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The business

Diageo is a worldwide alcoholic beverage corporation that has its headquarters in London, England. The firm is based in the United Kingdom. It is the primary manufacturer of beer and wine as well as the biggest manufacturer of spirits in the world. In 1997, Guinness and Grand Metropolitan merged to establish the firm we know today as Guinness Grand Metropolitan. Over half of Diageo's income comes from the selling of Scotch whiskey, making it the company's most profitable area. In addition, this business owns 34% of Moët Hennessy. In July of 2014, Diageo came to an agreement with United Breweries Group to sell 53.4% of the shares it held in United Spirits Ltd. (Jones et al., 2007). As a further component of the transaction, United Breweries will acquire a minority holding in Diageo. Products manufactured by Diageo are sold in approximately 180 countries, and the company has operational businesses in close to 80 of those nations. Additionally, the corporation controls 34% of United Spirits, which is India's most successful spirits' company. Diageo is a multinational company that does business in around 180 countries and employs 33,000 employees on the whole. (Keller, 2015).

Why this product

Diageo is not just the biggest manufacturer of alcoholic beverages but also a significant player in the beer and wine industries. However, while having its headquarters in London, the corporation has operations in more than 180 countries all over the globe. According to Munshi (2006), Diageo is a publicly traded firm, and its shares are traded on the London Stock Exchange. The interest in writing about management economics led to choose Diageo as the subject of my research because of the breadth and depth of the company's product offering. It would be fascinating to examine how the firm has evolved over the years, which is why I decided to utilize this product for my Management Economics report. This product is a market leader on a worldwide scale, and I believe it will be useful. In addition, it is curious about the Scotch whisky market and how Diageo has managed to become such a strong competitor in this field. Below we can see the market size of Scotch in UK.



Fig: 1 Market Size Diageo's Scotch. (Dataintel, 2022).

