6-2013

Brown-Forman Corporation and the Distilleries Industry

Keely J. Higbie
Johnson & Wales University - Providence, kjh116@wildcats.jwu.edu

Brown-Forman Corporation and the Distilleries Industry

Keely J. Higbie

Johnson & Wales University

Author Note

Keely J. Higbie, Business Administration (MBA) Graduate School, Johnson & Wales University, Providence Campus.

Correspondence concerning this article should be addressed to Keely J. Higbie, 10 Manomet Street, Apt 247, New Bedford, MA. Email: kjh116@wildcats.jwu.edu

Table of Contents

Executive Summary

This study showed that Brown-Forman Corporation's (Brown-Forman) has a winning business strategy. It passes the three major tests, which are the Fit Test, Competitive Advantage Test, and Performance Test. The company's strategy effectively addresses the company's situation both internally and externally. The strategy takes advantage of most of the industry's trends, mitigates the negative impacts of the industry's driving forces, and ensures that the company meets the industry's key success factors. It helps the company achieve sustainable competitive advantages by fully utilizing its biggest resources and capabilities.

The strategy has also directly contributed to the company's financial success and market standing. In comparison to its biggest competitor, Beam Inc. (Beam), Brown-Forman has significantly stronger financial position within the industry. Some of its biggest financial strengths include its ability to generate cash from operations, obtain high returns from invested capital, and create strong, positive cash flows for future acquisitions and shareholder return.

Areas where the company could improve include developing strategies to address changes in regulatory and political environment, developing ways to guarantee a steady supply of their products' key inputs, and utilizing strategic partnerships for distribution. The company should also consider acquiring companies like the Firefly Distillery and Bacardi to expand their product breadth and geographic reach.

Introduction

The purpose of this report is to comprehensively analyze Brown-Forman's business strategy and to determine if their strategy allows them to be competitive within the distilleries industry. Brown-Forman operates in unique and competitive macro, industry, and competitor environment. A winning strategy in this industry must be crafted to take advantage of current industry trends, mitigate changes in the industry's driving forces, and achieve the industry's key success factor. In order to be competitive within the industry, the company must also build and maintain a positive internal environment. This starts with the company's mission, vision, and values and weighs heavily on leadership to craft a strategy that maximizes the company's financial position, takes full advantage of the company's resources and capabilities, and ultimately creates a sustainable competitive advantage.

The Distilleries Industry

The distilleries industry consists of companies who take a wide range of raw ingredients, including grains, vegetables, fruits, and sugars, and manufacture them into spirits which are then bottled and sold to restaurants, bars, casinos, hotels, wholesalers, and other retail stores (Kaczanowska, 2012, p. 2). The product segments for the industry, in order from largest to smallest, include whiskey and bourbon, vodka, cognac, cordials, and liquors, rum, and gin (Kaczanowska, 2012, p. 3).

Competitors

In the United States, distilleries are a 9.4 billion dollar industry, with a majority of the market share being distributed between four companies: Diageo PLC (Diageo), Brown-Forman, Beam, and Pernod Ricard SA (Pernod Ricard). Two competitors, Diageo and Pernod Ricard, are based abroad in London, England and Paris, France, respectively. The other two companies, Brown-Forman and Beam, are based in the United States. Due to the incompatibility of financial statements between different countries based on reporting requirements, from a financial perspective, Brown-Forman can only be accurately compared to its U.S. based competitor, Beam, who makes up 12.6 percent of the market (Kaczanowska, 2012, p. 26). Brown-Forman can be compared to its other competitors through other means, which are addressed in the External Environment portion of this report.

Trends

Over the last five years, the distilleries industry grew modestly due to the recession. Fortunately, it is expected to grow at a more attractive rate over the next five years due to the continued growth of the "cocktail culture" that started in the mid-2000s, an inclination towards premiumization, and a trend of consolidation (Kaczanowska, 2012, pp. 4-6).

