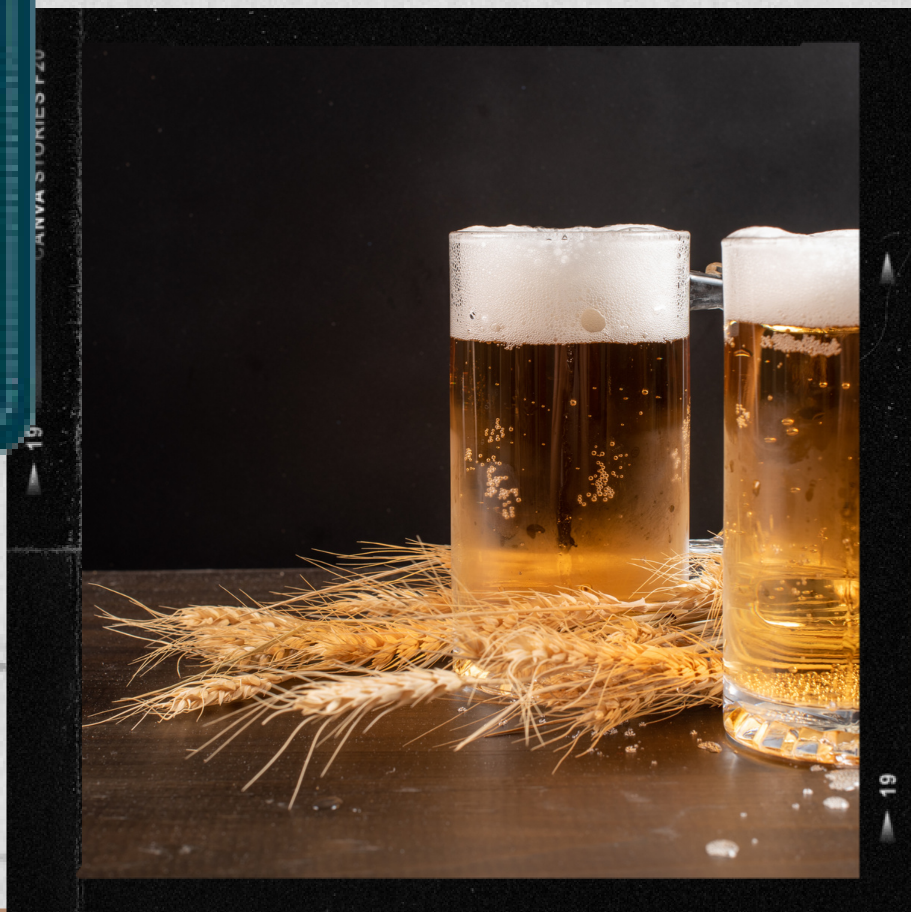
MOUNTAIN MAN BREWING COMPANY CASE STUDY



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Qualitative Analysis

5 C's

Company

- A popular brand which exclusively focuses on Beer production and marketing, which also happens to be a family recipe running as a legacy.
- A strength - Brand value and a fraction of loyal customer base.

Competition

- Major domestic producers : Anheuser Busch, Miller Brewing Company, and Adolf Coors
- Import beer companies
- The craft beer industry

Complementor

- Small scale beer industries, Restaurants, Marketing Media, Restropubs and other domestic distributers.

Customer

- Their main focus was on the older working men (Over 35 years) who were loyal customers to the brand. But MMBC also considered to include light beer to attract the younger crowd. (21-27 years)
- The concern: Younger crowd was not staying loyal over time. Ranked very low as favorite amongst younger age range.

Context

- Over the 6 years, light beer sales in the United States had been growing at a compound annual rate of 4%, while traditional premium beer sales had declined equally.
- Reposition the brand to drive sales of Mountain Man Light to young people without eroding the core brand equity of Mountain Man Lager.

4 P's & STP

Product

Launch the light beer as a trial product in certain on-premise and off-premise stored and check the demand.

Price

Set the price of "Mountain Man Light" below the leading domestic light beer brands to attract attention. For example, set the price under 8.6 cents/ fl oz, since this is the price of Bud Light who has 32.9 % of the market share

Promotion

- Market research should be conducted to determine how consumers react to the new brand being introduced.
- Campaigns and events for the youngsters should be organized where the light beer would be shown so that the young people can have exposure to the new product.

Place

- Continue selling the "Mountain Man Lager" at off-premise stores
- Introduce the "Mountain man Light" beer the on-premises like the bars and restaurants, for the younger people and women

Segmentation

There are two segmentations for Mountain Man Beer Company (MMBC) customers. One is the blue-collar, middle-to-lower income men over age 45. The other is the young adults. The elder segment shows a strong favor for lagers, the flavorful, bitter-tasting beer, while the young adults always prefer to drink a light beer.

Targeting

MMBC targets the young adult segmentation by introducing its new light beer because, over the past six years, light beer sales in the United States had been growing at a compound annual rate of 4%, while traditional premium beer sales had declined annually by the same percentage.

Position

MMBC positions the Mountain Man Light as the light beer product to attract young adults' attention to the brand, while still keeping the Mountain Man Lager product line for its existing customers who show a strong loyalty toward MMBC.

Pros and Cons of Launching Light Beer

Pros

- MMBC's customer segment opportunity by introducing a light beer can attract young customers and women customers.
- light beer sales in the United States had been growing at a compound annual rate of 4%, so the opportunity to boost sales of MMBC as a whole is there.
- This will allow MMBC to gain more space in restaurants and bars.
- Will diversify the products that MMBC has and balance the company's risk.