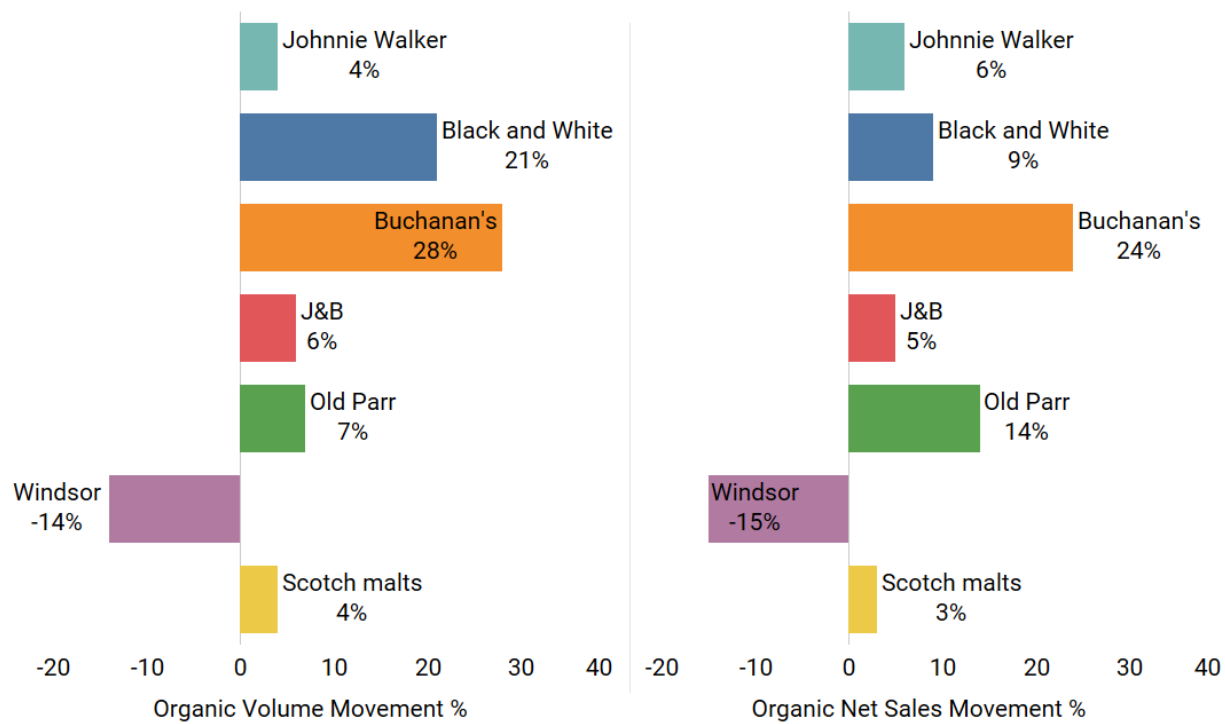
Demand and Market Equilibrium

Price substitutes

Diageo also produces a number of other spirits, such as gin, vodka, and rum. As a result, it can be difficult to find a true substitute for Diageo Scotch. However, there are a few brands that come close. These include Johnnie Walker, Chivas Regal, and Glenlivet. Each of these brands produces high-quality Scotch that can match the flavor and sophistication of Diageo products. In addition, each brand has a wide range of products that can be used as substitutes for specific Diageo Scotch whiskies. As a result, anyone looking for a substitute for Diageo Scotch should consider these three brands. (Caiazza and Ferrara, 2016).

The prices of Diageo's scotch whisky substitutes are generally decreasing. The company has been offering heavy discounts and price cuts on its products. For example, the price of Johnnie Walker Black Label 12 Years old has decreased by 10% in the last year. The company is also facing stiff competition from other brands such as Chivas Regal and Highland Park, which have been able to maintain their prices. (Pistore and Lora, 2006). Diageo is also facing challenges in some of its key markets such as India and China, where the demand for scotch whisky has been declining. As a

result, the company is likely to continue to experience pressure on its margins in the coming months. Despite the price substitute Diageo's scotch performance is going great according to the



graph below.

Fig: 2 Performance of Diageo. (Diageo, 2018)

The decreasing prices of Diageo's scotch whisky substitutes are likely to result in increased demand for the company's products. The heavy discounts and price cuts being offered by the company are making its products more attractive to consumers, who are facing stiff competition from other brands. Additionally, the decline in demand for scotch whisky in key markets such as India and China is likely to put pressure on Diageo's margins. However, the company's ability to offer heavy discounts and price cuts suggests that it is confident in its ability to compete in the current market.

Price of complements

Diageo's main product is Scotch, so a common complement for it is mixers. Mixers help to cut the bitterness of some alcohols and can also be used to create new flavor profiles. Common mixers include soda, juice, and tonic water. bartenders also often use bitters, syrups, and fruit to create unique cocktails. In addition to mixers, Diageo's products are often served with snacks such as

olives, nuts, and cheese. These snacks can help to take the edge off of the alcohol and make it more palatable. By offering a variety of complementary items, Diageo provides a complete experience that can be enjoyed by everyone. (Pistore and Lora, 2006).

The price of a complement's scotch is determined by many factors, including the quality of the scotch, the age of the scotch, and the demand for the scotch. In recent years, the quality of Scotch has increased significantly, while the age of Scotch has remained relatively constant. As a result, the price of a complement's Scotch has increases. However, the demand for Scotch has also increased, which has offset some of the price increases. Nevertheless, the overall trend is that the price of a complement's Scotch is increasing. (Caiazza and Ferrara, 2016).

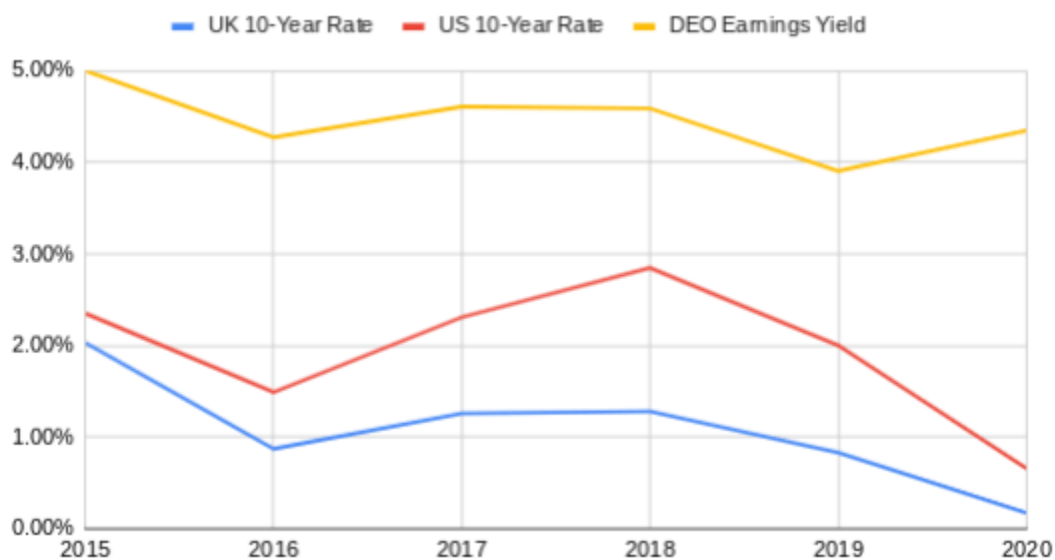


Fig: 3 Rate and DEO earning yield. (NYSE, 2020)

