



Guinness PLC

As Anthony Greener, chairman and chief executive of Guinness PLC, rose to announce his company's annual results on March 17, 1994, there were four achievements he wished to stress to the analysts and industry-watchers gathered before him. These were, first, the repositioning of Guinness's relationship with the French luxury goods group Moët Hennessy Louis Vuitton (LVMH), in which the company had restructured its interests to include only LVMH's drinks divisions; second, the renewed focus on brand building, which had seen the company's premier spirits brand, Johnnie Walker Scotch whisky, pass ten million cases in sales for the first time in nearly a decade;¹ third, the on-going effort to reduce operating costs which had been demonstrated by a series of investments in plant and equipment; and fourth, the increase in overall marketing expenditures by 13%, much of which had been expended in non-traditional markets. As Mr. Greener noted, these developments seemed to bode well for the future of a company which had long been regarded as one of the success stories of British industry. (**Exhibits 1 and 2** contain a seven-year summary of Guinness PLC's financials. **Exhibit 3** provides ratio analyses of financial performance and efficiency).

However, as the company looked to sustain its performance, there were also areas of concern. The LVMH restructuring in particular looked somewhat ill-timed. LVMH had just announced its results in Paris, and these showed strongest growth in luggage and beauty products, the sectors Guinness had just exited, while earnings in the drinks divisions had declined by over 14% (see **Exhibits 4 and 5**). In brewing, profits at Guinness's Spanish subsidiary, Cruzcampo, had been halved to £21 million in the face of extreme recession and 34% unemployment. Although Guinness's total group turnover had increased 7%, trading profits had dropped by over 8%. This indicated that sales had grown primarily in lower priced brands, despite the Johnnie Walker success story. Collectively, these developments led some analysts to comment that volume increases were being bought at the expense of margins.² Guinness's share price dropped 5% in City of London trading on the day the company's results were announced.

¹ A case consists of 9 liters or 2.4 gallons.

² *Financial Times*, March 18, 1994.

Grant Kelley, MBA '94, and Research Associate Quintus Travis prepared this case under the supervision of Professor Ray A. Goldberg as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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Yet perhaps the analysts and industry-watchers should have remembered Guinness's business environment and history. In an industry where consumer purchases were discretionary and therefore anything but recession-proof, Guinness, like other alcoholic beverages providers, was used to finding creative solutions for volatile earnings streams. Since 1987, these had included buying back distribution, identifying growth markets, and streamlining operations. Undoubtedly the company would need all these skills as it sought to avoid recession in its traditional markets, and improve its profile in developing ones. However, as history had shown repeatedly, Guinness was usually successful in responding to a challenge.

Company History

In 1994, Guinness believed itself a truly international company that had also maintained a unique franchise in the United Kingdom and Ireland, its original home markets. As **Exhibits 6** and **7** demonstrate, this belief was well-founded given that four-fifths of both profit and turnover consistently came from outside the British Isles. An historical perspective of the company illustrates this emergence of Guinness as a true multi-national.

The company commenced operations in 1759 when Arthur Guinness, a brewer from Kildare in the west of Ireland, leased a disused brewery at St. James's Gate in Dublin for the sum of £45 per year, risking virtually his entire net worth in the venture. For the next decade, the new Guinness Brewery produced mainly blended ales and lagers. In the 1770s, a new beer, distinguishable from ales and lagers by a dark color derived from roasting barley during the malting stage of production, was developed. This "stout" beer proved so successful that Guinness did not again brew lighter "blond" beers until the introduction of Harp Lager in 1959, some 200 years later. By 1833, the St. James Gate brewery had become the largest in Ireland and, by 1868, the largest in the world. In this period the company's expansion was assisted by three developments.

First, British ships had begun trading Guinness in West Africa, the West Indies, and Asia. This resulted in Guinness developing some of its largest markets in a heterogeneous set of countries, including Malaysia, Nigeria, and Jamaica.

Second, unlike many other family-held companies, Guinness benefitted from exceptional managerial talent. Between 1759 and 1962, only five generations of the Guinness family were involved with the company. Far from limiting innovation, Guinness became the first fully integrated brewer of its era, the earliest to impose strict quality controls (in 1822), and an astute marketer. The fame of the product became celebrated when an Australian, Douglas Mawson, took Guinness stout on his expedition to the South pole in 1909.

Third, Guinness understood that alcoholic beverages providers were prime targets for government regulation and that it paid to be perceived as a good corporate citizen. Apart from an ongoing involvement in religious and civic affairs, the company established a program of free medical care in the 1900s, subsidized housing for its labor force, and created the Guinness and Iveagh Trusts which provided for the welfare of over 10,000 families. This philanthropic tradition continued into the 1990s with the "Worldwide Community Review Project." The Project was the first coordinated attempt by Guinness to record its world-wide community and charitable gift-giving. As at 1994, the review contained over 750 entries in over 100 different locations.

In 1986, Guinness successfully acquired the Scottish business The Distillers Company for \$4.6 billion. The acquisition made Guinness the world's largest producer of high-margin Scotch and gin, with labels such as Johnnie Walker and Gordon's.³ Arthur Bell & Sons, the leading Scotch brand in the United Kingdom and a Guinness acquisition from 1985, was merged with The Distillers Company to form United Distillers.

The post-acquisition needs of the two businesses were different. At United Distillers, the challenge was to revitalize lagging brands and control distribution in key markets; whereas at Guinness Brewing, it was to streamline operations and develop new products. Common to each, however, was the need to refocus on core activities. Since the 1960s, Guinness had accumulated assets in a wide variety of industries, including health and fitness clubs, tennis shops, newsstands, and 7-Eleven franchises. Anthony Tennant, the incoming chief executive, believed strongly that the company's diverse portfolio of businesses had resulted in management taking its "eye off the ball."⁴

Tennant quickly announced a strategy of selling off businesses unrelated to either distilling or brewing. This was designed to allow management to channel its energies more productively, while also providing £600 million in one-off revenues. The process involved a major overhaul of senior management—by 1994, only 10 of the 31 directors at operating level had been with the company prior to Tennant's arrival. The success of the strategies pursued by Tennant and, subsequently, by Anthony Greener, can be gauged by the decision of Warren Buffett, CEO of Berkshire Hathaway, to buy a significant percentage of Guinness stock in 1991—his first non-U.S. stock purchase.

In 1994, Guinness PLC continued to operate two main entities, Guinness Brewing Worldwide (GBW) and United Distillers. Profitability by business segment for both entities since 1987 is summarized in **Exhibit 8**.

Guinness Brewing Worldwide

In 1994, Guinness stout was brewed in 46 countries and sold in 130.⁵ Guinness Brewing Worldwide was the world's third largest brewer in terms of operating profits, and ninth largest by volume. **Exhibit 9** contains a detailed summary of Guinness Brewing versus its major competitors. Stout accounted for 35% of Guinness beer volume. Other beers in the GBW portfolio included the Harp and Cruzcampo lager brands (55% of volume), Smithwick's Ale (5%), and Kaliber. At 5% of volume, Kaliber was the leading brand of alcohol-free lager in the United Kingdom and twelfth-largest by volume in the United States, as shown in **Exhibit 10**.

³ The events of the takeover are summarized by the HBS case "The Distillers Company PLC," No. 287-068.

⁴ "Stout Fellow," April 3, 1992.

⁵ Company fact sheet.

Operations

Guinness Draught for over-the-counter sales was produced exclusively at St. James's Gate brewery in Ireland, and the Park Royal brewery in London. Foreign Extra Stout, sold in bottles or on draught, was produced as a concentrate and exported for further processing to other breweries in the Guinness network.

In Ireland, there were four secondary breweries: the Harp and Macardle breweries in Dundalk, Smithwick's brewery in Kilkenny, and Cherry's in Waterford. All bottling was located in Dundalk; the principal canning site for Ireland was in Belfast, Northern Ireland. The St. James's Gate brewery became one of the world's most automated breweries, following IRE400 million in capital expenditures during the 1980s. The investment in St. James had not meant the closure of one or more of the smaller breweries that might have been expected. This reiterated the influence of government on the alcoholic beverages industry, with Guinness unwilling to risk its cordial relations with government during a period of high unemployment.

Marketing

In brewing as in spirits, Guinness's overall goal was to increase brand penetration. As **Exhibit 11** demonstrates, the company had been remarkably successful in achieving that goal in traditional markets, but strikingly less successful in high-potential growth markets such as North America and Asia-Pacific.

A major reason for the under-penetration of these markets was that unlike spirits, which were more susceptible to global branding, beer had traditionally been produced and consumed locally. In most countries, this had led to a brewing duopoly,⁶ while in the United States the top five brewers, led by Anheuser-Busch, had long dominated production in an ever-consolidating industry (see **Exhibit 12**). Advertising varied according to the locality, since beer was a product of regional loyalties and perceived in a non-standard fashion. Guinness stout, for example, was promoted at various times as "hip" in the United Kingdom, "traditional" in Ireland, and as a source of "virility" in Africa.

In March 1989, Draught Guinness in cans was launched in the United Kingdom following a successful test marketing exercise. Five years of development had resulted in the production of a patented in-can system—a plastic device fitted to the bottom of the can which nitrated the liquid after the can was opened. This product received the Queen's Award for Technological Achievement in 1991, and was launched in the United States in 1992 as Pub Draught Guinness. By 1994, the patented technology was used in the United Kingdom for canned Guinness Draught Bitter and Cherry's Bitter.

Distribution

Although distribution varied by geography, the two main channels for beer sales were "on-trade," meaning sales through public houses, restaurants, etc., and the "off-trade" or take-home market. About 50% of beer was sold through the on-trade in the United Kingdom, while in Europe and the United States the proportion was substantially smaller at 20 to 30%.

⁶ *Business Review Weekly*, February 1994.

In the United Kingdom most British brewers believed that value maximization had traditionally lain “downstream” as shown by **Exhibit 13**. Many British brewers had developed a “tied estate” of pubs which refrained from selling competitor products. Guinness, however, had resisted acquisition of its own network. The company viewed its ability to sell to a variety of estates as a key competitive strength. The decision of British anti-trust authorities in 1989 to encourage the break-up of tied estates suggested that Guinness’s strategy had been an appropriate one. This view was supported in April 1994 by Whitbread’s forced divestiture of its strategic stakes in a number of regional British breweries.

Competition

Guinness’s principal competitors are summarized by **Exhibit 9**. The common perception was that it faced two major threats—first, from Heineken’s potential to market Murphy’s as a global rival to Guinness stout, and second, from the multiplicity of joint ventures and strategic alliances that were being struck in the brewing industry.

From Guinness’s perspective, competition with Heineken increased dramatically following the Dutch company’s acquisition of the Cork-based, Murphy’s Breweries Ireland in 1984. The widely-held view at Guinness was that Heineken bought Murphy’s in retaliation for Guinness’s decision to brew Carlsberg under license in Ireland. Carlsberg was Heineken’s major blond beer rival in Europe. Heineken’s association with Whitbread in the United Kingdom had given it distribution through Whitbread’s estate of 27,000 pubs. This had resulted in Murphy’s market share being pushed to 10% in the United Kingdom and Ireland.

The strategy for promoting Murphy’s had been twofold. First, Murphy’s had been priced the same as Guinness in order to maintain a premium image. Second, in markets such as the United States, the entry strategy for Murphy’s had been through the off-trade, as a canned draught product. This strategy ran counter to Guinness’s traditional strategy of targeting sales through the off-trade only where it had successfully penetrated the on-trade. In 1993, 60% of Guinness’s U.S. beer sales were off-trade, compared to 75% of all U.S. beer sales being sold off-trade.⁷

Conversations with marketing managers at Guinness indicated that the threat from Heineken was taken very seriously. Murphy’s was considered a quality product. When this feature was combined with Heineken’s proven marketing capability, global distribution network, and ability as a private company to invest in brands for the long-term, Murphy’s almost certainly posed a significant threat.

The threat to Guinness from joint ventures and alliances was less clear, even if the trend toward this form of competition was becoming more evident. For example, in March 1994 alone, Anheuser-Busch had entered an agreement to sell iced beer in Japan in a joint venture with Kirin, while Bass and Grolsch had announced plans to merge U.K. brewing production. When this was coupled with the Carlsberg-Allied Lyons alliance struck in 1991, it appeared that the structure of global brewing competition was on the verge of a substantial change.

⁷ Guinness PLC, 1994 Institutional Presentation.