The growing popularity in cocktails has resulted in increased spirits consumptions at restaurants, bars, and clubs. The "cocktail culture" also caused consumers to become more discerning about the taste of their drinks. This resulted in consumers "trading-up" to premium, super-premium and ultra spirit brands to ensure the quality of their beverage tastes. This has positively impacted distillery finances due to the premium and ultra spirit brand's higher profit margin over lower quality brands (Brown-Forman, 2012, p. 22). The impacts of the cocktail culture are also causing consumers to be less experimental in their choice of beverages, motivating them to return to their favorite, well-known brands (Kaczanowska, 2012, p. 7). This benefits the dominant players in the industry who carry the best-known names and tends to concentrate industry sales.

Brown-Forman Corporation

One of the biggest competitors in the distilleries industry is Brown-Forman. It holds the second largest percentage of the market in the United States, making up 16 percent of the entire industry (Kaczanowska, 2012, p. 25). The company produces and markets some of the best-loved and well-known brands in the world, including Jack Daniel's, Finlandia, Canadian Mist, Chambord, and Southern Comfort. Their biggest brand, Jack Daniel's, is the world's largest

American whiskey brand (Brown-Forman, 2012, p. 3). The company's brands are supported by approximately 4,000 employees around the world and their products are available in over 130 markets. After 143 years in business, the company still strives to build its brands to "thrive and endure for generations" (Corporate Responsibility, 2012, p. 2).

External Environment Analysis

The Macro Environment

Brown-Forman operates in a unique and often challenging macro environment. It along with the other companies in the distilleries industry are subject to the impact of multiple uncontrollable factors including (a) demographics, (b) political and regulatory factors, (c) economic conditions, (d) global forces, (e) social factors, and (f) the natural environment (Thompson, Peteraf, Gamble, & Strickland, 2012, pp. 51-52). A diagram of the macro environment is shown in Figure 1 in Appendix A.

Demographics. The industry's target demographic is limited by age, commonly referred to as the legal drinking age, which varies country to country. For example, in the United States, in order to legally purchase alcohol, members of the populations must be 21 or older, but in parts of Europe, the legal drinking age is 18. Thus, the portion of the population that falls below the legal drinking age is excluded from the distillery industry's potential market. Fortunately for industry, the size of the drinking age population is expected to gradually increase over the next several years due to longer life spans and an increase in birthrates in the early 1990s (Kaczanowska, 2012, p. 8). In addition to having a larger market, the older members of the market, the "older drinkers," are more likely to purchase high-end premium and super-premium brands of liquor. This is particularly beneficial to the industry because these brands tend to be most profitable for the company due to their considerably higher price points and only marginally higher production costs (Kaczanowska, 2012, p. 7).

The "baby boom" of the early 1990s had impressive population growth rates, especially when compared to the rates of the last five years. Average growth rates of that time ranged between 1.15 percent and 1.40 percent, while the years since the economic recession have stayed around 0.96 percent (Kaczanowska, 2012, p.9). Members of this population will be reaching legal drinking age over the next five years, which should boost the distilleries potential market size. To target this market, many companies in the distilleries industry are producing tastier ready-to-drink (RTD) and ready-to-pour (RTP) beverages with lower alcohol content to capture their palates early on. The profitability of this portion of the market will depend on the distilleries industry's ability to establish premium level of spirits as their baseline for consumption (Kaczanowska, 2012, p. 9).

Political and regulatory factors. The distilleries industry is subject to extensive regulatory requirements. In the United States, the Alcohol and Tobacco Tax and Trade Bureau of the United States Treasury Department collects taxes on alcohol and regulates the distilleries industry with respect to production, bottling, sales, advertising and transportation of products (Distilled Spirits, 2013). Each state also has its own regulations for the advertising and transportation of alcohol, as well as rules for how to sell and distribute it across state lines (Brown-Forman, 2012, p. 4; Kaczanowska, 2012, p. 31). There are two types of state regulatory environments: open and control. In open states, spirits companies can sell their products directly to independent distributors (Kaczanowska, 2012, p. 31). Control states, in contrast, have a monopoly over warehousing or retailing products (Kaczanowska, 2012, p. 31). Control states significantly impact product exposure to the market because they are only available in state-owned liquor stores.