The trend of increasing prices for a complement's Scotch is likely to continue in the future. This will lead to increased demand for Diageo's Scotch, as consumers seek out higher-quality and more expensive brands. In addition, the trend may also lead to increased competition from other scotch producers, as they attempt to capture a larger share of the market.

Consumer Income

Consumer income in the UK has been relatively stagnant over the past few years. This has led to a decrease in demand for Diageo's scotch, as consumers are increasingly looking for cheaper alternatives. The company has responded by introducing lower-priced variants of its popular brands, but this has not been enough to offset the decline in sales. As a result, Diageo is seeking to expand its market share in other countries, where consumer incomes are growing more quickly.

In particular, the company is focusing on emerging markets such as China and India, where there is a growing middle class with disposable income. By increasing its presence in these markets, Diageo hope to offset the negative impact of stagnant consumer income in the UK. (Pistore and Lora, 2006).

In the UK, consumer income has been relatively flat over the past few years. This has led to lower demand for Diageo's scotch. However, the company has been able to offset some of this decline by offering new products and marketing to different segments of the population. For example, Diageo has introduced a new line of "premium" scotches that are designed to appeal to affluent consumers. (Caiazza and Ferrara, 2016). The company has also been investing heavily in marketing initiatives that target younger adults. As a result, while consumer income has been stagnant, Diageo has been able to maintain demand for its products.

Consumer tastes & preferences

In recent years, there has been a shift in consumer preferences in the alcohol industry. More and more people are choosing to drink Spirits and cocktails over beer and wine. This trend is being driven by a number of factors, including the increasing popularity of craft spirits, the growing popularity of mixology, and the desire for more sophisticated drinking experiences. (Pistore and Lora, 2006).

This changing landscape presents both challenges and opportunities for Diageo. On the one hand, the company's core products - Scotch whisky and gin - are in declining demand. On the other hand, Diageo has a portfolio of premium spirits that are well-positioned to capitalise on the current trends. In order to seize these opportunities, Diageo will need to focus on innovation and marketing its products to appeal to the changing tastes of consumers. (Rumelt et al., 2019).

Consumer expectations of price

As a leading producer of scotch whisky, Diageo is no stranger to fluctuations in the price of their products. Consumers expect the price of scotch to increase when demand is high and decrease when demand is low. This affects demand for Diageo's products because consumers are more likely to purchase their scotch when the price is low. However, Diageo must be careful not to lower the price too much, as this could lead to a decrease in profits. (Esser and Jernigan, 2015). Ultimately, Diageo must strike a balance between meeting consumer demand and maximizing profits.

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Demographics - Number of Consumers (Buyers)

According to a recent report from the Scotch Whisky Association, the number of scotch buyers in the UK is on the decline. The report found that the total number of scotch drinkers fell by 2% last year, and that the number of people who bought scotch on a monthly basis declined by 3%. This is surprising news, given that scotch sales have been strong in recent years. (Jones et al., 2017). In fact, Diageo's scotch sales increased by 6% last year. Despite this overall growth, it seems that the number of buyers is actually falling. (Caiazza and Ferrara, 2016). This could have a significant impact on demand for Diageo's scotch. If fewer people are buying scotch, then Diageo may need to adjust its marketing strategy in order to maintain its sales levels.

Price Elasticity of Demand

Substitution Effects

The term "substitution effect" is used to describe the impact that a change in price has on consumer behavior. When the price of a good or service goes up, consumers will often substitute cheaper alternatives in order to save money. For example, if the price of steak increases, consumers may purchase chicken instead. The same is true for necessary goods and services. If the price of gasoline rises, people may drive less or carpool more. In general, the substitution effect results in lower demand for luxury goods and services when prices increase. (Esser and Jernigan, 2015). This is because people can more easily forego non-essential items when their budgets are tightened. However, the substitution effect also apply to essential goods and services. When the price of food or healthcare increases, people may cut back on other expenses in order to afford these necessities.

In this way, the substitution effect can have a significant impact on both luxury and necessity goods and services. (Munshi, 2006).