Cons

- Mountain Man Light might cannibalize the sales of Mountain Man Lager because of a fear that retailers would not grant Mountain Man incremental shelf space and, therefore, would substitute cases of light product for the lager product.
- It could hurt brand loyalty and therefore lose the core loyal customers and crush the business.
- Not having a significant market share, as major brands in the light beer category already have substantial marketing and advertising.
- Introducing a light beer would need significant investment for advertisement, marketing, packaging, and storage.

Key Points

The goal for Chris: To translate Mountain Man's brand recognition into a meaningful share of the local light beer market without eroding any of the existing lager's sales.

What has made MMBC successful?

- **The strong loyalty rate towards the company:** MMBC's blue-collar customers showed the highest loyalty rate(53%) towards MMBC over all their main competitors.
- **The large enough size of the market to support the business:** Primary distributors are in Illinois, Indiana, Michigan, Ohio, and its native West Virginia, where MMBC has had the top market position in West Virginia for 50 years.
- **Never fail its core customers.** Never been seduced by other companies' markets and lost sight of its own core customers and values.
- **The meticulous formula**. Guntar Prangel had reformulated an old family brew recipe creating a flavorful beer that set them apart from other lager/beer brands in the market.

What about the factors that enabled MMBC to create such a strong brand?

- **They are staying focused on where they originally began**. The choice not to get sidetracked by other competing markets has allowed MMBC to continue to grow with their customers and meet their customers' needs without being spread across multiple areas.

What has caused MMBC's decline?

- **Large domestic brewers were putting pressure** on MMBC due to aging demographic in the shrinking premium segment and were spending heavily to maintain their sales levels in the premium segment.
- **MMBC hasn't adjusted for new shift in the consumer landscape** as many of the industry observers agreed that the key segment was younger drinkers making up more than 27% of total beer consumption and was growing.
- **Changing business landscape and environment** as increase in federal excise tax and and overall health concerns were therefore causing sales to drop.

Quantitative Analysis

Revenue Forecast for Mountain Man Light beer

	2005	2006	2007	2008
Light beer consumption (in barrels) in East Central Region	18,744,303	19,494,075	20,273,838	21,084,792
CAGR	-	4%	4%	4%
0.25% estimated growth YoY	-	0.25%	0.50%	0.75%
Estimated sales in barrels	-	48.735	101，369	159，136
Estimated revenue (@97$ per barrel)	-	$ 4,727,295	$ 9,832,739	$ 15,339,192

Net Present Value(NPV)

Step 1: Total Gross Margin = No.of Barrels Sold * Gross Margin Per Barrel = 47979.01 * 25.78 = $1,236,899.12

Step 2: Total operating(Fixed) cost = $2,923,760.4

Step 3: Net Cash Flow = Total Gross Margin – Total operating(Fixed) cost = -$1,686,860.88

Step 4: Discount Rate = 12% (assumption)

Step 5: **NPV** = Net Cash Flow / (1 + Discount Rate)
= -$1,686,860.88 / 1.12 = -$ **1,506,125.79**

Break Even Analysis

(Cannibalization was estimated between 5%-20% by Oscar, we pick 12% as the cannibalization on Mountain Man Lager.)

Net Revenues	$50,440,000	
Variable cost per barrel	Lager: $66.93	Light: $71.62
COGS	34,803,600	
Advertising cost	$750,000	
Annual Increment SG&A for 2006 and 2007	$1,800,000	
Net Income Before Taxes	$4,791,800	
Provision for Income Taxes	$1,677,130	

Step 1 : Sales volume = COGS/VC=34,803,600/66.93 = 520,000 barrels

Price per barrel = net revenue/sales volume
=$50,440,000/520,000 =$97

Step 2: Contribution margin per barrel = price per barrel – variable cost per barrel
= $97-$71.62 =$25.31

Step 3: Cannibalization lost volume = 12% * sales volume
= 12% * 520,000 =62400 barrels

Step 4: Income per barrel after taxes = (net income before taxes – provision for income taxes) / sales volume
= ($4,791,800 - $1,677,130) / 520,000 = $ 5.989

Step 5: Cannibalization on Mountain Man Lager = cannibalization lost volume * income per barrel after taxes
= 62400 * 5.989 = $ 373,760.4

Step 6:Total fixed cost = advertising cost +annual increment SG&A for 2006 & 2007
= $750,000 + $1,800,000 = $ 2,550,000

Step 7:Total fixed cost with cannibalization = Total fixed cost + cannibalization
= $ 2,550,000 + $ 373,760.4 =$ 2,923,760.4

Step 8: **Break Even** = Total Fixed Cost / Contribution Margin per barrel
= $ 2,923,760.4 / $ 25.31 = **115,517.993 barrels**

Recommendation: Should MMBC launch a light beer?

- The recommendation is that Mountain Man **should** try to produce Mountain Man Light. Because, the demand for Mountain Man Lager is now in a **downward curve**. Although it has a loyal customer group, it has **no positive growth**. Also, its **market** is **slowly occupied** by other competitors. It needs to enter the mainstream market and **attract more users** by **drawing a new segment** or **launching a new product category.**

- Based on the **results of the break-even analysis** we can know that after taking into account the cannibalization and other losses, the amount of mountain man light that needs to be sold to reach equilibrium is **small**, about **22% of mountain man lager sales**, which is a target that can be easily reached.

- By considering the **qualitative analysis**, we can deduce that, with the significant collaboration with external resources, different marketing strategies and already existing brand value, Mountain Man definitely up their game and reach the expected target in around an year.