Scaglia's Local Identity Beer

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1 Introduction

On 8 January 2002, Paul Scaglia arrived early at his office near Baleone, just a few miles from Ajaccio. He impatiently awaited the meeting with a marketing consulting agency, a meeting that could very well define the future of his business. The recent three years had not been very kind to his beer distribution business: demand for the brands he represented in coffee shops and supermarkets had had a steady decline over the last few years. In addition, direct competition started to emerge from a local producer of local Corsican Identity Brands (CIBs), who had been offering bars and restaurants their products, thus weakening Scaglia's position with his partner brewers who used to have exclusivity deals in those channels.

Time had come to make high-stakes decisions in order to keep this family business going. Scaglia was decided to create his own Corsican Identity Brand to compete with the other CIBs and to reverse his lost market share with his distributors, but he still hesitated about which main strategic axis to follow. Of one thing he was sure: entering the brewery business would be very risky and would require a very innovative approach in order to succeed.

At 9:05 AM Scaglia's assistant informed that the consultant (you) had arrived. M Scaglia was finally going to share the burden of this decision with a qualified interlocutor, as well as his doubts, his beliefs, his fears… Among the most pressing questions he had asked you to discuss in your report were the following:

Strategic marketing issues:

1. What are the most relevant opportunities and threats in the competitive environment? How could he use his strengths to capitalize on these opportunities? Are there special weaknesses that make him particularly vulnerable to the identified threats? If so, how to minimize them?

2. What segmentation criteria should be used to categorize Corsican Identity Brand beer consumers? What audience/market should Scaglia choose as primary and secondary targets? (explain your choice)

3. What should be the nature of the marketing positioning you recommend? (explain your choice). Create an illustration depicting the competitive positioning map.

Concerning the operational marketing decisions, you are requested to make concrete proposals around the 4 Ps **based on your environmental analysis and strategic positioning above**:

4. **P**roduct: which beer type / composition should he offer? How could he innovate in shape, packaging and services in order to differentiate himself from the competitors?

5. **P**rice: which is the best price policy (alignment, skimming or penetration)? Which criteria would you consider when deciding upon the most adequate price policy?

6. **P**lace: which distribution channels would you give priority to in the short term? (Small and larger supermarkets chains, public catering, hotels/bars/restaurants) Why?

7. **P**romotion and communication: What differentiation message / tag line would you use to sum up your positioning? Describe a brief advertising campaign that reflects your product concept, indicating the media channels and messages (copy strategy statement) you would you recommend to reinforce your positioning in your target's mind. Finally, suggest an incentive plan to motivate your sales team.

Remember you are working for Scaglia, a Small / Medium-sized company – keep your choice creative and realistic. Besides, keep in mind that:

- You are NOT required to mention financial details of budget and communication costs.

- You ARE required to suggest at least two action-plans for each of the 4P questions above. Try to be as innovative as possible, in order to differentiate yourself from traditional beers and the local CBI alternatives.

2 Company background

The Scaglia Company was a traditional beverage distributor to public catering groups, restaurants and hotels and had recently extended its distribution business to supermarkets.

The company was created by Paul Scaglia's grand-father. Paul is today the company's CEO while his wife, Joëlle, is in charge of administrative back-office. Paul's main responsibility is to deal with the strategic aspects of the company and to manage client relationship. Their son Natale is currently completing his 2nd year in a Business School and is expected to gradually take over the family business in about 3 to 5 years.

Over the years, the company has built a very good relationship with their customer base. They had appropriate distribution facilities (in compliance with all the norms), besides a loyal and qualified staff. They represented strong and well known brands (such as Heineken, Kronenbourg 1664, etc). In 2002, the company was actually a leader on the beverage distribution market in the Ajaccio area. However, they had never distributed their own original brands to supermarkets or RHC (restaurants, hotels and catering) and therefore lacked the expertise to face the many inherent challenges of going from a purely distribution business model to a distribution / manufacturing business model.

3 Market background

In France beers are classified according to their degree of alcohol, making up 4 categories:

- Alcohol free beers: less than 1.2° of alcohol (*Tourtel, Buckler*)
- "luxury" beers: between 4° and 5° of alcohol (*Kronenbourg, Stella Artois*)
- "Special" Beers: 5° of alcohol or more (*Fisher*)
- Local Identity beers: These are characteristic of a particular region or brewery, they have variable degree of alcohol *(Chimay, Grimbergen, Kriska)*

A second distinction can then be made concerning their intrinsic characteristics (colour, brewing technique …): blonde, white, amber, dark.