Luxury or a necessity: Diageo's Scotch

For many consumers, scotch is seen as a luxury item. This is largely due to the fact that scotch is often more expensive than other types of alcohol. However, there are also many people who see scotch as a necessity. This is because scotch is often seen as a high-quality alcoholic beverage. Scotch is also often seen as a luxurious drink because it is often made with high-quality ingredients. For many people, scotch is seen as a necessity because it is a high-quality drink that can be enjoyed on special occasions. (Rumelt et al., 2019). Being the Luxury product it has a leading sales in the industry.

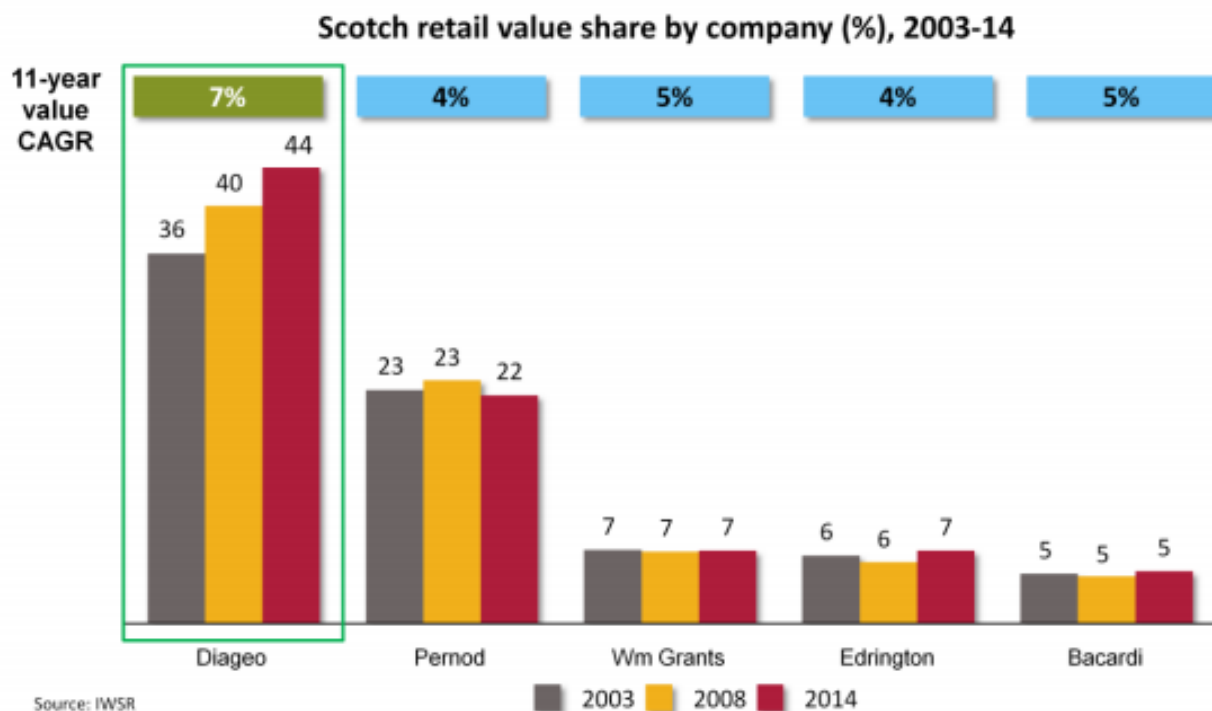


Fig: 4 Leading position Diageo. (Forbes, 2018).

More elastic or more inelastic:

The concept of elasticity is important in determining how demand for a good or service will change in response to changes in price. In general, luxuries are more elastic than necessities. This means that people are more likely to cut back on spending on luxuries when prices increase, as they can more easily go without these items. In contrast, necessities are more inelastic, as people will

