

CORPORATE BRAND MANAGEMENT AND REPUTATION

MASTER CASES



Absolut Pressure: The Challenge of Mixing Relevance, Performance and Sustainability One Shot at A Time

By:

Alaa Eldin Helal

Hany Wulandari

Thiago Costa

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Corporate Brand Management and Reputation: Master's Cases

The "Corporate Brand Management and Reputation: Master's cases" is a case series for applying the case method of teaching and learning in higher education. The cases are relevant to brand strategists in private and public sector organizations, as well as academics and students at universities, business schools, and executive education.

The cases are written by groups of master's students as a course project. The specially developed case format is defined as: *"A management decision case describes a real business situation leading up to a question(s) that requires assessment, analysis, and a decision reached by discussion in class. The alternative approaches and recommendations from the class discussion are followed by a description of the choices made by the case company. This description is then discussed by the class."*

The student groups select the topics of their case providing updated and relevant insights into the corporate brand management. The cases can be used as "written cases" (handed out and read in advance, later to be discussed in class) and/or as "live case" (presented by the teacher following a discussion in class). Each case includes teaching notes, visuals with speaker's notes, learning objectives, board plans, and references.

The mission of the series is *"to develop cases for discussion providing insights into the theory and practice of corporate brand management and reputation, with the intent of bridging the gap between academic teaching and managerial practice."*

The series is a result of co-creation between students and teachers at the elective course Corporate Brand Management (BUSN35 – five-credit course/eight-week half-time studies), part of the master's program International Marketing and Brand Management at Lund School of Economics and Management, Sweden. The cases represent the result of the intellectual work of students under the supervision of the head of course.

Although based on real events and despite references to actual companies, the cases are solely intended to be a basis for class discussion, not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. The cases are free to be used and are to be cited following international conventions.

Editor

Mats Urde
Associate Professor
mats.urde@fek.lu.se

Head of master's course Corporate Brand Management (BUSN35), part of the master's program International Marketing and Brand Management.
Lund School of Economics and Management, Sweden.

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WRITTEN CASE

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ALAA ELDIN HELAL

HANY WULANDARI

THIAGO COSTA

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On the 12th of December 2018, the CEO of Absolut Vodka (Absolut) was on her way to attend a meeting with the CEO of Pernod Ricard, Absolut's mother company. It was still vivid in her memory of yesterday's critical meeting with her communication director and marketing director about the Pernod Ricard (Pernod) company under pressure from U.S activist investor Elliott Management. Elliott Management (Elliot), a hedge fund that holds 2.5% participation in Pernod's company, called the CEO of Pernod on 11th December 2018 for a bolder strategy for the whole business. The impulsive meeting was not without an apparent reason. The representative of Elliot said Pernod still has a prospect to improve its business after losing market share across its portfolio based on its fund statement. The situation got worse for Absolut when Elliott affirmed that Absolut was underperformed because its operating margins have been five percentage points lower than Absolut's main competitor, Smirnoff by The Diageo. Putting the spotlight on Absolut as the biggest brand in Pernod's portfolio, Elliott criticized Pernod for the €6 billion acquisition of that Swedish iconic vodka brand in 2008, falling short of expectations in ten years. As the CEO of Absolut cares about her company's future, she tried to delve into the issue and how should she act to achieve the important objective of Absolut's mother company shareholders.

Background and History

Absolut was established in 1879 by Lars Olsson Smith, and it is a well-known product. It is manufactured in Åhus, Sweden. With a fascinating origin, its founder challenged Stockholm's liquor monopoly with his vodka, first selling Absolut Vodka outside the city border at a lower price than the monopoly's product. L.O Smith was very progressive in front of the standards of that time, being a fervent supporter of equality and diversity in society, which drives Absolut's values until today. In the 70s, Smith's heritage was managed by Vin & Spirit, the public company responsible for spirits and wine in Sweden, which saw an opportunity to export Absolut Vodka to

other countries as a Swedish symbol, introducing the "Country of Sweden" slogan. Then, a hundred years after its foundation, Absolut Vodka was introduced in the global market in 1979, becoming popular among the creative community in New York, one of the world's more pleasant cities. At the beginning of the 80s, the agency TBWA created an impactful campaign for the brand featuring a product picture with a halo over the cap with the slogan "Absolut Perfection" (see **Exhibit 1**). Until today, the campaign has been running and has won hundreds of awards since then. Absolut was also the first brand to publicly support the LGBT community. The cult-like interest among the brand also contributed to placing its bottle on iconic artworks from artists such as Andy Warhol and Keith Haring (see **Exhibit 2**) pavement way to set Absolut as an iconic brand worldwide.