Because the distilleries industry is subject to significant taxation, businesses in this industry are sensitive to changes in taxes. Distillery companies are subject to excise taxes, sales taxes, corporate income taxes, value added taxes, import and export duties, and tariff barriers, to name a few. Since a change in any tax could directly impact the price of the product, increases in taxes could reduce the purchases of alcoholic beverages and depress a company's financial results. As a multinational company based in the United States, Brown-Forman is more sensitive to taxes than most of their competitors who are based abroad (Brown-Forman, 2012, p. 9).

Economic conditions. The distilleries industry is unique to other industries because despite the condition of the economy, it can still experience profitability. In good times and bad times, people still consistently turn to their favorite spirits. Even when the economy took a turn for the worst in 2008 and disposable income declined, consumers of the distilleries industry continued to purchase their favorite premium spirits, albeit in lower quantities and often times, for consumption at home. This trend towards premiumization shows that consumers are not going to skimp on the taste and quality of the liquor that they consume, even in hard times. Consumers are also smart enough to recognize the mark-ups on their favorite premium and spirits at restaurants, bars, and clubs. Thus, their inclination to go out to bars and clubs or buy a drink when out to dinner was significantly impacted over the last five years. To avoid being overcharged for their favorite drinks, most of the population cut back on their consumption at bars and clubs and enjoyed their favorite beverages from the comfort of their home at a lower price point. While demand from drinking establishments is a smaller source of sales for the distilleries industry than the wholesale market, it is still significant to the industry's market

(Kaczanowska, 2012, p. 5). Fortunately, over the last five years, economic conditions have improved and disposable income has gradually increased (Kaczanowska, 2012, p. 5; Brown-Forman, 2012, pp. 7-8). The increase in per capita disposable income has increased premiumization trends and has also enabled consumers to get out of the house for a drink.

Global forces. In 2012, 58 percent of the Brown-Forman's revenue came from foreign markets (Brown-Forman, 2012, p. 4). As a multinational company that continues to expand globally, Brown-Forman is significantly impacted by exchange rates. In markets other than the United States, Brown-Forman makes purchases and sells their products using local currency. Thus, profits from business abroad are directly impacted by the strength of the dollar. When the dollar is strong, profits will decrease. When it is weak, profits will increase. To manage fluctuations in exchange rates, Brown-Forman routinely hedges a portion of their currency exposure, but overtime, if the dollar continues to strengthen, the company's financials could suffer (Brown-Forman, 2012, p. 7).

Social factors. Another major impact to the distilleries industry is the perspective of society. Though attitudes have evolved and the social acceptability of alcohol has increased since Prohibition, there is still somewhat a negative stigma associated with alcohol (Kaczanowska, 2012, p. 5). In recent years, there has been a focus on the public health concerns related to alcohol consumption, including underage drinking, drunk driving, alcohol abuse, and alcohol dependence (Brown-Forman, 2012, p. 9). Producers of alcoholic beverages warn consumers to "drink responsibly" but there are still some who choose to over indulge. Naturally, as with any other product, inappropriate drinking patterns or excessive alcohol consumption can have increased health risks for certain types of people. Despite the concern over the excessive consumption of the product, more and more individuals are growing tolerant of moderate consumption, which should have positive impacts on industry sales (Kaczanowska, 2012, p. 5).

Natural environment. Another important factor that impacts the distilleries industry is the natural environment. Brown-Forman is fully reliant on the availability of its products' raw materials, which include coarse grains, agave, water, grapes, wood, and glass. The availability of these raw materials is dependent on the quality of the growing season, which is determined by weather patterns. When weather patterns are favorable and crops are widely available, prices for raw materials are very competitive. In contrast, when the crops are scarce, prices for the industry's crops can be very high. Since weather patterns are difficult to predict, the price for these key inputs for the distilleries industry are highly volatile.