Future Challenges in Brewing

As **Exhibit 11** indicates, Guinness faced the dual challenge of maintaining share in fully penetrated markets, while gaining share in those where it was less well represented.

Penetrating the American market was a particularly difficult task for any foreign brewer. Imported beers were less than 5% of total U.S. consumption.⁸ As **Exhibit 14** shows, the imported beer category had been in decline since 1987, even if Guinness's share of it had risen. Perhaps, the opportunity existed for Guinness to take advantage of the growth of the "taste" beer segment that had been led by brands such as Sam Adams. **Exhibit 15** shows that microbreweries had grown rapidly since the mid-1980s, despite the consolidation which had occurred in the mass market.

Complicating Guinness's ability to penetrate the U.S. market was the fact that American consumers had been educated to expect Guinness stout as a draught product or in cans. Up to 1994, the major form of delivery of taste beers—and some would argue an essential part of their image—had been bottling.⁹ Taking advantage of this market by Guinness therefore potentially required promotion of bottled Foreign Extra Stout.

The second major challenge was to reflect the increasing consumer awareness of health and lifestyle issues that was beginning to impact all aspects of the food industry in the early 1990s. The effect of this trend on beverage consumption patterns in the United States was evident from **Exhibit 16**. Additionally, as **Exhibit 10** shows, non-alcoholic beers in the United States grew 26% between 1991-93. Of concern to Guinness executives was the decline of Kaliber by over 4% during this period.

United Distillers plc

History

The operations and culture of United Distillers plc were distinctly Scottish in their origins. The Distillers Company was founded in 1877 by a merger of six Scottish grain distillers. In 1925, the basis of the modern company was created when John Walker & Sons Limited, Dewar's, and Buchanan's merged into The Distillers Company. In 1927, White Horse Distillers joined, followed in 1937 by the gin manufacturer, Booth's. With the exception of the acquisition of Pimm's in 1969, The Distillers Company competed in the same product categories and with the same brands that had been created by the mergers of the 1920s and 1930s. In 1985, Sales and Marketing were relocated to London, while Operations remained headquartered in Scotland.

The Scotch Whisky Industry

At first glance, the 1994 operations of United Distillers seem to have been highly inefficient. Despite full backward integration, the company maintained five maltings plants, 29

⁸ *Jobson's Wine Handbook*, 1993 ed., p. 134.

⁹ Interviews at Sam Adams Brewery, Boston, March 5, 1994.

distilleries, eight major warehouse complexes for storage, and three packaging plants. The maintenance of this extensive and geographically dispersed network was necessitated, however, by Scotch whisky's unique methods of production.

Three types of Scotch whisky existed—malt, grain, and blended. Each of these involved five stages of production: malting, mashing, fermentation, distillation, and maturation. The raw materials used were malted barley, peat, and spring water.

Blended whiskies, which combined malt and grain whiskies, constituted over 90% of Scotch consumption (whiskies that were not blended were referred to as “single malts” or “single grains”). United Distillers' brands such as Johnnie Walker were usually the result of blending up to 40 different whiskies. By law, if a whisky claimed to be a certain age (e.g. 12 year-old Scotch), the minimum age of all Scotches used in the blend had to be at least that age. Since supplies of Scotch varied from year to year, the role of blenders and “nosing panels” was critical to ensuring consistency.

Prior to the 1990s, virtually all Scotch was blended, and most malt distilleries sold almost their entire output for blending. By 1994, however, about 5% of all Scotch was sold as a pure malt whisky from a single distillery. Most Scotch whisky distillers bottled a portion of their production as single malts, or single grains. United Distillers bottled about 20 whiskies as single malts.

The preponderance of blends over single malts had fostered relatively close relationships between different whisky-producing companies. These relationships were further nurtured by regulatory barriers which made it nearly impossible for non-Scottish firms to enter the market. For example, under 1994 European law, malt or grain Scotch whisky was required to be matured in a cask for three years before bottling, and could not constitute less than 40% alcohol by volume. Additionally, whisky could not be called Scotch unless it has been produced and matured in Scotland (although it could be blended and bottled elsewhere). These laws were designed to protect the brand category.

Operations Management

Operations were complicated by two factors; first, an inordinately long planning cycle, and second, a production process that was more art than science. In terms of planning, Scotch was an aged product, and as a result production decisions were taken based on assessment of estimated demand 12 years into the future. For blended whiskies, the risk was that insufficient supply from even one distillery had the potential to compromise consistency. Compounding the planning complexity was the fact that “two distilleries in the same glen couldn't produce identical whiskies if they tried.”¹⁰ The soil, the vegetation, the climate, the peat, and the water, magically influenced the finished spirit. A new still had to copy the old one down to the last rivet, or it would change the flavor.

Marketing

One of United Distillers' most successful strategies since its 1986 formation had been the revitalization of major brands.

¹⁰ “Whisky Galore,” *High Life*, March 1994.

Despite its franchise as a distiller of premium Scotch whiskies and gins, The Distillers Company was in disarray by the mid-1980s. It marketed over 100 brands, many of which competed directly with each other.¹¹ In Japan, for example, over 120 blends of Scotch were sold under the Distillers name or as private label. Compounding Distillers' problems was the decline of the Scotch whisky category as a whole in the traditional markets of Britain and the United States. In these markets consumption had declined from 21 million cases in 1980, to 11 million by the end of the decade. Finally, the real price of whisky had effectively halved during the 1970s and early 1980s, as producers responded to excess capacity by competing on price.

With its acquisition of Distillers, Guinness sold 30% of the world's Scotch whisky by volume, and 40% by value. As such, the company had been in a position to lead the resuscitation of the category as a whole. The agreed upon strategy had been to counteract declining volumes by encouraging consumers to trade-up—in other words, to buy more expensive bottles, albeit less frequently. This in turn had required changing the public perception of Scotch from a commodity product to one of high value-added. Such a strategy had been successfully adopted by cognac producers in the 1970s.¹²

To help effect this change, Anthony Greener, managing director of Dunhill PLC since 1974, was recruited to head United Distillers in 1987. Greener had presided over the development of Dunhill from a tobacco retailer to a premium branded goods company. He was well-placed to move United Distillers from a company which prided itself on its technical expertise, to one which saw itself as a marketing intensive organization. As he later remarked, “apart from the quality of the liquid, virtually everything we do at United Distillers is a marketing issue.”¹³

Greener's strategy at United Distillers involved customized advertising and packaging for local markets, with globally coordinated product positioning and pricing. For example, I.W. Harper bourbon from Kentucky was sold in Japan with a label depicting a “dandy” in a top hat; Rebel Yell was sold in Australia in an advertising campaign which used the local saying “give us a yell.”

Revitalizing brands had also involved extending brand ranges and seeking out opportunities in non-traditional markets. The cessation of United Distillers' private label operations formed another dimension of Greener's strategy.

Examples of brand range extension had included the introduction of Johnnie Walker Honour, a 15 year-old Scotch priced at \$225 in a category where the least expensive branded item (Johnnie Walker Red Label) sold at around \$15; similarly, Old Parr Elizabethan contained some 60 year-old Scotch and was packaged in a hand-blown crystal decanter. It had been developed specifically for the Asian market and sold for \$850.

Developing markets had also presented opportunities for growth. These opportunities had been strongest in countries which were “trading up” the brand range (e.g. Taiwan), rather

¹¹ “Getting Scotch Off The Rocks,” *Financial World*, August 6, 1991.

¹² “Blithe Spirits,” *Chief Executive*, April 1992.

¹³ Speech by Tennant / Greener, July 10, 1992.

than those in which there was strong latent demand at the lower end of the range (e.g. Eastern Europe).

Marketing budgets in spirits usually contained a higher proportion of promotional expenditure than did brewing, which was more advertising driven. One successful promotional tool used by United Distillers had been “mentoring”—this involved having one person introduce the product to another. Another technique involved special events for selected high net worth individuals (such as the Johnnie Walker tastings in the United States), and sponsorship for sporting events such as the bi-annual Ryder Cup golf championship between Britain and the United States.

Distribution

Guinness adopted two distribution strategies after 1986: first, buying back its own distribution in key markets where United Distillers brands were well established; and second, entering joint venture agreements in markets where its products had low penetration. **Exhibit 17** lists these activities by country and scheme of arrangement. By 1994, Guinness controlled 90% of its distribution—in 1986, this number had been only 25%. As Barron’s noted, “existing importers were bought out, paid off, encouraged to enter joint ventures, or simply fired.”¹⁴ Apart from increasing margins, the strategy was designed to prevent distributors from cutting prices and diluting brand equity.¹⁵

Guinness’s most prominent acquisition in this period was that of its U.S. distributor, Schenley, for \$480 million in 1987. Guinness’s most prominent joint venture was the worldwide distributorship arrangement negotiated with LVMH. As part of this agreement, Guinness purchased 24% of LVMH stock between 1988 and 1993, for \$1.9 billion (LVMH purchased a similar amount of Guinness PLC stock in return). The formula for allocating costs between the joint venture partners had been one-third according to value of sales, one-third according to volume of sales, and one-third split evenly.

In January 1994, Guinness modified its seven-year old cross share-holding in LVMH. Guinness sold its indirect 24% stake for £1.3 billion to Christian Dior and Au Bon Marche (two companies controlled by LVMH chairman, M. Arnault), and paid £902 million for a 34% stake in Moët Hennessy, LVMH’s champagne and cognac business. Details of this transaction are shown in **Exhibit 5**. The rationale for the restructuring was that Guinness wanted to be closer to LVMH’s drinks businesses and held little interest in the luxury goods side of LVMH. Furthermore, with only one seat on the LVMH Board, Guinness could have been railroaded into a decision, for example, to exit the alcoholic beverages sector in favor of, say, buying into French newspapers.¹⁶ The new arrangement pushed Guinness across the one-third threshold necessary under French Corporations Law to have a substantive interest in a corporation, thereby giving it the right to veto any decision to sell the cognac or champagne businesses.

¹⁴ Barron’s, April 3, 1992.

¹⁵ “Getting Scotch Off The Rocks,” *Financial World*, August 6, 1991.

¹⁶ M. Arnault bought the French financial newspaper, *La Tribune Defense*, in 1993.

Competition

United Distillers' three major competitors were Grand Metropolitan, Allied Lyons, and Seagram. Data for these competitors is shown in **Exhibit 18**.

Established in 1962, Grand Metropolitan employed over 87,000 people worldwide in a diverse range of businesses that included alcoholic beverages, food, retailing, and property. The company was renowned for its strong brands and distinctive management culture—in November 1993, chairman and chief executive Alan Sheppard was named “the toughest boss in Britain.”¹⁷

The alcoholic beverages arm of Grand Met, IDV, contributed about 60% of group operating profit.¹⁸ J&B, Smirnoff, and Bailey's, together accounted for half the spirits' profits. IDV had operations in over 50 countries, organized into four regions; North America, Europe, Asia-Pacific, and Africa-Latin America. Like Guinness, it had adopted a strategy of owning its distribution. In Asia-Pacific, for example, the company recently transferred distribution from Seagram to a series of wholly-owned distributors.

Like Grand Metropolitan, Allied Lyons was a diversified conglomerate comprising over 7,000 restaurants and pubs, 1,000 liquor stores, and the Embassy hotel chain. Established in 1961 as Allied Breweries through the merger of Tetley, Ansell, and Ind Coope Breweries, the company employed almost 72,000 worldwide.¹⁹

The threat posed by Allied changed substantially in March 1994 when it announced the purchase of a majority stake in the Spanish drinks company, Pedro Domecq, for £739 million. Some analysts questioned the wisdom of acquiring majority control, given that Allied already had a 32% share of Domecq and a power of veto. Mr. Anthony Hales, Allied's chief executive, justified the purchase of majority control on the grounds of gaining access to the fast growing Mexican market. Domecq was established as the dominant player in Mexico with 40% of the spirits market overall, and an 80% share of the brandy market.

Seagram produced alcoholic as well as non-alcoholic beverages. Its principal non-alcoholic brands were Tropicana fruit juice, as well as a variety of coolers and mixers. Combined beverages earnings constituted about 40% of Seagram's 1993 group earnings of \$762 million. The balance of Seagram's earnings were derived from investments in Time Warner, and the company's 24.5% stake in E.I. du Pont de Nemours, the ninth largest U.S. industrial company.