In 2008, thanks to a privatization push from the Swedish government, Vin & Spirits was put on sale, attracting industry giants such as Diageo, Pernod Ricard and Bacardi as the leading contenders for its acquisition. After months of speculation, Pernod Ricard sealed a €5.6bn deal to buy the maker of Absolut Vodka, already the second biggest vodka brand in the world. After it, Pernod Ricard renamed Vin & Spirits as The Absolut Company, a group's subsidiary. With over 100 million liters sold annually and an iconic cultural legacy, Absolut is still the biggest brand in Pernod Ricard's portfolio. However, the lack of solid growth and rentability after the acquisition, in addition to the need for adaptation based on current consumption trends led by the new generations, turn yellow lights for the future of the brand in terms of results and relevancy, and some pressure started to come from Pernod Ricard's investors.

The Incident

On the 11th of December 2018, representatives from the US-based hedge fund Elliott Management met Alexandre Ricard, the CEO of Pernod Ricard, to confirm a \$1.05 billion stake for a 2,5% participation in the company and calling for management changes to help grow profit margins, according to a public statement from the fund. According to Elliott's view, one of the main negative points for the business was the disappointing results after the acquisition of Vin & Spirits - Absolut Vodka - in 2008 and an environment of inadequate corporate governance in the whole business. In the market, it is reported that successive operational improvement plans have failed to generate operating leverage, leaving operating margins at a five-percentage point discount to its closest rival, The Diageo, owner of Smirnoff, Absolut's main antagonist. Elliott disclosed that it had built a stake of more than 2.5% in Pernod Ricard and implored Pernod to improve its performance.

Soon after the meeting and the release of the statement from the hedge fund, Ricard spoke with fellow shareholders and managed to guarantee support for long-term results. However, Ricard noticed that he would need a bigger plan to recover positivism and avoid uncertainty with the business. That is why he wanted to meet with the CEO of The Absolut Company. As the most representative brand in Pernod Ricard's portfolio, the CEO of Absolut Vodka Company knows that her company will always be in the spotlight. Absolut is a key anchor for Pernod, and noticeable that Absolut's brand is facing challenges in being popular among younger consumers and succeeding in key markets outside Europe, such as in the US, the world's biggest vodka market.

Vodka was the largest growth category on any major international spirit sector in 2006. More premium brands of vodka including Absolut stepped into the global market. Meanwhile Smirnoff, the main rivals of Absolut has launched more campaigns which aims to redefine its position in the middle of the market in an era when brands are stepping over each other to release the most premium vodka. The total global consumption of vodka in 2006 is up to 513.5 million cases, based on the International Wine and Spirit Record estimates. Not long ago, there was an economic loss in the 2008-9 recession and caused the majority of Absolut's drinkers in U.S. were switching to its lower-priced, Smirnoff vodka. Since then, Smirnoff become the largest vodka in the U.S. by volume and Absolut is the second-largest (Beverage information Group, 2020). In addition, the global market of alcoholic beverages has been suffering a vast change led by the consumption behaviour of millennials and generation Z. Besides the fact that the total global consumption of alcohol remains stable, reports show that new generations are opting to drink more responsibly and selectively by considering no/low-alcoholic beverages and trying "something new" tasting small-batch spirits microbrews and new products. In this context, specialists predict that the market for low- or no-alcohol beverages will scale, with a similar trend also being noticed in the ready-to-drink (RTD) segment. Not by coincidence, industry giants are reportedly developing and acquiring no/low-alcohol and RTD brands, and Pernod itself is taking part in this movement.

Sustainability also plays a key role through these behavioural changes. Once the new generations are concerned more about the values and environmental impact of a brand and willing to pay for products with an environmental and social connection, a situation that pulses the need of adaptation for established brands while opens opportunities for new entrants with an attractive approach to these new generations. In this context, Absolut has been creative in standing for sustainability in its previous campaigns, such as through the "Nothing to Hide" campaign launched at the beginning of 2018, where real naked employees explain the origin of the wheat, the community and the sustainable farming principles that drive the production of

Absolut in southern Sweden. Despite the boldness of this global campaign and the strong values on sustainability attached to the brand, recent marketing efforts still do not seem to match with the image of cultural icon built in the past, with a few exceptions for some campaigns in specific countries - such as South Africa - but which were not adapted to gain a global scale.