It is important for Brown-Forman to be aware of their macro environment. While these factors are somewhat uncontrollable, their impacts can be monitored and, at times, mitigated. All six of the factors discussed are strategically relevant to the company and should be considered in the development of their business plans.

Industry Environment

Brown-Forman also operates in a competitive industry environment. Porter's Five Forces Model, shown in Figure 2, identifies the strength of the five competitive pressures that impact the distilleries industry's immediate environment including (a) rivalry among competing sellers, (b) buyer bargaining power, (c) potential for new entrants, (d) availability of substitute goods from other industries, and (e) supplier bargaining power (Thompson et al, 2012, p. 54).

Rivalry among competing sellers. Due to several factors, the rivalry among competing sellers is weak. First, products of competitors within the distilleries industry are differentiated based on brand, and customer loyalty to those brands tends to be very high. Second, sales are concentrated amongst four key firms: Diageo, Brown-Forman, Beam, and Pernod Ricard. These companies make up 21 percent, 16 percent, 12.8 percent, and 9.6 percent, respectively, for a total of 59.6 percent of the market share for the entire industry (Kaczanowska, 2012, p. 24). They are also relatively homogenous in product offerings. Most companies offer various types of spirits, including whiskey, gin, vodka, and rum to name a few. These factors drive rivalry down within the industry.

Buyer bargaining power. Buyer bargaining power can be best described as moderate to weak. Similar products within the distilleries industry are comparably priced, making the buyer's cost of switching to other brands low. However, distilled spirits are highly differentiated based on brands and consumers of this industry also tend to be very brand loyal. Even during the recession, consumers were unwilling to abandon their favorite higher-quality spirit brands (Kaczanowska, 2012, p. 7). This also shows that buyers in this industry are not very price sensitive, which gives sellers more bargaining power.

Potential for new entrants. The potential for new entrants varies based on their target and therefore is a moderate force within the industry. Distilled spirit production is capital intensive and in order to spread out these costs, a substantial volume of products is required (Kaczanowska, 2012, p. 22). Not only that, but most spirits have to age for some period of time before they are ready for the market. The major market players have a significant advantage over new entrants. These firms are well established and produce and market some of the industry's best-known and beloved brands. They can produce in high volumes for a lower cost, enabling them to sell at lower prices. They also have strong relationships with suppliers and distributors, something that could take years for new entrants to develop.

On the other hand, existing industry members are eager to expand their markets. Brown-Forman is constantly looking to expand into new geographic regions, since the majority of its revenue and growth has been occurring overseas over the last several years (Brown-Forman, 2012, p 21). Instead of creating a business from the ground up, it is looking for smaller distilleries within their desired geographic locations to acquire. Additionally, buyer demand is growing and the industry itself has plenty of room for growth. Once a company establishes itself within the industry, they can expect to earn attractive profits. The most successful of these are the ones that focus on local markets and bottom-shelf brands (Kaczanowska, 2012, p. 22). Thus, depending on the new entrants target market, they could either experience great successes or great difficulties in breaking into the distilleries industry.

Availability of substitute products from other industries. One of the strongest forces affecting the industry is the availability of substitute products from other industries. The distilleries industry competes directly with the beer and wine industries, which offer comparable products, but generally with a lower alcohol content. One feature that makes these substitutes attractive to buyers is that beer and wine are more readily available and heavily advertised than spirits because the state and federal regulations placed on them are less restrictive. For example, depending on the state, beer and wine can both be sampled and sold in grocery stores, where spirits cannot. Distilled spirits are also denied the right to advertise in some venues where beer and wine can (Brown-Forman, 2012, p. 28). Until the distilleries industry achieves greater cultural acceptance, they will continue to be more heavily regulated and difficult to acquire compared to beer and wine. Additionally, while the pricing of beer and wine varies product to product, it is generally less expensive than distilled spirits. This attractive price makes the cost of switching to the substitute products very low for buyers. All of these factors combine to make substitute products in other industries very competitive with the distilleries industry.