In 2002, the French beer market was divided as follows:

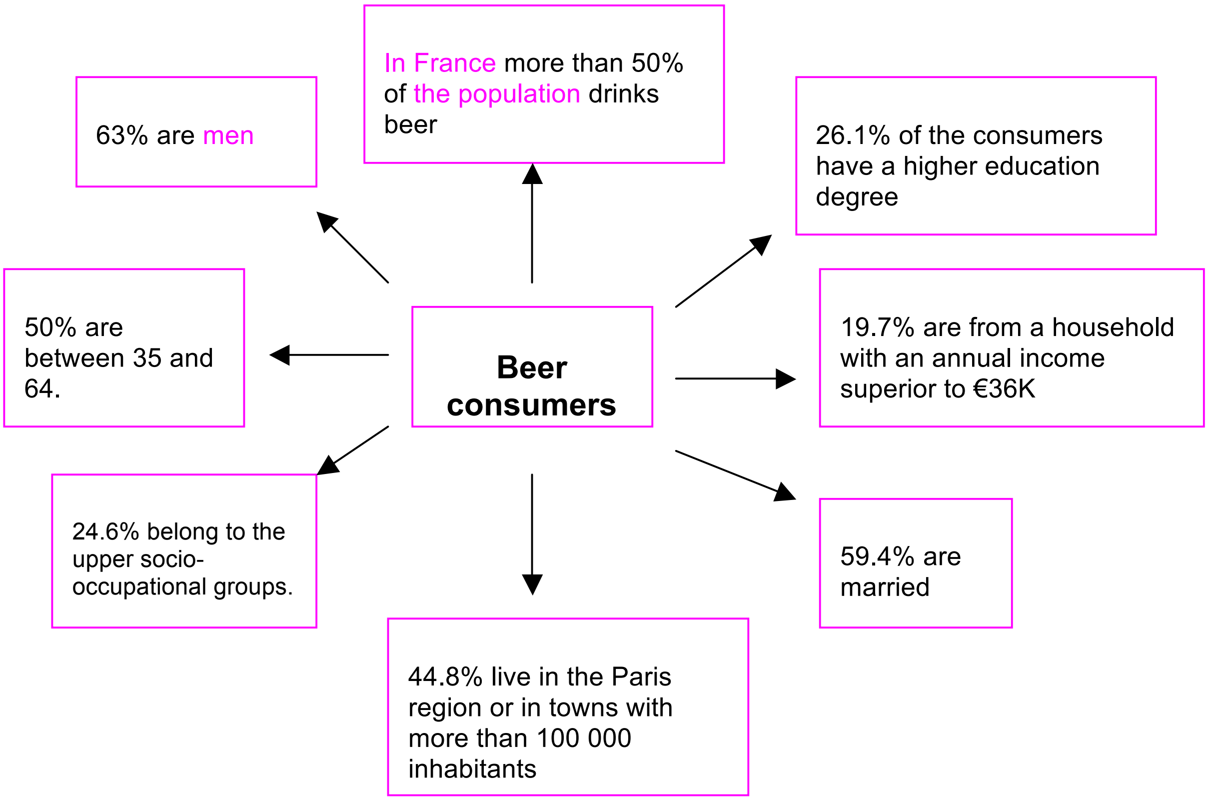
- Alcohol free beers: - 8% of the overall sales volume
- "Luxury" beers: the core of the market, represents nearly 60% of the global sales but had continued to decline (sales volume: -3.4% and value: -2.6%).
- "Special" Beers: slight slowdown of their progression (sales volume: + 1.1% and value: +2.1%)
- Local Identity beers: significant increase (sales volume +10.5% and value +11%. This category was no longer just a niche but had become a segment of its own right with high development potential. Even though this segment represented only 22% of the overall beer sales in supermarkets, it was responsible for 33% of the overall value)
- Organic beers: on the market for just a few years, this type of beer attracted more and more brewers such as Duyck. Sales were progressing but remained marginal.

A shift from standard products towards higher added value beers could be observed. Big breweries were setting up strategies to upgrade standard products' image (i.e.: Stella Artois).

The beer market was one of the rare agribusiness industries to benefit from two distinctive distribution channels:

- Supermarkets: had a turnover of €1.98 billion. This sector employed 5000 people.

- RHC (restaurants, hotels and catering services): the overall turnover of outside-of-household beer consumption in France was estimated at € 50.72 billions and represented 720,000 jobs. The RHC channels included the distribution of beers in more than 100,000 cafés, bars, hotels, restaurants and other selling points.