A key weakness for Seagram was that in its flagship brand of Chivas Regal, a blended whisky, it relied upon United Distillers for the supply of grain whiskies. The vulnerability of Seagram was emphasized if one considered that although Chivas was only 4% of Seagram turnover, it generated 32% of profit. Additionally, investors had been watching Seagram closely since it purchased a stake in Time-Warner for \$825 million in 1993. As one investor had noted, “is this a spirits and wine company with investments in world-class chemical and entertainment companies, or is this a holding company?”²⁰

¹⁷ *Sunday Times*, November 1993.

¹⁸ *Drinks Quarterly*, BZW Research, February 1994.

¹⁹ *Financial Times*, March 25, 1994.

²⁰ *Drinks Quarterly*, BZW Research, February 1994, p. 97.

Future Challenges

There were five key challenges faced by United Distillers as it looked towards the future.

Perhaps the greatest challenge was that of continuing to manage its relations with host governments effectively. Governments of differing persuasions had the potential to impact United Distillers in two ways. First, alcohol was regarded by many governments as akin to tobacco—that is, a luxury good rather than a staple. As such, it was subject to either excise taxes or, alternatively, trade discrimination. Discriminatory practices could include higher import duties, or discrimination against whisky in favor of other spirits. Second, government retained the power to regulate and was under increasing pressure from the temperance movement to do so. The temperance movement had grown in most key markets in the 1970s and 1980s in response to drink-driving and under-age consumption. Guinness positioned itself against the movement in several ways. The company published educational leaflets such as “Alcohol and Society—Some Questions and Answers.” Guinness was also a founder member of the Portman Group in the United Kingdom, an independent body with an educational mandate. Similar efforts were undertaken outside the United Kingdom, including the Century Council in the United States and the Amsterdam Group in Europe.²¹ These efforts had been assisted by several academic articles asserting that alcohol in moderation could actually be beneficial.²²

A second major challenge was maintaining the premium image associated with United Distillers’ products. There were two ways in which the “category equity” associated with Scotch whisky in particular could be compromised. First, a competitor could lower the price of whisky, thereby lowering the perceived value of the product. Second, excess capacity due to incorrect forecasting could lead to a repeat of the “Scotch Loch” crisis of the 1970s. Yet even if excess capacity reappeared, it was unlikely that United Distillers would repeat its 1970s strategy of selling excess supply to private label companies. A far more likely scenario was that the company would bear heavy inventory carrying costs for a number of years, ultimately marketing the residue as more mature product.

A third challenge was that the Scotch whisky drinking population was an ageing one. **Exhibit 19** shows the age profile of male, British, Scotch drinkers between 1972 and 1992. Opinions varied within Guinness on the extent to which ageing was a problem. One view held that a major challenge was to lower the age profile of Scotch drinkers. Guinness had faced a similar problem with stout drinkers, and had successfully changed the age profile of stout drinkers in the United Kingdom. A separate view was that ageing was not a problem provided it occurred in mature markets. Declining sales volume in mature markets would be offset by either rising demand for the blended product in growth markets such as China, or rising demand in mature markets for single malts. **Exhibit 20** shows sales of malt, grain, and blended Scotch to the major markets in 1993, while **Exhibits 21, 22** and **23** show Scotch exports to other international markets and regions.

Fourth, the identification of growth markets was an ongoing challenge. In Asia, this had been hastened by the decline of the Japanese market, where political crises such as the “Recruit Scandal” had led to cutbacks on business expenses and gift giving. As one manager

²¹ Interview with Gaye Pedlow, Manager, Strategic Affairs, London, March 17, 1994.

²² “Alcohol Saves Lives” and “Drinking Your Health.”

commented, the real challenge in Japan might be penetrating the Japanese at-home market, rather than demand creation in the traditional sector.²³ Japanese had typically proved less likely to consume imported products at home. In response to this trend, the company had already begun to lower the price of Johnnie Walker Black Label in Japan, while leaving its smaller volume Old Parr brand at the pre-Recruit Scandal price.

Finally, the potential to grow single malts was also an issue on which opinions varied. To some, this represented the strongest potential area of growth since the single malt category had risen from virtually nothing in the 1970s to constitute 4% of the total market volume (**Exhibit 24**). To others, the chief potential for single malts lay in expansion of the category as a whole. According to this view, while single malts would never exceed 10% of the market, they could well serve to expand overall sales.

Corporate Direction

In 1994, Anthony Greener was determined to stick to Guinness's core businesses of spirits and beer, believing that the company's focus was a source of strength. As he prepared Guinness for a new millennium, Greener was committed to getting closer to consumers and fully understanding Guinness's markets. Greener perceived the nature of Guinness's business to be a long-term one. He felt that recruiting new consumers and expanding into new and developing markets would take time. Market development would require substantial investment and involve continuous marketing activities. Building the affinity between Guinness brands and consumers around the world would be a corporate goal and was intended to provide a platform for sustained profits growth.

Greener observed that the on-trade market was the first phase where brand reputation was built up. Since alcoholic drinks were consumed as part of social activity, and drinking preferences were visible, Greener aimed to develop the strength of Guinness's brands. In younger societies brands formed an important part of personal style and status. Brand-building also appeared to complement customs in countries such as Spain, Venezuela, and Thailand, where the bottle was typically put on the table to allow people to see what was being drunk.

At United Distillers, successful marketing rewarded through volume and price increases was seen as the key to the future. **Exhibit 25** shows the effect of a one per cent change in some key financial variables on profits. Greener surmised that the source of pricing strength was the successful building of brand franchises and consumer recognition of the value offered in United Distillers products. Prospects to grow volume existed in the opening up of Asian, East European, and Latin American markets, which had previously been closed through political, trade, and economic barriers.

United Distillers perceived three types of market around the world. Mature markets (40%) existed where Scotch whisky had been long established, and where the category was in decline. Growth markets (40%) were those where Scotch had more recently taken off, and where it was still growing. Emerging markets (5%) were countries such as China and Argentina, where growth was expected to be most rapid in the years ahead. The remaining 15% of the world market (places like Africa and the Middle East) did not fit the three simplified market segments.

²³ Interview with Phil Parnell, Managing Director, UD Europe, London, March 14 and 18, 1994.

In 1994, Thailand was an example of a growth market. Half of Thailand's population of 58 million was under 15 years old. Combined consumption of Western spirits was 1.5 million cases versus 25 million cases of locally produced spirits; beer consumption was 35 million cases. Only 9% of urban males and 2% of urban females were estimated to consume Scotch whisky. The market appeared to have enormous potential. United Distillers had gained control of its local distribution in Thailand through its joint venture with Moët Hennessy. The company's strategy involved integrating sales and marketing programs of major brands and promoting the Johnnie Walker Black and Red Labels—which, combined, accounted for three quarters of Guinness's total sales in Thailand.

In mature markets such as the United States and United Kingdom, Greener wanted to recruit new drinkers to Guinness's brands. In the United States, a direct promotion to the target consumer concerned changing attitudes of younger drinkers to Dewar's. Suggested cocktails and mixers were promoted to change perceptions about Scotch whisky and the way the Dewar's brand could be consumed. In the United Kingdom, Bell's, the market leader was relaunched as an eight year-old blend, thereby offering existing Scotch drinkers additional quality for the same price, and consequently better value.

At Guinness Brewing Worldwide, Greener's overriding priority was to build the Guinness stout brand in markets around the world. The secondary objective was to grow overall market share and profitability. Marketing programs played on Guinness's Irish heritage. The Irish football team endorsed Guinness as their official beer for the 1994 World Cup. Sales of Guinness stout rose 47% in the United States during June 1994 as the World Cup kicked off. Another U.S. promotional program designed to appeal to the 44 million Americans of Irish descent, offered a pub in Cork, Ireland, as a prize. Elsewhere, Guinness advised aspiring publicans on how to develop an Irish theme pub (such as Scruffy Murphy's in Edinburgh, Scotland, or Kitty O'Shea's in Paris, France). Increasing attention was being paid to product quality in Britain, where new equipment for dispensing and cooling Guinness stout was introduced. Bar staff also received training on how to pour Guinness stout to achieve the perfect pint.

Apart from the marketing programs at both United Distillers and GBW, Greener was keen to tighten cost controls across Guinness PLC. At United Distillers back office integration and systems sharing received emphasis. Two distributors which Guinness controlled in Venezuela merged. In Europe, major reorganization of back-offices and logistics brought separate country organizations into one single structure. The objective existed to service pan-European retailers in their preferred format through central purchasing to local logistics. At GBW, where 50% of costs were fixed, production costs were significantly above the average of international brewers. Taking GBW to the average level would reduce production costs by as much as 25% but appeared a difficult goal to achieve due to scale of operation. Nonetheless, headcount at GBW had fallen 2,450, or 15%, in the year to 1994 and efforts continued to further rationalize the labor force.

Exhibit 1 Guinness PLC—Seven-Year Income Statement Summary (£ millions)

	1987	1988	1989	1990	1991	1992	1993	CAGR
Turnover	£ 2,818	£ 2,776	£ 3,076	£ 3,511	£ 4,067	£ 4,363	£ 4,663	8.9%
Excise taxes	(730)	(847)	(950)	(975)	(1,125)	(1,184)	NA	10.2
Net revenue	2,088	1,929	2,126	2,536	2,942	3,179	NA	8.8
Raw materials	(768)	(544)	(601)	(675)	(749)	(843)	NA	1.9
Labor	(346)	(308)	(306)	(345)	(461)	(514)	NA	8.2
Depreciation	(72)	(73)	(74)	(91)	(122)	(127)	NA	12.0
Other	(430)	(453)	(466)	(588)	(615)	(672)	NA	9.3
Total trading costs	(1,616)	(1,378)	(1,447)	(1,699)	(1,947)	(2,156)	(3,725)	14.9
Trading profit	472	551	679	837	995	1,023	938	12.1
Other (reorganization costs, etc.)	97	16	(44)	0	(56)	(125)	(173)	
LVMH contribution	0	21	102	128	123	101	125	
EBIT	569	588	737	965	1,062	999	890	7.7
Net interest charge	(64)	(51)	(90)	(118)	(162)	(204)	(188)	19.7
Profit before tax	505	537	647	847	900	795	702	5.6
Tax on ordinary activities	(127)	(172)	(231)	(269)	(272)	(242)	(247)	11.7
Tax rate	21.5%	32.0%	35.7%	31.8%	30.2%	30.4%	35.2%	5.8
Profit after tax	378	365	416	578	628	553	455	3.1
Minorities and preferences	(24)	(24)	(32)	(37)	(41)	(29)	(22)	-1.4
Profit for financial year	354	341	384	541	587	524	433	3.4
Dividends	(77)	(102)	(135)	(169)	(210)	(237)	(258)	22.3
Retained earnings	277	239	249	372	377	287	175	-7.4

Source: Company annual reports.

Notes: (i) CAGR for Excise Taxes is for 1987-1992 only.

(ii) CAGRs for Raw Materials, Labor, Depreciation, and other trading costs are for 1987-1992 only.

Exhibit 2 Guinness PLC—Seven-Year Balance Sheet Summary (£ millions)

	1987	1988	1989	1990	1991	1992	1993	CAGR
ASSETS								
Acquired brands at cost	£1,375	£1,375	£1,375	£1,375	£1,395	£1,395	£1,395	0.2%
Tangible assets	888	920	1,252	1,283	1,721	1,719	1,725	11.7
Investments (including LVMH)	100	515	1,085	1,156	1,232	1,436	1,439	56.0
Net current assets	972	990	1,267	1,214	1,457	1,614	1,606	8.7
Total assets	<u>£3,335</u>	<u>£3,800</u>	<u>£4,979</u>	<u>£5,028</u>	<u>£5,805</u>	<u>£6,164</u>	<u>£6,165</u>	10.8%
LIABILITIES								
Long-term creditors and provisions	£ 311	£ 249	£ 259	£ 224	£ 402	£ 483	£ 453	6.5%
Other borrowings	600	671	1,323	1,106	1,797	2,029	1,874	20.9
Equity	2,424	2,880	3,397	3,698	3,606	3,652	3,838	8.0
Total liabilities	<u>£3,335</u>	<u>£3,800</u>	<u>£4,979</u>	<u>£5,028</u>	<u>£5,805</u>	<u>£6,164</u>	<u>£6,165</u>	10.8%

Source: Company annual reports.

