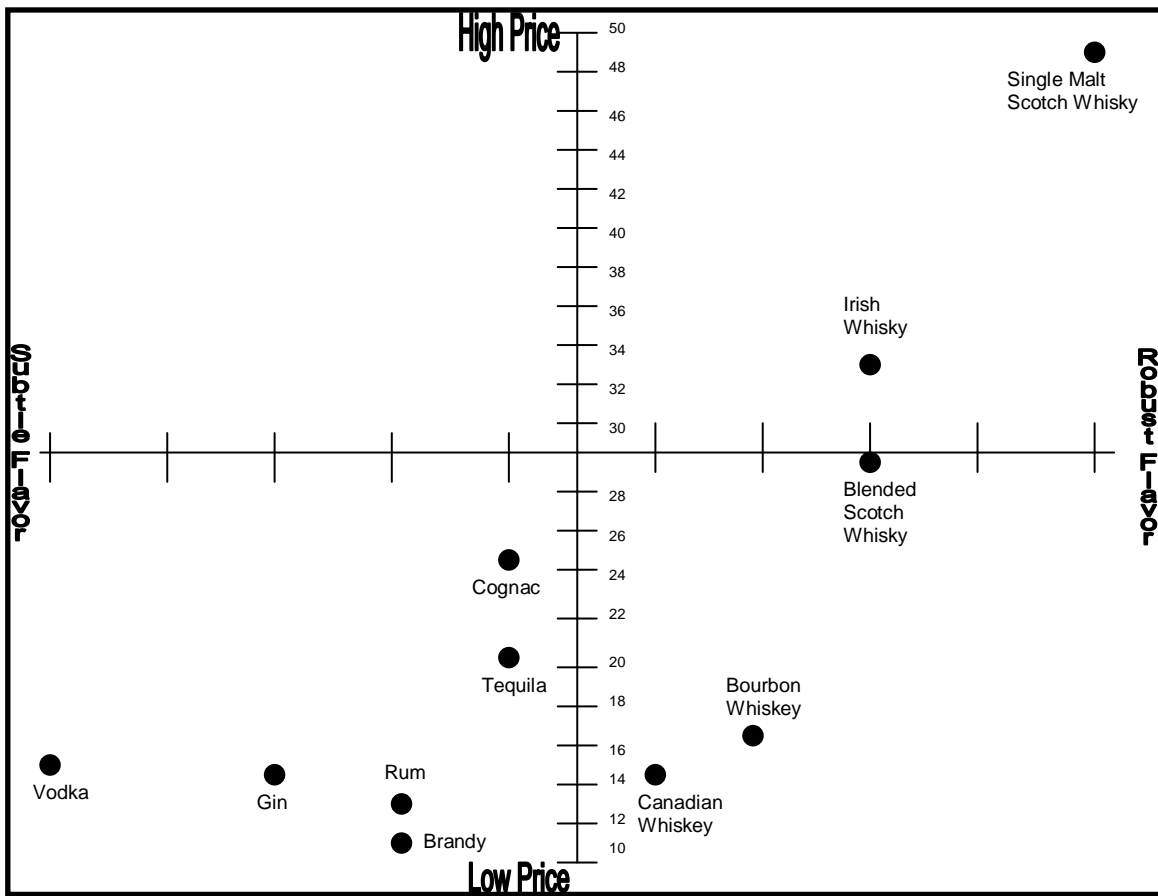
Table 1: Scotch Whisky Exports Trends

Year	Amount in pound (millions)	Volume LPA (thousands)
2000	2,156	277,097
2001	2,295	283,632
2002	2,285	263,773
2003	2,375	273,269
2004	2,263	267,300
2005	2,370	277,904
2006	2,478	294,502
2007	2,824	318,436
2008	3,057	302,367
2009	3,136	304,564

Source: The Scotch whisky Association

Figures

Figure 1: Perceptual Map: Premium Spirits



The following brands were used to calculate average premium spirit price:

Blended Scotch Whisky – Dewar’s White Label, Johnnie Walker Red, Chivas Regal, J+B Rare, Cutty Sark, Johnnie Walker Black, Dimple Pinch

Single Malt Scotch Whisky – The Glenlivet 12 yr, Talisker 10 yr, Glenfiddich 12 yr, Macallan 12 yr, Glenmorangie Original 10 yr, Dalwhinnie 15 yr, Balvenie 12 yr

Bourbon Whiskey – Jim Beam, Maker’s Mark, Old Forester, Wild Turkey (80 proof), Evan Williams (80 proof), Old Crow, Early Times

Canadian Whiskey – Canadian Club, Canadian Mist, Seagram’s Seven, Forty Creek, Crown Royal, Seagram’s, Windsor Canadian

Rum – Bacardi, Myer’s, Ronrico, Captain Morgan, Cruzan, Mount Gay, Castillo

Vodka – Absolut, Smirnoff, Mr. Boston’s (80 proof), Gilbey’s, Seagram’s, Grey Goose, Finlandia

Gin – Bombay Dry, Tanqueray, Beefeater, Gordon’s, Mr. Boston’s, New Amsterdam, Seagram’s Extra Dry

Tequila – Jose Cuervo, Montezuma, Sauza, Patron Silver, Monte Alban, Two Fingers, Lunazul

Cognac – Hennessy VS, Salignac, Courvoisier, Martel VS, JC

Brandy – Christian Brothers, Raynal, Paul Masson, E+J, Coronet

Irish Whisky – Jameson, Bushmills, Redbreast, Tullamore Dew

Distribution (or place) is one of the four elements of the marketing mix. Distribution is the process of making a product or service available for the consumer or business user who needs it. This can be done directly by the producer or service provider or using indirect channels with distributors or intermediaries. The other three elements of the marketing mix are product, pricing, and promotion.

International distribution channels: how to find and manage them? Finding a good foreign distributor takes time and funds, but an efficient foreign distributor could bring in revenue in a fast and steady manner. To get your desired distributor or retail distribution chain, you will need a clear product offering and convincing arguments why a distributor would benefit from promoting it. For their export marketing, companies may hire an Export management company like Alliance experts. Contact me for your advice on my international distribution strategy!

International distribution strategy There are three ways to set-up global distribution of your products: International departments. Setting up international departments means that your brand will [â€¦] Learn the major types of distribution channels used in marketing. Classic distribution channels count on different strategies for pushing a product. In the food industry, a supermarket will stock the items they sell with larger margins at eye level. The cheaper products will be dumped at the bottom of the shelf. In specialty stores, consultants would have to be incentivized to push a product via offering them a percentage fee or other stimulus.

Analysis Of Strategic Marketing Of Abc Company. ATHE Level 6: Diploma in Management. Assignment. On. Analysis Of Strategic Marketing Of Abc Company. ' Contents. ACTIVITY 1: 4. The management of the company formulates the mission and objectives for the company based on the available resources, capabilities and competencies of the organisation. While doing the internal analysis, the management can identify how its strength can assist in achieving its goals and how its weaknesses may hampers the plans.