Although Absolut keeps its place as the world's leading premium vodka and the second in the whole segment in terms of sales volume, the results of the brand are oscillating, as well as the results of Smirnoff - the leading brand - who has twice the market share of Absolut, and the CEO of The Absolut Company is aware that relatively new brands are experiencing high growth rates and pulverising the potential market share available for established brands to grow. An excellent example of these new entrants is New Amsterdam (see **Exhibit 3**), founded in 2011 and reportedly the world's fastest-growing spirits brand, and Tito's (See **Exhibit 4**), founded in the '90s and which recently gained traction among customers. Both brands are already among the top 5 vodka brands in the US, with better results than Absolut. Price could also be an essential factor of preference. However, for new entrants such as New Amsterdam and Tito's, with products in different price ranges (see **Exhibit 5**), the critical growth drivers have been the focus on digital marketing strategies to leverage word of mouth and also to have a strong team working in partnering with retailers and events/clubs to sell its products as a novelty.

The CEO of The Absolut Company also knows that sustainability is a key factor for customers and investors among established competitors, who are requesting strong commitments from brands (see **Exhibit 6**). Diageo, for instance, set some ambitious targets already in 2008, focusing on the areas of water use, carbon emissions, waste, and packaging, where they are already meeting market expectations. Another competitor moving towards sustainability is Bacardi, producer of Grey Goose Vodka. Bacardi launched an initiative called "Good Spirited" in 2014 and set goals for 2017 and 2022. The company reported that most of the 2017 goals were already met. In addition, Bacardi is raising the bar to align its goals with many of the United Nations Sustainable Development Goals.

In the meeting with Alexander Ricard, the CEO of The Absolut Company was warned that Pernod Ricard's board were creating a strategic plan to strengthen its commitment with long-term results and was requested to create an action plan to reassure Absolut as the main star of the group's portfolio. Both Ricard and the CEO of Absolut agree that Absolut has a reputation that can help support oscillating financial results. However, it needs fresh ideas, new approaches, and grit to stay relevant in the long term, reshaping the brand as a culturally relevant icon for the market and the new generations.

Absolut has a strong position in the market and a solid reputation, built by a track record of high-quality products, a compelling background history, and unique communications pieces among pop culture. Today, Absolut's brand is undoubtedly still very relevant in the market, but what are the future reserves for the brand? Being the leading star of Pernod Ricard's portfolio, the pressure for better results from shareholders relies on concerns to improve profit margin and/or increase market share, which has been a significant problem in recent years. In addition, changes in consumer behaviour and preferences led by the new generations present a key challenge in the long run, with new brands and products currently experiencing high growth in the market.

Suppose you were the CEO of The Absolut Company:

How should the marketing action plan improve Absolut's profitability and/or market share and keep its relevance for the future? Should the brand keep prioritizing a sustainability approach to attract the new generations? What actions does The Absolut Company need to prioritize?

Exhibit 1 Absolut awarded campaign (1981)

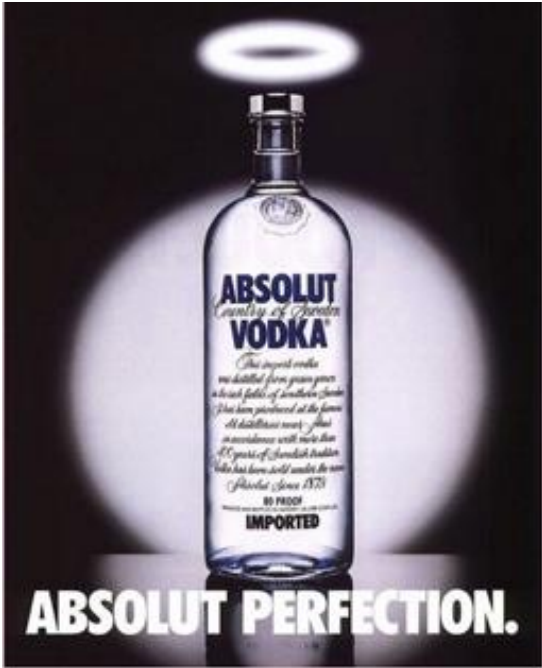
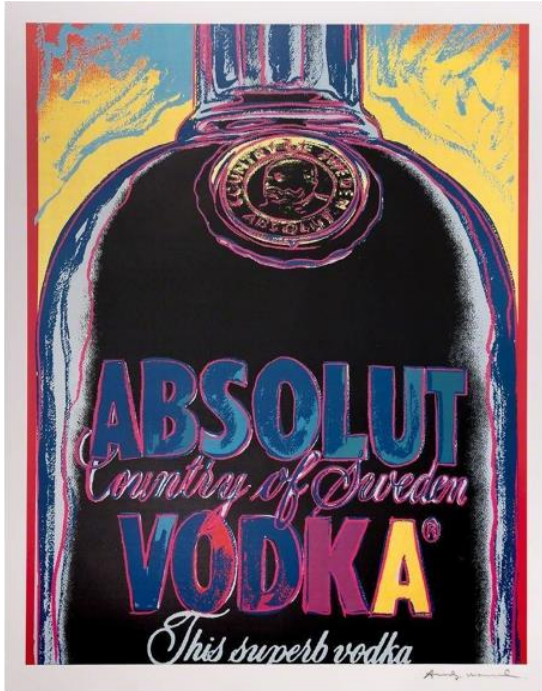