Exhibit 3 Guinness PLC—Financial and Efficiency Analyses

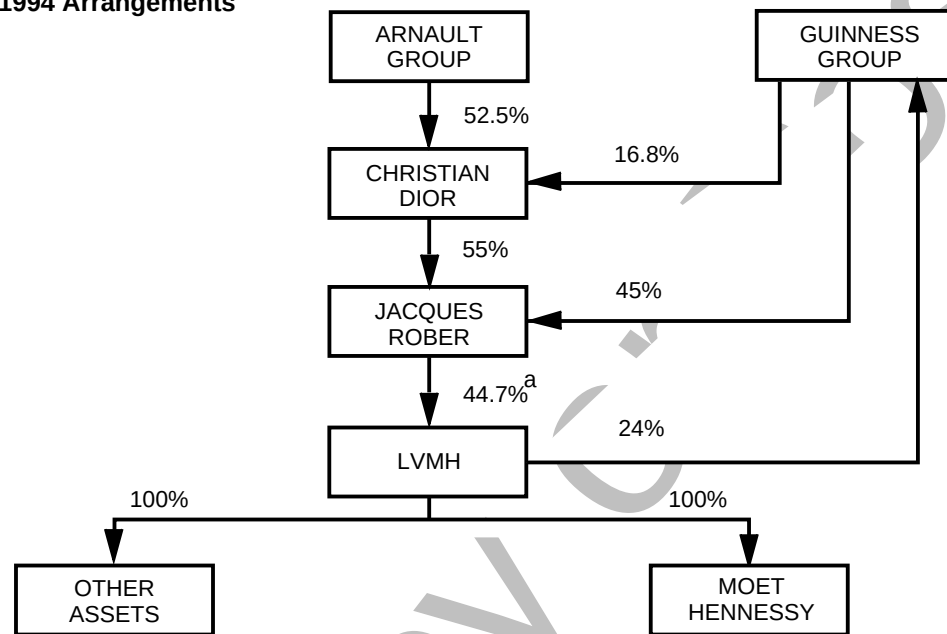
	1987	1988	1989	1990	1991	1992	1993
Du Pont Ratios							
Profit margin (PAT/turnover)	13.4%	13.1%	13.5%	16.5%	15.4%	12.7%	9.8%
Asset turnover (turnover/assets)	0.84	0.73	0.62	0.70	0.70	0.71	0.76
Leverage (total assets/equity)	1.4	1.3	1.5	1.4	1.6	1.7	1.6
ROE (PAT/equity)	15.6	12.7	12.2	15.6	17.4	15.1	11.9
Other Financial Measures							
ROA (EBIT/total assets)	17.1	15.5	14.8	19.2	18.3	16.2	14.4
ROIC (EBIT*(1-tax rate))/ (debt + equity)	12.8	10.5	9.5	13.1	12.8	11.3	9.4
Financial Leverage							
Debt to assets	27.3	24.2	31.8	26.5	37.9	40.8	37.7
Debt to equity	37.6	31.9	46.6	36.0	61.0	68.8	60.6
Times interest earned (EBIT/ interest expense)	8.9	11.5	8.2	8.2	6.6	4.9	4.7
Efficiency Measures							
Raw materials/turnover	27.3	19.6	19.5	19.2	18.4	19.3	NA
Labor/turnover	12.3	11.1	9.9	9.8	11.3	11.8	NA
Turnover/labor	8.1	9.0	10.1	10.2	8.8	8.5	NA

Source: Company annual reports.

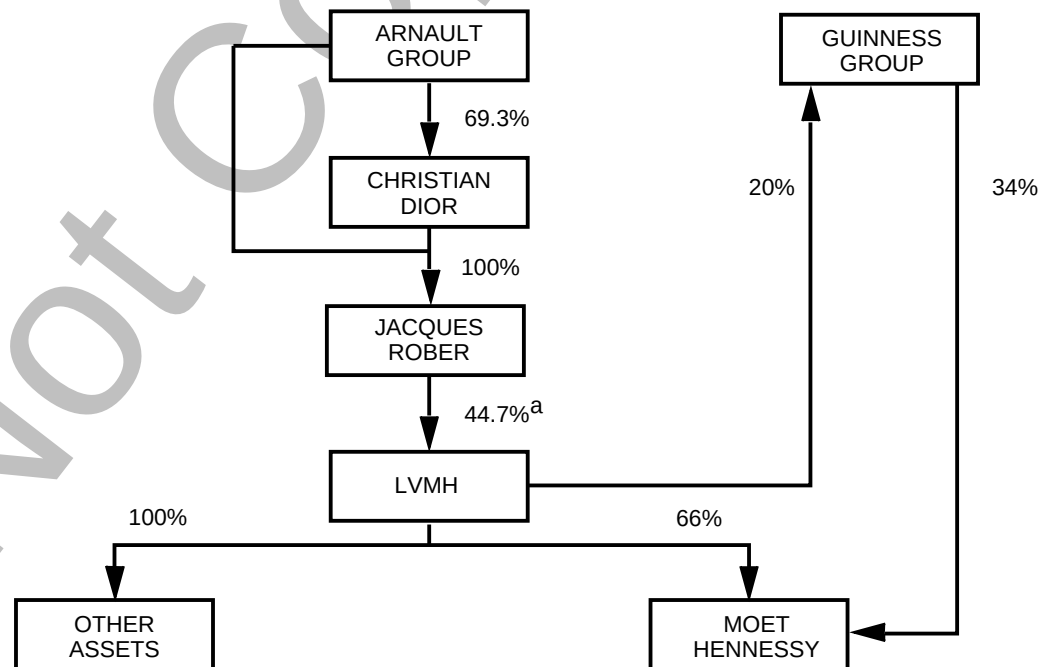
Exhibit 4 Moët Hennessy Louis Vuitton Earnings Summary (FF millions)

	1990	1991	1992	1993	CAGR
Sales by Segment					
Champagne and wines	5,147	5,552	5,245	5,444	1.9%
Cognac and spirits	5,074	6,229	5,553	5,846	4.8
Luggage and leather goods	4,450	4,847	4,700	5,665	8.4
Perfumes and beauty products	4,654	4,874	5,487	6,128	9.6
Other activities	507	535	673	736	13.2
Total sales	19,832	22,037	20,985	23,083	5.2
Income from Operations					
Champagne and wines	1,340	1,326	780	776	-16.6
Cognac and spirits	2,299	2,791	2,286	1,910	-6.0
Luggage and leather goods	1,755	1,881	1,869	2,318	9.7
Perfumes and beauty products	462	636	809	852	22.6
Other activities	(184)	(219)	(258)	(242)	9.6
Total income	5,672	6,415	5,486	5,614	-0.3
Margin by Segment					
Champagne and wines	26.0%	23.9%	14.9%	14.3%	-18.2%
Cognac and spirits	45.3	44.8	41.2	32.7	-10.3
Luggage and leather goods	39.4	38.8	39.8	40.9	1.2
Perfumes and beauty products	9.9	13.0	14.7	13.9	11.9
Other activities	-36.3	-40.9	-38.3	-32.9	-3.2
Total group	28.6	29.1	26.1	24.3	-5.3

Source: Company annual reports; financial announcements, 17 March 1994.

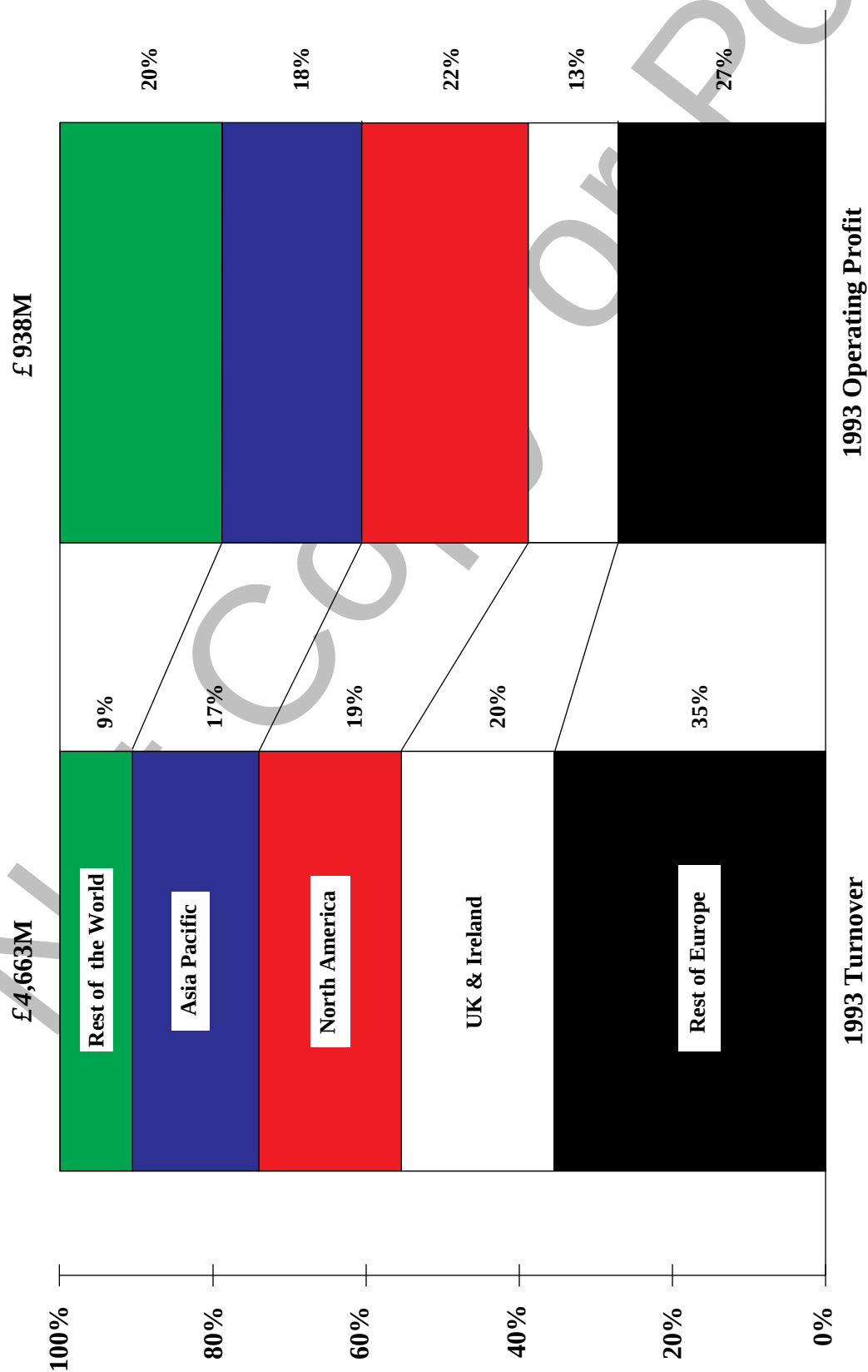
Exhibit 5 Restructuring of Relationship With LVMH**Pre-January 1994 Arrangements**