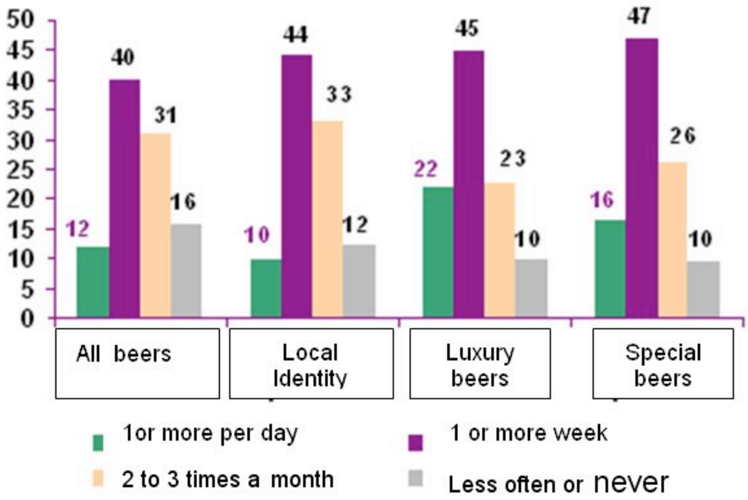


- Luxury Beer consumers belonged to a lower socio-occupational group than Local Identity Beer customers.

- The taste regarding packaging changed according to the preferred type of beer: the most commonly used packaging was the small glass bottle (for 62.6% of beer consumers). However, 15.3% of Special Beer consumers tended to go for the 33cl beer cans, whereas only 10.2% of Local Identity Beer consumers chose this option.

- In this market, there is a strong tendency around the notion of identification associated with a beer's branding (tell me what you drink, I'll tell you who you are…)

Beer is clearly a seasonal drink: in the summer beers from all segments are consumed on a regular basis several times a week (see exhibit to the right). However, overall luxury beers enjoy higher average consumption rates.



Advertisement investments rose slightly between 2000 and 2001 for the whole beer sector (+3%). This raise was supported by brown beers which hardly advertised in 2000 and by the Special Beers segment which is rising steadily.

In total, investments in printed press media kept going up (+5.6% between 1999 and 2000 and +5% between 2000 and 2001). Radio, which was hardly used at all in 2000 has experienced the biggest increase. Billboards use is stable, representing 62% of the overall choice for media channels.

Below, some of the typical positioning strategies adopted by selected beer brands in the French Market in 2002.

Brand	Types	Target	Positioning
Buckler	Alcohol free	Those who cannot consume alcohol	Pleasure and health
1664	Special	Traditionalists	Made in France
Grimbergen	Special	«connaisseurs» and beer lovers	An authentic beer with character (since the 12th century)
Kronenbourg 7.2	7.2º	Young people, ideal for appetizers and spicy dishes.	Strength and intensity.

33 Export	Blond	Price sensitive	Affordability, best ratio price / quality
Leffe 9	9º	Hedonists	The taste, the experience, the aroma
Pietra	Identity	Corsica visitors	“the Corsican taste” (blend of chestnut flour and malt)
Colomba	Identity	Corsica visitors	“the Corsican culture” (blend of arbutus, juniper, myrtle)
Kriska	Identity	Males, 40 years and older	Originality (brewed with vodka)

4 APPENDIXES

4.1 Excerpts from Interviews

Paul Scaglia,
president of Scaglia Beverages

How do you see the future of your company?

This is a family business -- my grandfather started the process. We have worked with my wife for 30 straight years in this business and now we want to prepare the succession for our son, now in business school and we want to define the strategy that will take keep us competitive for the next 3 years by reinforcing its strengths but also by reducing its weaknesses.

What is precisely the strategic situation today?
First, our market in Corsica is highly seasonal; we go from a local population of 250,000 people to over 2 million tourists during the summer. This market is now mostly composed of French tourists, a population that seeks to maximize its purchasing power. They regularly go for groceries in the supermarkets and hypermarkets in the region. When they are not shopping, the customers are lying on the beaches of the island, looking for the right cost/benefit ratio in huts, bars and restaurants of the seaside. The distribution market is therefore very demanding; we

are compelled to be present in both the Supermarket and Restaurant channels. The problem is that 2 years ago an industrial brewer established a Corsican Identity Brand in the north of the island. Ever since then we began to encounter difficulties, especially in the restaurant circuit.

What kinds of difficulties?

Two large groups of brewers dominate the market and 6 of their brands share about 3 / 4 of retail sales:

- The Kronenbourg brewery with 9.9 million hectoliters produced, nearly 50% market share.
- The Sogebra (Heineken) with 5.1 million hectoliters produced 30% of the market.

You see it is a highly concentrated market in which our partnership with Heineken is clearly strategic.