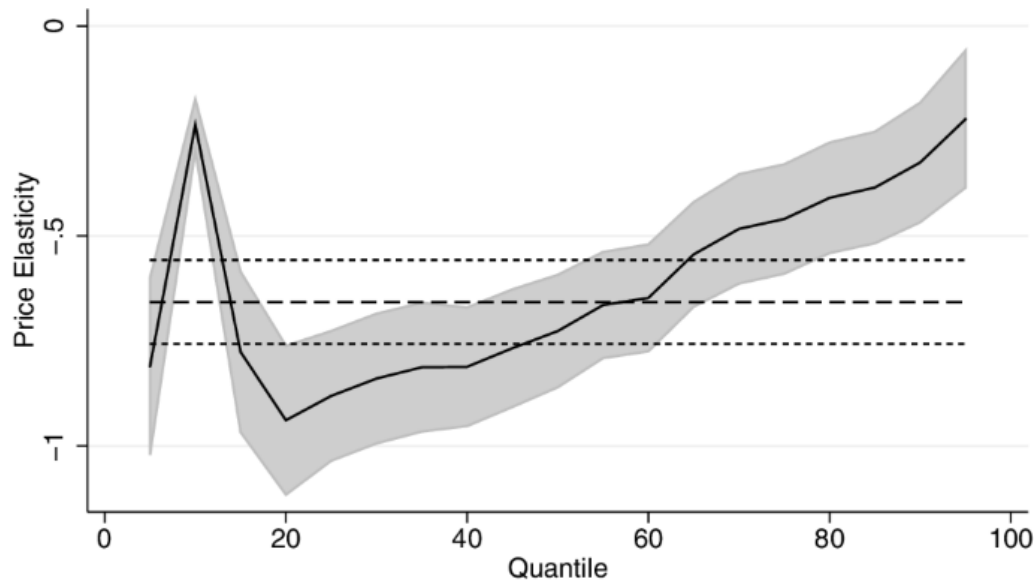


Fig:5 Elasticity. (Springer, 2019).

continue to purchase them even when prices rise. Thus, the fact that Diageo's scotch is considered a luxury indicates that demand for the product is more elastic. This means that price increases are likely to result in a decrease in demand, as people will simply purchase cheaper brands of scotch instead. (Esser and Jernigan, 2015).

Income effects

Percentage of income: Diageo's Scotch

In July of 2017, Diageo, the world's largest producer of spirits, completed a \$749 million purchase of Highland Park, one of Scotland's most prestigious Scotch whisky brands. The price tag for the acquisition was significantly higher than industry analysts had predicted, and it immediately raised questions about the affordability of Diageo's products for consumers. (Rumelt et al., 2019).

However, it is important to keep in perspective the relative cost of Diageo's products. While the purchase of a bottle of Highland Park may represent a significant expenditure for some consumers, for most people it represents a relatively small portion of their income. In fact, according to data from the Bureau of Labor Statistics, the average American spends less than 3% of their income on

alcoholic beverages. This means that, even if the price of Diageo's products were to increase by 30% as a result of the Highland Park acquisition, (Jones et al., 2017) it would still only represent a tiny fraction of most people's budgets.

More elastic or more inelastic

While it is difficult to say for certain, this factor does indicate that demand for Scotch is more elastic than it is inelastic. In other words, people are willing to pay more for Scotch when they perceive it to be of higher quality. This acquisition by Diageo is likely to increase the price of Scotch whisky, but it remains to be seen how much of an impact this will have on the average consumer's budget. (Rumelt et al., 2019).

Pricing policy

Diageo, the world's largest producer of spirits and beer, faces a unique challenge when it comes to pricing its products. On the one hand, the company must remain competitive in a global market where consumers are increasingly price sensitive. On the other hand, Diageo's strong brand equity allows it to charge premium prices for its products. As a result, Diageo must carefully consider what pricing policy will best allow it to achieve its objectives. (Munshi, 2006).

A key consideration for Diageo is the relative prices of its products. In general, premium spirits are priced higher than mass-market brands. This allows Diageo to generate higher margins on its premium products. However, if Diageo prices its products too high, it risks alienating price-conscious consumers. (Oregon, 2010). As a result, the company must strike a balance between maintaining its premium positioning and remaining competitive on price.

Another key consideration for Diageo is the interaction between its different product categories. The company sells both spirits and beer, and there is significant overlap between these two categories. For example, many consumers who purchase spirits also purchase beer. As a result, pricing strategies for these two product categories must be carefully coordinated to avoid cannibalization. (Rumelt et al., 2019).

Finally, Diageo must consider the impact of currency fluctuations on pricing. The company exports a significant portion of its products, and changes in exchange rates can have a significant impact on profitability. As a result, Diageo must take currency risk into account when setting prices for its products.

Conclusion

As the world's largest producer of scotch whisky, Diageo is in a unique position to weather the current economic storm. While other industries are struggling, the demand for scotch whisky has remained strong. In fact, sales of premium scotches have actually increased in recent months. pricing is a complex issue for Diageo. The company must consider a variety of factors in setting prices for its products. However, if Diageo can find the right balance, it will be well-positioned to achieve its objectives in the global marketplace.

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