^a Of shares and majority of voting rights

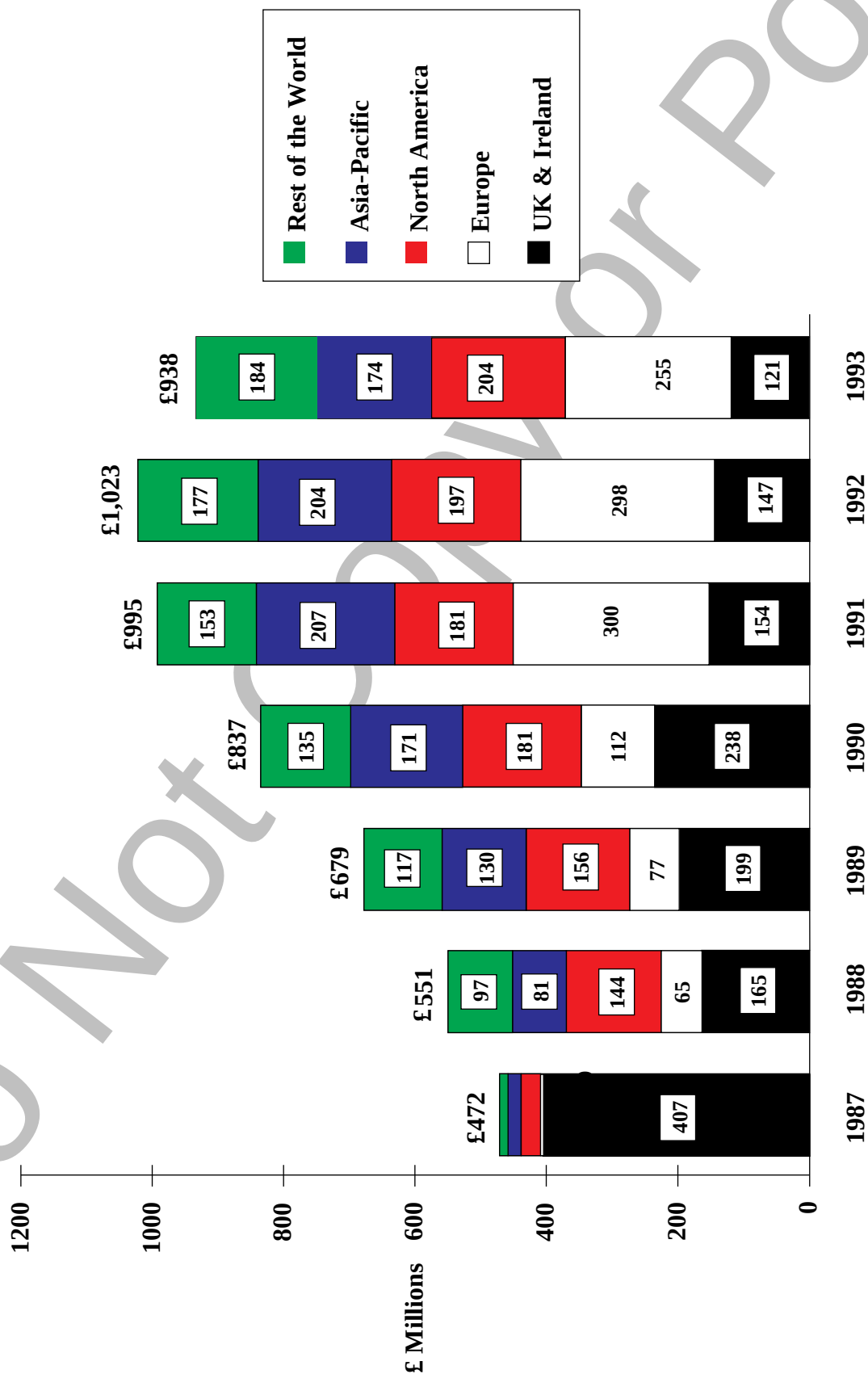
Post-January 1994 Arrangements

^a Of shares and majority of voting rights

Source: Morgan Stanley Prospectus

Exhibit 6 Guinness PLC—Turnover and Profit by Geographic Sector

Source: 1993 Company Financials

Exhibit 7 Guinness PLC—Trading Profit by Geographic Sector

Source: Company Annual Reports

Exhibit 8 Guinness PLC—Profitability by Business Segment (£ millions)

	1987	1988	1989	1990	1991	1992	1993
Spirits P&L							
Spirits trading profit	357	438	542	669	749	769	701
Spirits turnover	1,340	1,680	1,938	2,149	2,436	2,583	2,773
Profit margin	26.6%	26.1%	28.0%	31.1%	30.7%	29.8%	25.3%
Brewing P&L							
Brewing trading profit	100	101	132	168	246	254	237
Brewing turnover	1,039	1,003	1,135	1,362	1,602	1,780	1,890
Profit margin	9.6%	10.1%	11.6%	12.3%	15.4%	14.3%	12.5%
Profit Margin by Sector							
Spirits	76%	79%	80%	80%	75%	75%	75%
Brewing	21	18	19	20	25	25	25
% of total	97	98	99	100	100	100	100
Turnover by Sector							
Spirits	48%	61%	63%	61%	60%	59%	59%
Brewing	37	36	37	39	39	41	41
% of total	84	97	100	100	99	100	100

Source: Company annual reports.

^aSpirits analysis is prior to inclusion of results from LVMH.^bBrewing analysis includes Gleneagles Hotel and Guinness Publishing.

Exhibit 9 Guinness PLC—Competitor Matrix for Brewed Products

	Anheuser Busch	Heineken	Miller	Kirin	Foster's	Brahma	Group BSN	Guinness	Coors	Carlsberg
Headquarters	U.S.A.	Netherlands	U.S.A.	Japan	Australia	Brazil	France	U.K.	U.S.A.	Denmark
Production (HL M.)	100.9	52.5	51.2	34	32.7	25.3	25	24.1	23.7	19.3
Volume Rank	1	2	3	4	5	6	7	8	9	13
PBIT £M	894	180	169	323	242	76	83	237	71	92
PBIT/HL (£)	8.9	3.4	3.3	9.5	7.4	3.0	3.3	9.8	3.0	4.8
BIT/HL Rank	3	7	9	2	5	10	8	1	12	6
Principal Brands	Budweiser Busch	Heineken Amstel	Genuine High Life	Kirin Heartland Dry	Foster's Courage	Brahma Chopp	Kronenbourg Kanterbrau	Guinness Harp Cruzcampo	Coors Coors Light	Carlsberg Tuborg
% of Sales as Exports	5%	85%	5%	5%	75%	0%	50%	64%	10%	75%
Competition Issues for Guinness	Recent moves to acquire Budvar (Czech)	Growth strategy for Murphy's stout (Ireland)	Strength in low- alcohol market	Links with Anheuser- Busch (e.g., March 1994 joint venture to sell iced beer in Japan)	Control of Beamish stout (Ireland)	Dominates Brazilian market	Dominates French market	NA	Potential as high- volume taste beer	Alliance with Allied Lyons in United Kingdom
	Dominates American market	Forays into Asia-Pacific Private company able to invest in brands for long term								International capabilities Brewed by Guinness in Ireland and Spain

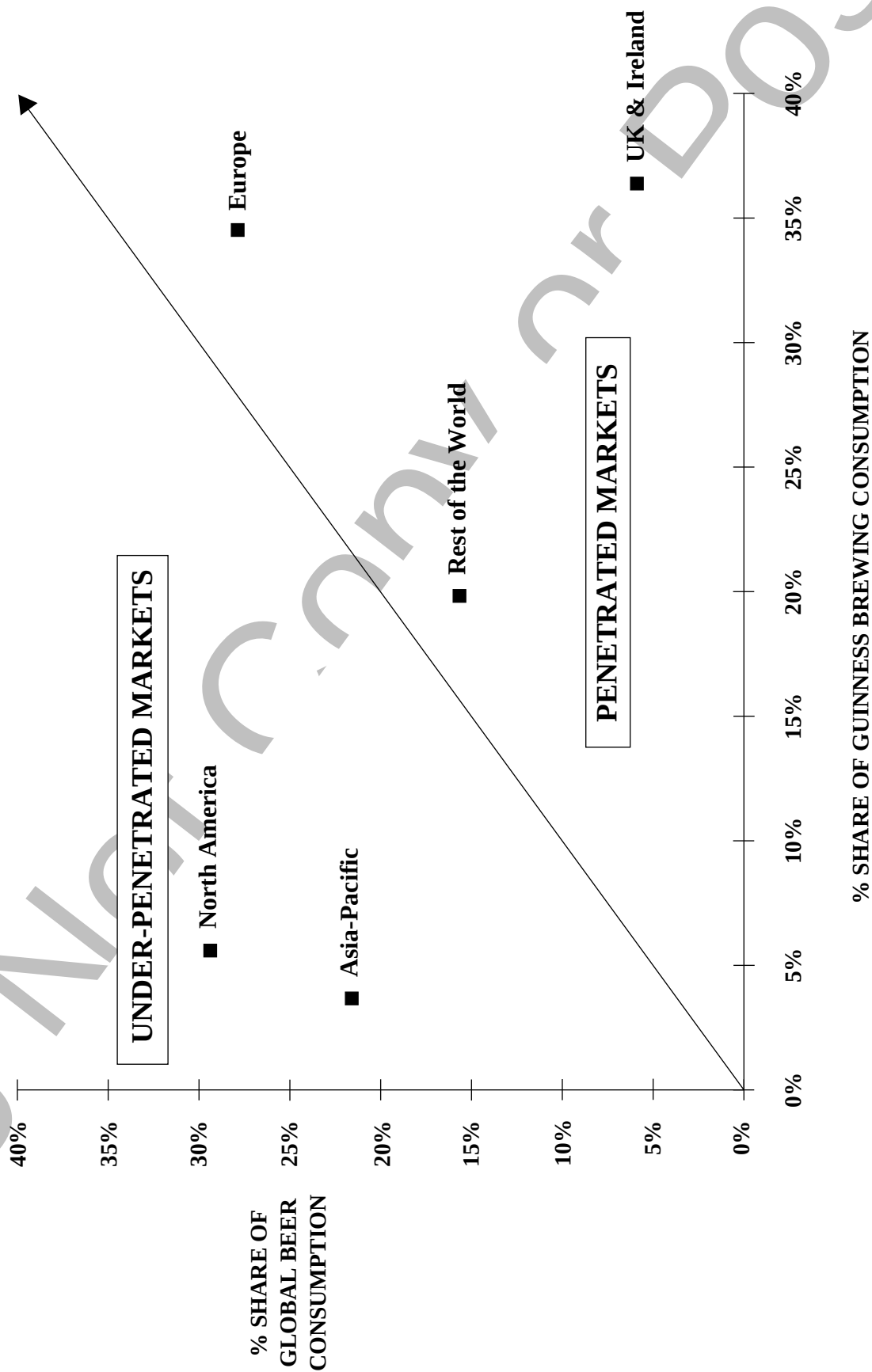
Source: *International Drinks Bulletin*; company documents; estimates.

Note that volume data are in hectoliters, equivalent to 26.4 gallons or 0.85 barrels.

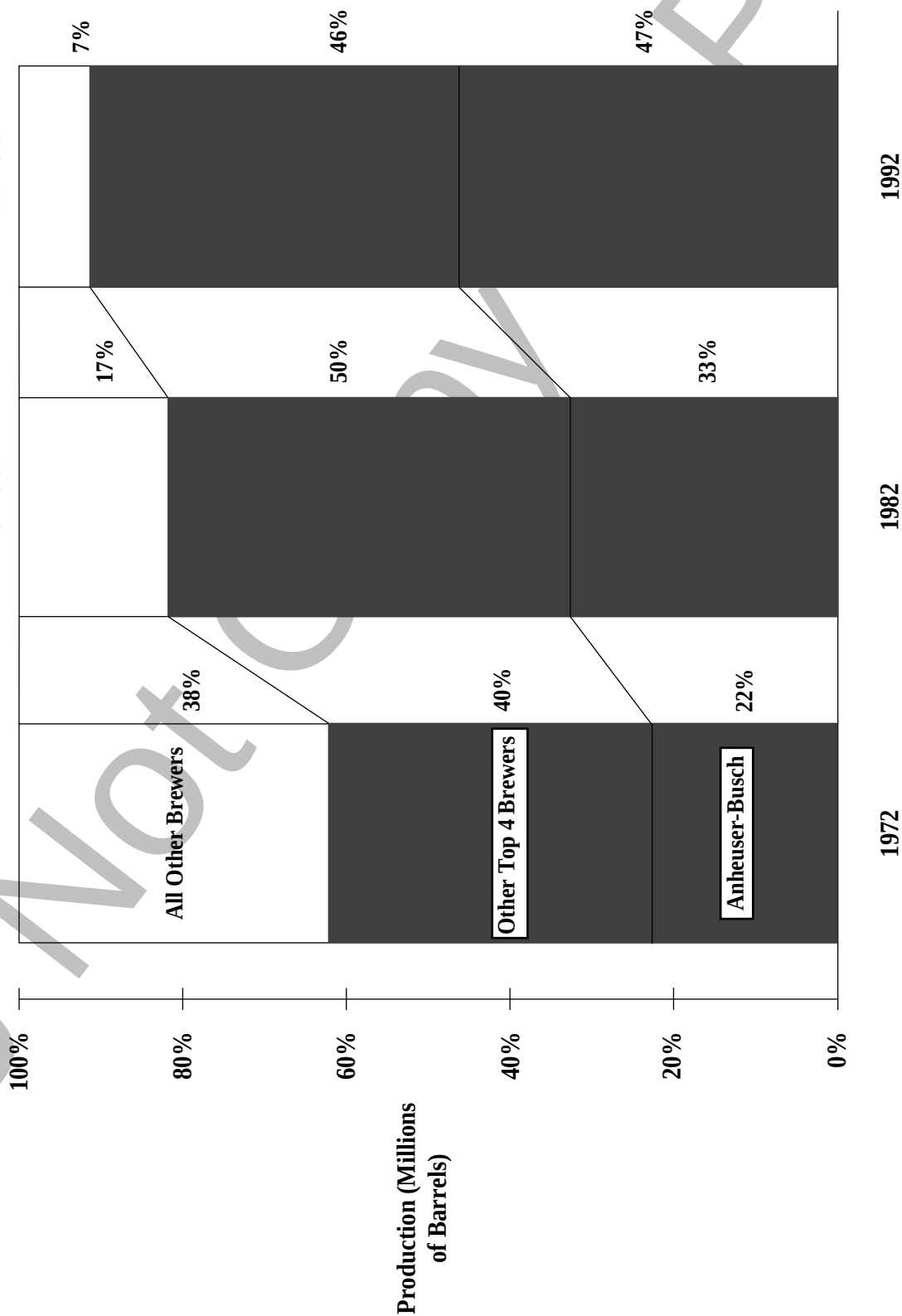
Exhibit 10 Leading Nonalcoholic Beer Brands in the United States