In the restaurant market, particularly, the brewers play an important role as investors, that is, in exchange for a contract of exclusivity, the brewers support our customer's investment (bars and cafés) by often providing the location, facilities, kitchen utilities and decoration. As a representative of national brewers, I'm the local facilitator of these exclusivity agreements with my customer base.

For the past two years, however, I have seen that more and more of my customers have been tempted to break the exclusivity deals we had in order to introduce the brands of Local Identity Beer producers. If I can not very quickly solve this problem by proposing an alternative identity brand myself, the CIBs will conquer more and more of my clients and ultimately jeopardize my relationship with my partner brewers.

This is a great challenge, which I may not have the right competences to face. Indeed the key success factors in the distribution business (brand variety, sales force team, relationship network) are different from the strengths required from such an industrial project (mastery of the brewery process, finding the right positioning, creating a brand by innovating in the marketing mix, managing the supply chain, etc). Regarding the distribution aspect of the business, on the other hand, I could rely on my current expertise and network.

The market for Local Identity Beers (as both my beach bar and supermarket clients will tell you) has been undeniably on the rise, particularly in the low alcohol variety. Indeed the national market for identity beers is growing faster than more conventional segments (brown, blonde ...).

I wouldn't be the first to try such a small scale approach to brewing for a specific target. There are dozens of independent breweries in Europe that try to compete with multinationals; lacking the resources of large companies, they try to distinguish their product by a more original positioning, innovating in their promotional mix. I wonder if we could be as innovative to successfully compete with the already established Corsican Identity Beer.

Mr Casentini
Manager of the beach bar Pirate Capo di Feno (Ajaccio)

How does your business operate?
It is open from April to September, but we don’t really get busy before the second half of June. Our customers are mainly Continental (French) who spend all day long at the beach (arriving late in the morning and leaving at night around 20H). They look for light and fresh products, preferably with a local identity quality, and always try to reach the optimum cost / benefit ratio. They come to Corsican with their families, which can be expensive, so the idea "is to not overspend with gourmet meals. ... But rather to find "light" meals that fit their limited budgets.

Could you give us concrete illustrations in terms of product offerings?
At noon, customers look for menus at €12 consisting of sliced sausage starters, cheese appetizers and a local Identity beer. In the evening they usually have the same kind of light meals, except in more generous portions for 15 euros.
If by chance the Scaglia Company launched a new product, they should bear in mind that our beaches are long -- it can be difficult to create visibility. It would be nice to have menu supports for tables and sidewalk displays to inform consumers near and far. But they should not forget to implement an incentive program to our servers as well, as they are the ones who sell to end customers! They could be very creative in producing merchandising goodies related to the Corsica Identity.

Paul Durand,
a tourist, accountant in Paris in his first visit to Corsica

Could you please give us a description of your consumer habits in Corsica?

We shop in the local supermarket once a week -- life here is as expensive here as in Paris. We pay attention to special offers and packaging promotions to take advantage of bargains. We come here because we love this region but we are not ready to spend all our money on a single trip.

What kind of island products have you purchased
A bit of everything, except cheese (too expensive, over € 7 per kilo). We bought wine, but also Corsican beer made from chestnut flour, in batches of 3. Additionally, we buy appetizers to cool off after the beach and also to bring as a gift to our family on the continent. Prices for processed local products (beer, jams, pasta) are slightly more expensive (approx 10%) than national players but if we feel the difference in terms of taste, culture, identity and authenticity we are ready to make a slight effort . We look closely at the unit selling price and are very attentive to our budget. We can afford at least one meal in a restaurant or seashore hut to enjoy Corsican specialties if the prices are reasonable.

What type of media channels do you use when you are in Corsica?
We read Corse Matin (a daily newspaper) and are susceptible to the many billboards

installed along the Corsican roads. We are also interested in the free cultural events organized during the summer (concerts, myrtle and arbutus festival, etc.).

4.2 Tourism in Corsica

In 2008, Corsica accumulated 3 million stays per year including 2.5 million between April and October. The season peaks at 340,000 visitors in the summer, which often leads to problems of saturation and congestion. That year, the rate of increase in tourist arrivals was 5.5%. Averaged over the year, tourism can attract 83 000 people and more, or 30% of additional population. Another potential weakness of the island is the strong seasonality of its attendance. But everything is being done to improve this situation. In 1998, 70% of tourists came during the summer. Ten years later, only 43% of all visitors came during the high season. The tourist season has greatly stretched, only the winter remains an off-season period. The seasonal adjustment was possible thanks to the improvement of hotel supply, improvement that is qualitative rather than quantitative. The authorities in charge of tourism development used the following equation to seasonally adjust attendance: Hotel Quality Product + Content (spa / gourmet restaurant) + better access = additional trips / short stays.

5 Other Sources / Useful Links

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