Exhibit 2 Iconic artworks from artists

Andy Warhol



Keith Haring

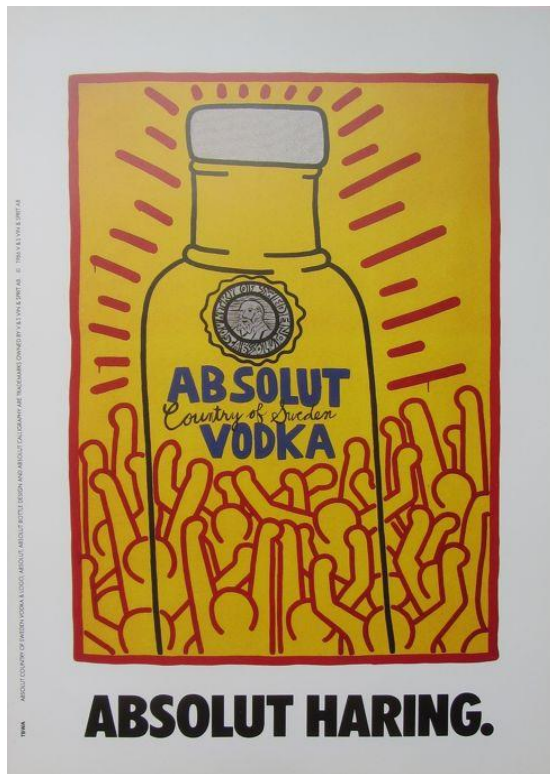


Exhibit 3 Communications from New Amsterdam



Exhibit 4 Communications from New Amsterdam



Exhibit 5 Average price per bottle, Vodka brands in the US

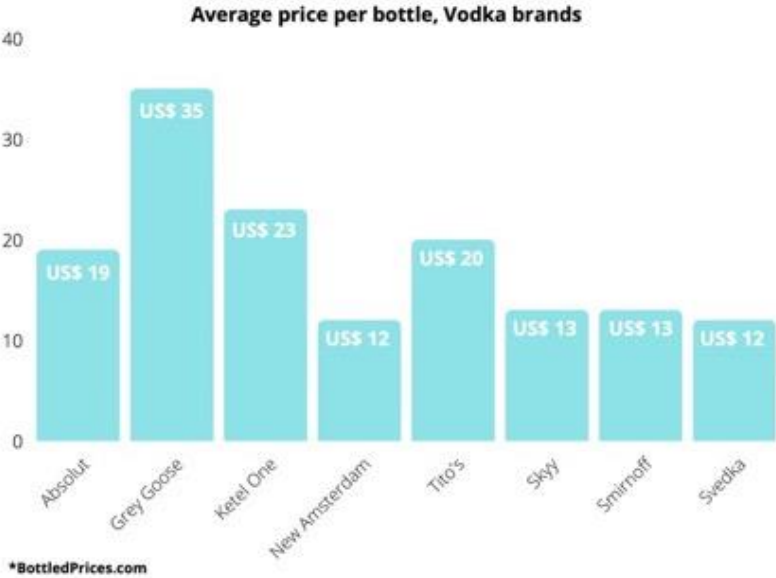


Exhibit 6 Main Competitors' Sustainability Goals Achieved by 2017

Diageo

- Achievement of 70% of local sourcing target
- 10% improvement in water efficiency, contributing to achievement of 30% improvement in water efficiency target
- 9% year-on-year reduction in carbon emissions, equivalent of 68,400 tonnes

Bacardi

- Greenhouse Gas (GHG) Emissions reduction by 59%, compared with the 2006 baseline.
- 50% reduction in water usage by the end of December 2017 compared with the 2006 baseline
- 99.8% of the waste generated from Bacardi operations was diverted from landfills (only .2% sent to landfill), with one-third of sites already achieving zero waste to landfill status.