Brand	Brewer	Volume (thousands of gallons)			% Change		Market Share		% Change	
		1991	1992	1993	1991-93		1991	1992	1993	1991-93
Sharp's	Miller	18,225	18,248	17,516	-3.9		29.7	24.4	22.6	-7.1
O'Doul's	Anheuser-Busch	14,153	20,520	24,525	73.3		23.0	27.4	31.7	8.7
Kingsbury	G. Heileman	6,750	6,750	6,975	3.3		11.0	9.0	9.0	-2.0
Old Milwaukee N.A.	Stroh Brewing	2,475	6,750	7,875	218.2		4.0	9.0	10.2	6.2
Coor's Cutter	Coor's Brewing	450	5,175	5,850	1,200.0		0.7	6.9	7.6	6.9
Pabst N.A.	S&P Co.	1,553	1,643	1,688	8.7		2.5	2.2	2.2	-0.3
Texas Light	J. Bobbe & Associates	1,508	1,485	1,463	-3.0		2.5	2.0	1.9	-0.6
Clausthaler	Labatt's	1,013	900	934	-7.8		1.6	1.2	1.2	-0.4
Kaliber	Guinness	810	664	630	-22.2		1.3	0.9	0.8	-0.5
N.A. Beer	S&P Co.	788	833	866	9.9		1.3	1.1	1.1	-0.2
Black Label N.A.	G. Heileman	788	788	810	2.8		1.3	1.1	1.0	-0.3
Goetz Pale N.A.	S&P Co.	563	630	675	19.9		0.9	0.8	0.9	0.0
Haake-Becke	Dribeck Importers	495	518	540	9.1		0.9	0.7	0.7	-0.2
Others		11,854	9,931	7,053	-40.5		19.3	13.3	9.1	-10.2
TOTAL		61,425	74,835	77,400	26.0		100.0%	100.0%	100.0%	

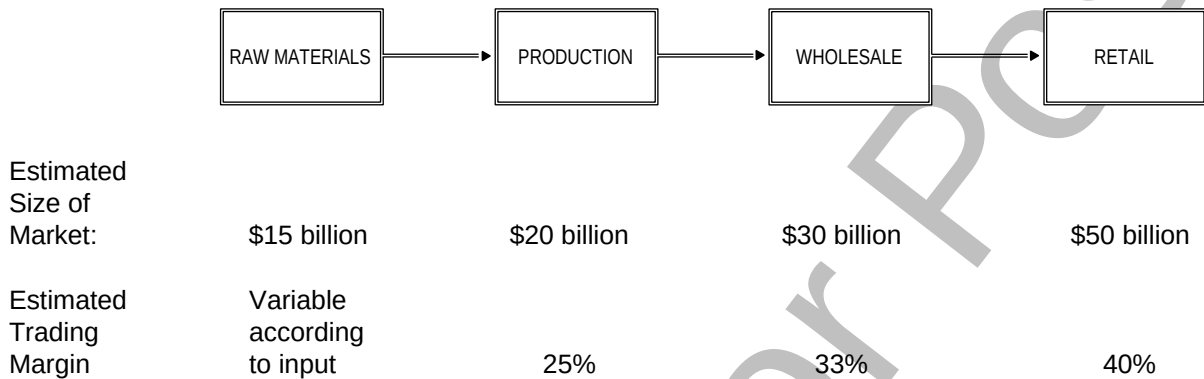
Source: *Jobson's Liquor Handbook*, 1994 edition.

Exhibit 11 Guinness PLC—Market Penetration

Source: Brewer's Almanac 1993 Edition; Company Documents; Estimates

Exhibit 12 Brewing Consolidation in the United States

Source: 1993 Modern Brewery Age

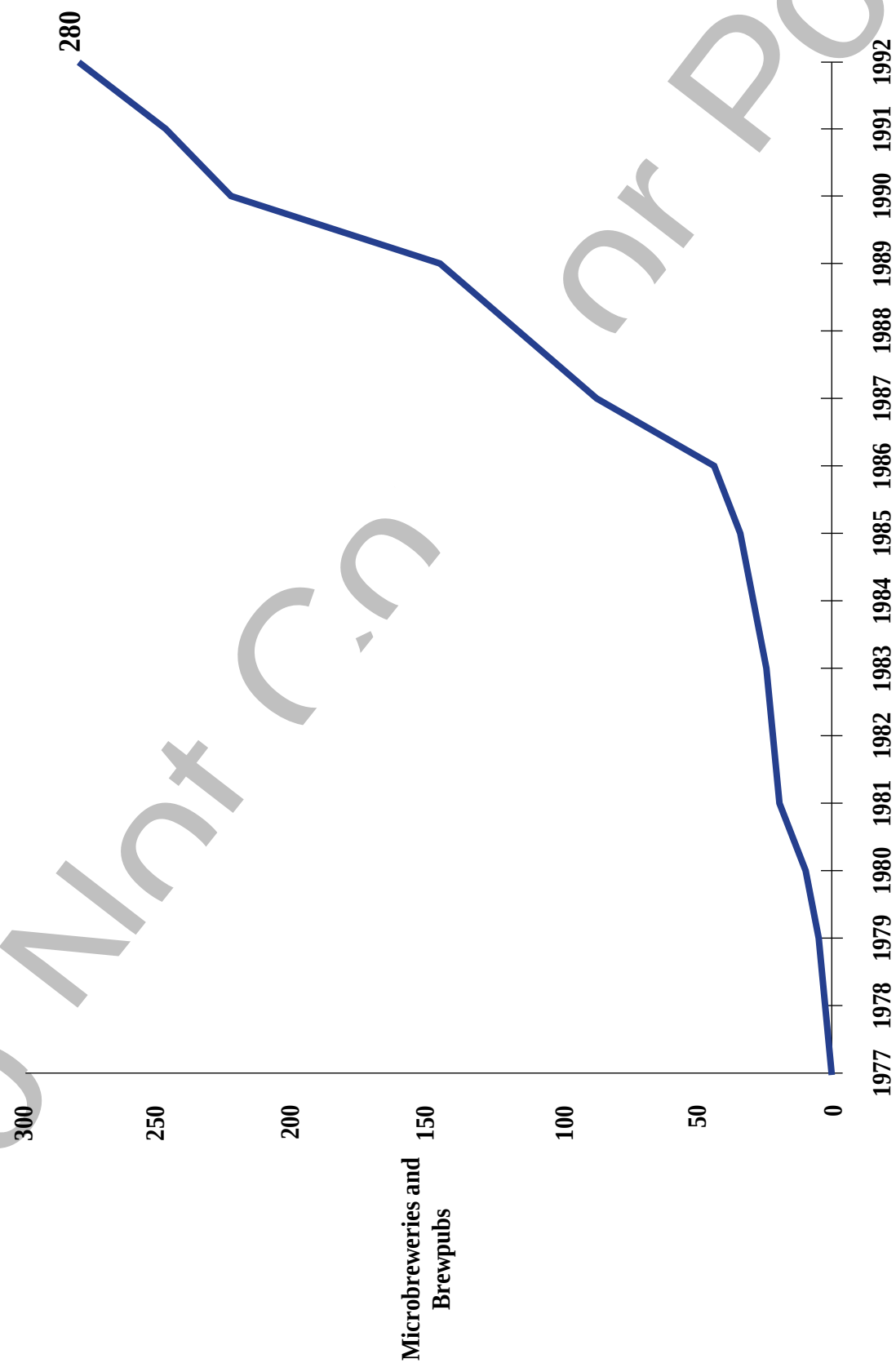
Exhibit 13 Example of a Brewing Value Chain—the United States

Source: *Beverage World Databank 1993-94*; Anheuser-Busch financials; casewriter estimates.

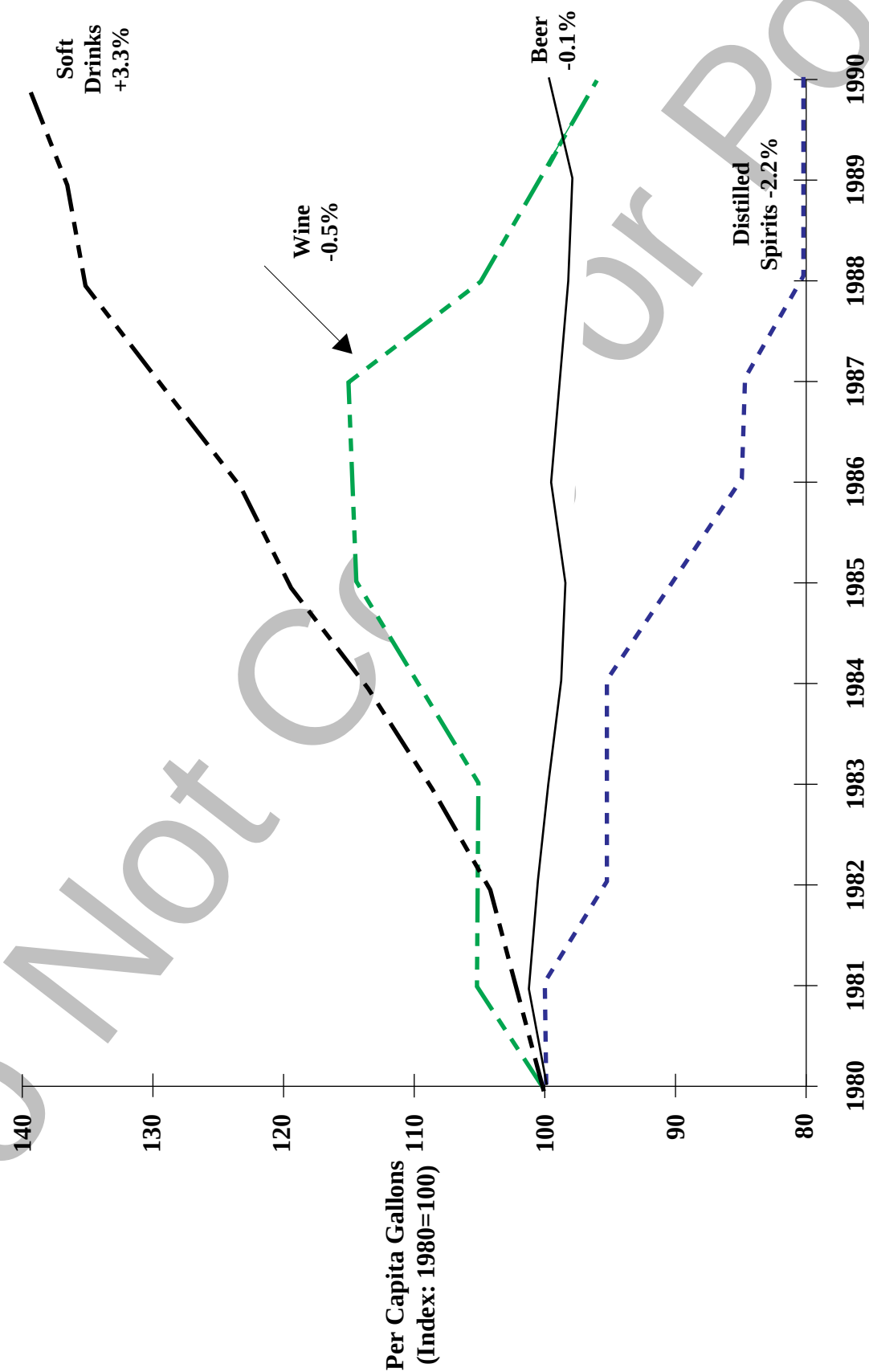
Exhibit 14 Top 10 Imported Beer Brands in the United States, 1982-1992

Brand	Volume (millions of gallons)						Market Share						Change	
	1982	1985	1987	1990	1991	1992	CAGR	1982	1985	1987	1990	1991		1992
Heineken	68.2	77.4	70.4	68.6	57.2	60.1	-1.3%	38.2%	31.6%	24.3%	25.2%	23.3%	23.3%	-15.0%
Corona Extra	0.3	9.9	49.0	29.3	27.0	29.3	58.1	0.2	4.0	16.9	10.7	11.0	11.3	11.2
Beck's	12.9	22.5	22.1	23.4	20.7	22.1	5.5	7.2	9.2	7.6	8.6	8.4	8.5	1.3
Molson Golden	31.9	28.6	27.8	19.8	19.4	19.1	-5.0	17.9	11.7	9.6	7.3	7.9	7.4	-10.5
Labatt's Blue	8.4	9.0	13.3	13.5	13.3	13.5	4.9	4.7	3.7	4.6	5.0	5.4	5.2	0.5
Amstel Light	1.2	6.1	8.5	11.3	11.7	12.4	26.3	0.7	2.5	2.9	4.1	4.8	4.8	4.1
Moosehead	9.8	14.6	13.0	11.3	10.1	10.1	0.3	5.5	6.0	4.5	4.1	4.1	3.9	-1.6
Foster's Lager	2.0	3.4	6.9	6.1	7.4	7.9	14.7	1.1	1.4	2.4	2.2	3.0	3.1	1.9
Guinness Stout	2.8	4.1	5.0	6.5	6.5	7.7	10.6	1.6	1.7	1.7	2.4	2.7	3.0	1.4
Tecate	2.7	4.5	7.0	7.2	6.8	7.4	10.6	1.5	1.8	2.4	2.6	2.7	2.9	1.4
Others	38.2	65.3	67.3	75.4	65.7	68.6	6.0	21.4	26.6	23.2	27.7	26.7	26.6	5.2
Total	178.4	245.3	290.3	272.3	245.7	258.1	3.8%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Jobson's Wine Handbook, 1993 edition; Beverage World Databank

Exhibit 15 Growth of Microbreweries in the United States

Source: 1993 Modern Brewery Age

Exhibit 16 Annual Growth Rates in Beverage Consumption in the United States, 1980-1990

Source: 1993 Beverage Industry Annual Manual

Exhibit 17 Guinness PLC—Acquiring Distribution 1987-92

Country	LVMH Joint Venture	Subsidiary	Other Joint Venture
Australia		Cawsey (1991) Bundaberg (1991)	
Brazil		United Distillers Do Brasil (1990)	
China	China		
France	Moët Hennessy Distribution (1987) Champagne et Spiritueux Associés (1987)		
Germany		Asbach (1991)	Vedima (1987)
Greece		UD Boutari (1988)	UD Kannellakis
Hong Kong	Caldbecks Jardine Riche Monde (1987)		
Ireland	Edward Dillon & Co.		
Italy		UD Italia (1989)	
Japan	Jardine Wines & Spirits (1987)	UDJ International Liquor Marketing	
Malaysia	Riche Monde (1987)		
Mexico		Empresas Unidas (1992)	
Philippines			CMG
Portugal		UD Companhia Velha (1992)	
Singapore	Riche Monde (1987)		
Spain		UDIESA (1994)	Codisa
Switzerland		Siegenthaler & Cie S.A. (1989)	
Taiwan	Caldbecks Jardine Riche Monde (1987)		
Thailand	Riche Monde (1987)		
United States	Schiefflin & Somerset (1987)	United Distillers Manufacturing Glenmore (1991)	
Venezuela		Morris E Curiel (1991) Pampero (1991)	

Source: Company documents; interviews.

Exhibit 18 Guinness PLC—Competitor Matrix for Spirits

	Guinness	Allied Lyons	Seagram	Grand Metropolitan
Volume (M cases)	57.0	51.8	71.2	103.2
Volume rank	3	4	2	1
Operating profit (£M)	£701	£409	£470	£509
Operating profit rank	1	4	3	2
Profit per case	12.3	7.9	6.6	4.9
Profit per case rank	1	2	3	4
Scotch as a % of volume	49%	18%	11%	5%
Key Brands				
Beer	Guinness Stout	Teitley		
	Harp Lager			
Bourbons	Cruzcampo		Seagram V.O.	
	I.W. Harper		Passport	
	Rebel Yell		Crown Royal	
Brandy	Ashbach Brandy	Courvoisier		
	Three Barrels	Presidente		
Champagne	Veuve Clicquot		Perrier-Jouet	
	Dom Perignon		Mumm's	
	Mercier			
	Pommery			
	Henriot			
Cognac	Moët et Chandon		Martell	
	Hennessey			
	Hiné			
Fruit Juice	Tanqueray	Beefeater		Bombay
Gin	Gordon's		Tropicana	
	Booth's		Seagram's	
Liqueurs		Tia Maria	Martell	Bailey's Irish Cream
	Pampero	Kahlua	Remy Martin	
Rum	Bundaberg			
Scotch Whisky	Johnnie Walker Black	Ballantine's	Chivas Regal	J&B Rare
	Johnnie Walker Red	Teacher's		
	Dewar's	Presidente		
	Bell's	Don Pedro		
	Old Parr			
	Vat 69			
	Black and White			
	Haig	La Ina		
	White Horse	Sauza		
Sherry				
Tequila	Gordon's		Absolut	Cinzano
Vermouth	Skol			Smirnoff
Vodka	Pimm's			

Source: *International Drinks Bulletin*, company documents. Note that volume data are in cases, equivalent to 9 liters.

Exhibit 19

Source: Guinness PLC

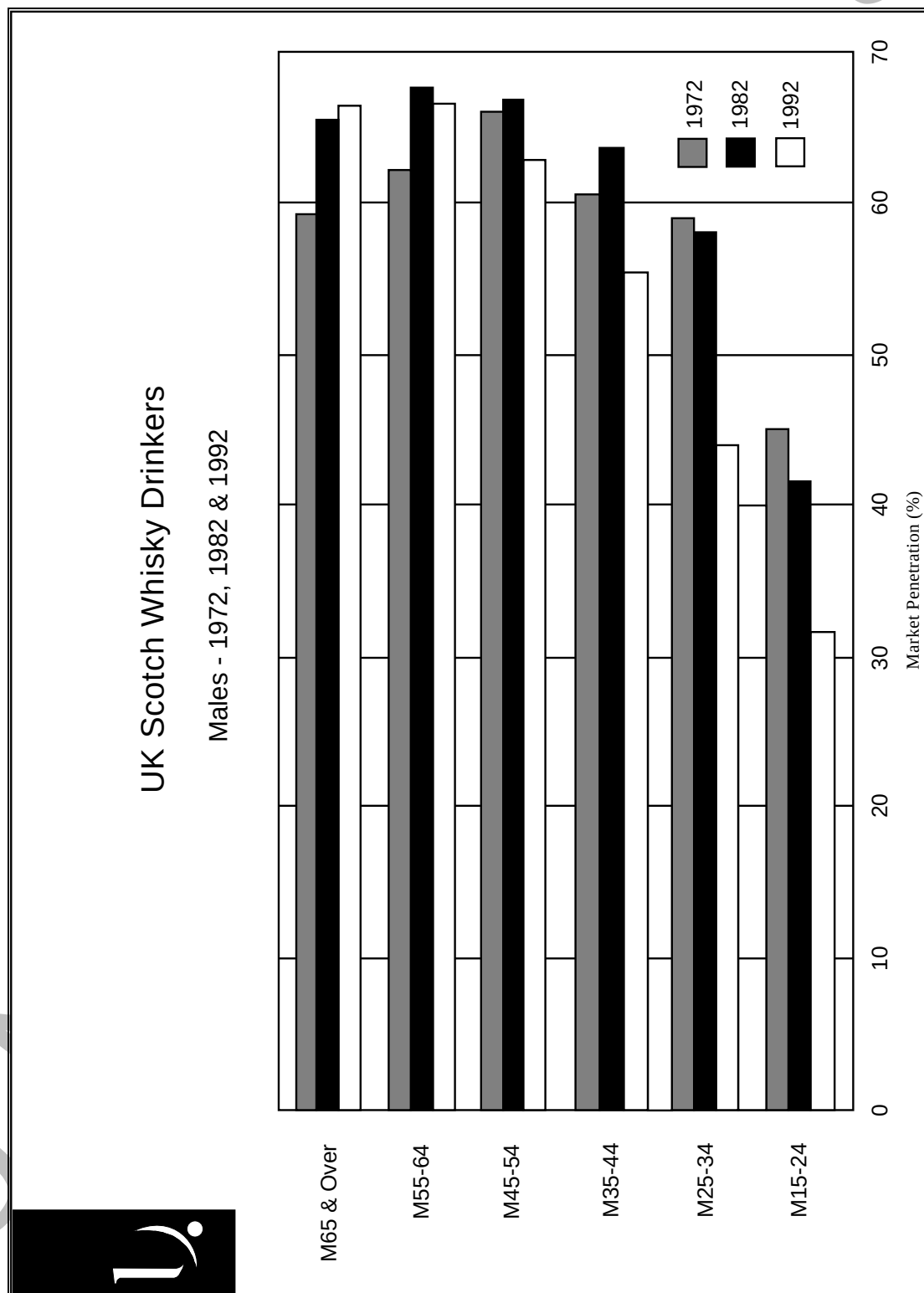


Exhibit 20 Sales of Scotch Whisky in 1993^a (million liters of pure alcohol)^b

	% of Market Volume	Malt		Grain	Blended		Total Volume	% Change on 1992	Value £ Million	% Change on 1992
		Bottle	Bulk		Bottle	Bulk				
EC excluding United Kingdom	35.36						104.11	-	£778.58	-
France	10.30						30.32	+6	216.37	-1
Spain	8.24						24.28	+8	188.09	-5
Greece	3.96						11.65	+35	82.88	+6
Germany	2.99						8.80	-3	69.35	-2
Italy	2.88						8.47	+26	59.54	-9
Portugal	2.13						6.27	+20	46.84	-2
Netherlands	1.55						4.58	+9	38.20	+8
Others	3.31						9.74	-	77.31	-
United States	13.74	1.47	0.20		21.50	17.27	40.44	+5	282.57	+13
United Kingdom	12.75	1.63	-	0.07	35.85	-	37.55	-	NA	-
Japan	5.51	0.21	7.58	1.07	7.33	0.04	10.23	-13	139.03	-22
Venezuela	3.13	0.02	1.10	0.01	6.19	1.90	9.22	+47	83.69	+51
Australia	2.53	0.13	0.07	0.04	2.73	4.48	7.45	+7	37.87	+0
South Africa	2.20	0.05	0.30	0.12	5.80	0.22	6.49	+9	41.73	+6
Thailand	1.98	0.03	0.01	-	15.78	-	5.82	+21	73.29	+26
South Korea	1.98	0.04	1.99	2.82	0.74	0.17	5.76	+25	41.79	+12
Total all markets	100.00						£294.43		NA	

Source: Scotch Whisky Associates (United Kingdom), casewriter estimates.

^aIncludes sales of one distillery located in Northern Ireland.^bScotch whisky usually comprises 40% alcohol by volume.

Exhibit 21 Summary of Exports of Scotch Whisky by Volume 1983-1993^a (million liters of pure alcohol)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	CAGR 5 1983-1993
EUROPE												
EEC	56.36	56.17	71.23	77.45	83.20	85.46	84.98	84.68	88.55	92.50	104.11	6.3
Other	20.36	20.92	12.53	13.37	14.47	14.76	12.98	13.15	11.84	12.85	15.21	-2.9
Total	76.72	78.09	83.76	90.82	97.67	100.22	97.96	97.83	100.39	105.35	119.32	4.5
AMERICAS												
Canada	4.39	5.34	4.78	4.75	4.74	3.73	4.96	3.52	3.60	3.23	3.15	-3.3
United States	68.11	68.11	65.94	59.55	58.84	53.16	48.98	46.24	40.88	34.41	40.44	-5.1
Mexico	0.12	0.34	0.45	0.94	1.36	1.91	2.39	3.60	2.54	2.89	2.99	37.9
Central America	7.21	5.95	5.62	5.83	6.20	6.46	6.72	6.20	5.64	5.84	7.46	0.3
South America	11.24	12.53	11.05	15.45	14.34	15.70	14.04	15.15	17.04	17.61	23.85	7.8
Total	91.07	92.27	87.84	86.52	85.48	80.96	77.09	74.71	69.70	67.98	77.89	-1.6
AUSTRALASIA												
Australia	6.46	7.30	8.05	8.53	8.73	9.28	8.85	6.88	6.85	6.97	7.46	1.5
New Zealand	0.82	1.16	0.77	1.02	0.60	0.90	0.75	0.67	0.58	0.61	0.70	-1.6
Other	0.55	0.49	0.55	0.70	0.51	0.58	0.59	0.55	0.53	0.44	0.44	-2.2
Total	7.83	8.95	9.37	10.25	9.84	10.76	10.19	8.10	7.96	8.02	8.60	0.9
ASIA												
Japan	23.99	21.59	15.35	17.28	14.59	16.80	21.32	20.97	18.02	18.56	16.23	-3.8
Other	12.92	15.00	13.70	15.60	15.48	18.57	18.32	20.90	21.41	20.66	24.30	6.5
Total	36.91	36.59	29.05	32.88	30.07	35.37	39.64	41.87	39.43	39.22	40.53	0.9
AFRICA												
South Africa	8.02	8.38	8.11	6.78	8.16	9.60	8.47	7.42	5.61	5.95	6.49	-2.1
Other	7.28	7.01	7.76	8.04	8.95	9.07	9.14	8.37	4.66	4.74	4.04	-5.7
Total	15.30	15.39	15.87	15.72	17.11	18.67	17.61	15.79	10.27	10.69	10.53	-3.7
Total exports	227.84	231.29	225.89	236.19	240.17	245.98	242.49	238.30	227.75	231.27	256.88	1.2

Source: The Scotch Whisky Association; casewriter estimates.

^aIncludes production of one distillery in Northern Ireland.

Exhibit 22 Summary of Exports of Scotch Whisky by Value 1983-1993* (£ million)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	CAGR % 1983-1993
EUROPE												
EEC	227.70	249.56	319.82	366.43	409.52	462.33	536.14	622.01	743.09	784.27	778.58	13.1
Other	76.60	80.90	53.01	60.42	66.79	78.14	88.00	92.94	91.24	108.62	133.30	5.7
Total	304.30	330.46	372.83	426.85	476.31	540.47	616.13	714.95	834.33	892.89	911.18	11.6
AMERICAS												
Canada	19.93	24.39	23.57	23.96	24.76	25.19	34.33	30.63	32.29	28.93	29.74	4.1
United States	224.46	253.98	270.20	245.80	234.66	231.73	236.77	273.62	247.32	250.65	282.57	2.3
Mexico	0.43	1.00	1.85	3.38	5.45	10.47	15.58	26.69	26.83	30.10	32.96	54.3
Central America	36.93	32.26	33.01	36.75	41.19	47.52	53.80	57.18	60.64	68.30	90.91	9.4
South America	49.35	52.97	55.30	79.02	73.92	83.85	78.00	103.23	133.13	147.17	197.75	14.9
Total	331.10	364.60	383.93	388.91	379.98	398.76	418.48	491.35	500.21	525.15	635.93	6.7
AUSTRALASIA												
Australia	15.76	18.34	22.03	22.47	22.77	33.61	35.32	33.64	37.25	37.94	37.87	9.2
New Zealand	2.51	3.81	2.52	3.66	2.40	3.90	3.79	4.22	3.67	3.47	3.42	3.1
Other	3.06	2.86	3.30	4.00	4.43	5.00	6.09	6.96	6.73	5.97	5.81	6.6
Total	21.33	25.01	27.85	30.13	29.60	42.51	45.20	44.82	47.65	47.38	47.10	8.2
ASIA												
Japan	70.13	70.18	58.91	64.73	67.96	87.71	150.71	177.60	165.86	177.88	139.03	7.1
Other	65.07	71.07	77.16	88.38	97.79	125.30	138.35	179.15	211.99	234.89	281.85	15.8
Total	135.20	141.25	136.06	153.11	165.75	213.01	289.06	356.75	377.85	412.77	420.88	12.0
AFRICA												
South Africa	34.71	38.33	36.31	30.15	35.03	41.88	44.47	44.69	35.78	39.28	41.73	1.9
Other	31.44	31.73	36.96	40.98	48.84	52.16	56.12	59.92	38.07	41.40	38.36	2.0
Total	66.15	70.06	73.27	71.13	83.87	94.04	100.59	104.61	73.85	80.68	80.09	1.9
Total exports	858.09	931.38	993.94	1,070.13	1,135.51	1,288.79	1,469.46	1,712.48	1,833.89	1,958.89	2,093.89	9.3

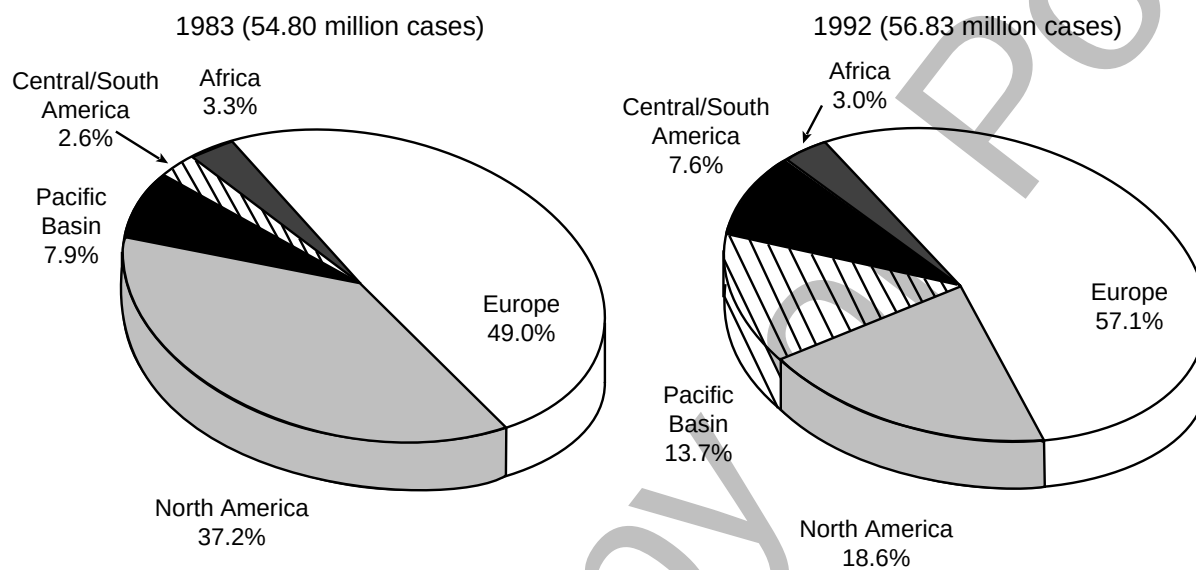
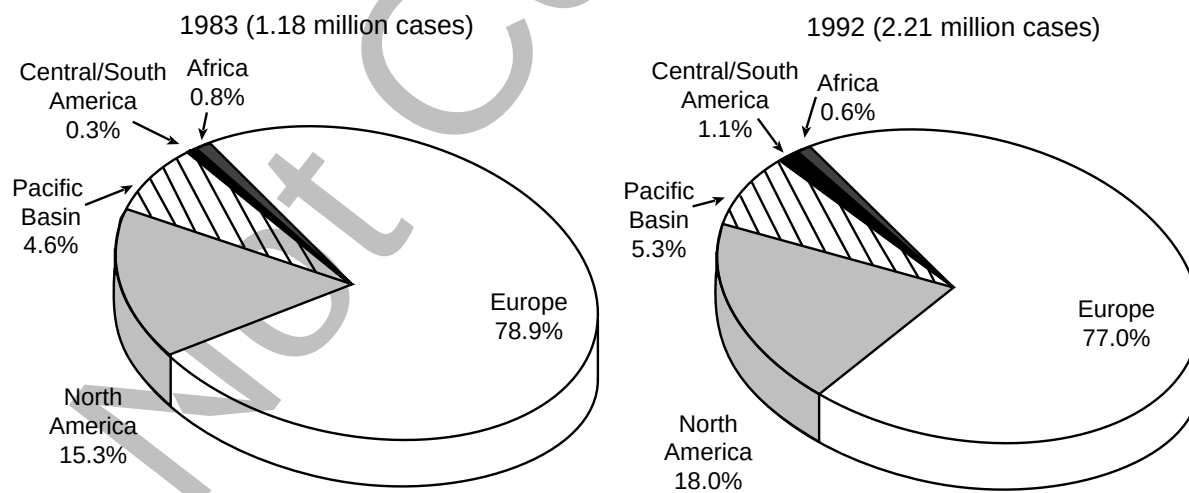
Source: The Scotch Whisky Association; casewriter estimates.

*Includes production of one distillery in Northern Ireland.

Exhibit 23 Volume and Value of Scotch Exports^a

	Volume Litres of Pure Alcohol		Volume		Value £		Value		Population 1992 Estimate (millions)
	1993	1992	% Change	1993	1992	% Change	1992	% Change	
ASIA									
China	53,887	14,581	+270	582,094	249,984	+133		+133	1,162.0
Hong Kong	1,421,994	1,239,632	+15	21,977,513	19,331,965	+14		+14	5.8
India	599,277	597,389	+0	5,417,213	6,575,204	-18		-18	884.0
Malaysia	572,911	551,086	+4	8,950,778	6,946,009	+29		+29	18.6
Singapore	1,653,360	1,468,917	+13	20,108,545	19,015,174	+6		+6	2.8
Taiwan	1,034,842	682,999	+52	37,551,682	22,676,039	+66		+66	20.6
Vietnam	14,524	1,587	+815	95,039	13,332	+613		+613	69.5
EUROPE									
Belgo-Luxembourg	4,430,797	3,145,508	+41	35,853,537	33,383,867	+7		+7	10.4
Denmark	1,039,838	715,024	+45	7,500,408	5,443,322	+38		+38	5.2
Irish Republic	1,325,805	889,550	+49	8,879,013	6,615,858	+34		+34	3.5
Turkey	3,160,673	2,135,622	+48	28,821,954	18,143,101	+59		+59	58.5
MIDDLE EAST									
Lebanon	1,447,761	1,128,159	+28	12,977,267	10,098,078	+29		+29	2.9
Dubai	1,493,502	1,334,285	+12	18,624,826	12,156,883	+12		+12	-
EASTERN EUROPE									
Bulgaria	1,775,997	1,513,847	+17	15,153,628	11,543,907	+31		+31	8.5
Hungary	462,930	243,417	+90	3,278,752	2,089,015	+57		+57	10.3
Poland	238,879	90,152	+165	1,638,857	864,972	+89		+89	38.4
Russia	609,809	-	+100	5,128,085	-	+100		+100	149.0
Czechoslovakia	-	667,556	-100	-	5,447,006	-100		-100	15.6
Slovakia	22,717	-	+100	242,926	-	+100		+100	-
Czech Republic	815,927	-	+100	6,872,294	-	+100		+100	-
CENTRAL AMERICA									
Costa Rica	551,676	352,143	+57	2,657,608	2,023,853	+31		+31	3.2
Panama	990,374	727,447	+36	15,080,856	11,660,669	+29		+29	2.5
SOUTH AMERICA									
Argentina	2,273,166	1,459,176	+56	10,142,878	7,236,321	+40		+40	33.1
Brazil	4,079,617	3,114,827	+31	30,048,778	21,034,956	+43		+43	154.0
Colombia	624,420	408,025	+53	7,370,353	3,742,494	+97		+97	33.4
Uruguay	2,217,767	1,650,737	+34	18,057,181	12,242,196	+47		+47	3.1
Paraguay	3,303,462	2,694,073	+23	27,943,242	28,536,917	-2		-2	4.5

Source: The Scotch Whisky Association (United Kingdom); *Euromonitor*, World Bank.^aIncludes exports from one distillery in Northern Ireland.

Exhibit 24 Global Scotch Sales**Blended Scotch****Malt Scotch**

Source: Guinness PLC

Exhibit 25 Effect on Profits of a 1% Variable Change**Key Variables:**

Price	£20 million
Volume	£13 million
Marketing	£ 3 million
Costs	£ 3 million
Working Capital	£20 million

Source: Guinness PLC Presentation, 1994.