Supplier bargaining power. Another strong force in the distilleries industry is supplier bargaining power. The distilleries industry is heavily dependent on its suppliers. The raw materials that they supply are critical to spirit production. The industry cannot produce its products without certain coarse grains, vegetables, fruits, sugars, and other raw materials. Not only that, but there are no substitutes for the raw materials necessary to produce certain spirits. For example, Brown-Forman could not produce Jack Daniel's if it did not have the right mix of grains. If they tried to use a substitute product, the flavor would be completely different, and they wouldn't be able to call it Jack Daniel's. Suppliers also have strong bargaining power because they do no depend on the distilleries industry for the majority of their sells. Grains, vegetables, fruits, and sugars are used in a multitude of industries, and can often be consumed in their raw form.

Each of these forces must be considered by companies within the industry to help them develop a strong business strategy. A full understanding of these competitive forces can help them develop protections from some of the pressures, manipulate and shift the competitive forces, or event spot areas for expansion (Thompson et al, 2012, p. 71). Thus, being fully aware of the relative strength of the five forces will help business leaders determine which strategies they should pursue for success within the industry.

Competitor Environment

Diageo, Brown-Forman, Beam, and Pernod Ricard all have fairly similar competitive approaches and positions within the distilleries industry. Each of these companies tries to differentiate themselves based on their diverse product portfolios to compete in the marketplace. Additionally, these firms all have strategic goals of expanding within the global market, because for some companies, extending the reach of their products has proved to be a very profitable business move. The strategic group map, shown in Figure 3 in Appendix A, shows how these four firms compare to one another in terms of geographic coverage and product line breadth. The sizes of the circles are proportional to the sizes of the companies, based on market share.

Based on the pattern of the strategic group map, three of the companies, Diageo, Brown-Forman, and Pernod Ricard, could be considered close rivals based on their correlation. Each of these companies has a presence in 75 to 180 markets and offers 30 to 40 different spirits brands (Kaczanowska, 2012, pp. 24-28; Our Brands, 2013; Regions, 2013; Spirits, 2013). Beam appears to be an outlier due to its extensive portfolio options. Beam offers 64 spirit varieties across 73 different markets (Brands, 2013; Locations, 2013). This could cause some strategic issues for

Beam due to the costs associated with properly advertising that number of brands across a global market.

While it may seem that Beam is a more distant rival for the three firms, based on the type of spirits they offer, Beam may be a closer competitor than the strategic group map shows. Beam has an impressive bourbon and whiskey list, with big names like Jim Beam, Maker's Mark, Red Stag, and Knob Creek which directly compete with Brown-Forman's Jack Daniel's, Old Forester, Woodford Reserve, and Canadian Mist. Later, in the Internal Environment section of this report, Brown-Forman will be further compared to Beam on the basis of financial competitiveness.

Driving Forces

Another important concept that business leaders must understand is that both the competitive forces acting on the industry and the attractiveness of the industry are dynamic factors. To help businesses manage these changes within the industry, it is important for them to identify the industry's driving forces, determine how these forces are impacting the attractiveness of the industry, and build strategies to help mitigate the impacts of changes in these forces (Thompson et al, 2012, p. 72). Many changes tend to originate in the macro environment, but some can originate from the immediate industry environment as well. Drivers of change within the distilleries industry include: (a) increasing globalization, (b) product and marketing innovation, (c) regulatory influences and government policy change, and (d) changing societal concerns and attitudes (Thompson et at, 2012, pp. 73-75).

Increasing globalization. While all of the industry's major competitors are distributing their products in markets around the world, each is also strategizing to expand into other profitable markets. Most companies have observed an increase in the percentage of their sales originating from foreign markets, making it an attractive opportunity for expansion (Brown-Forman, 2012, p. 4; Beam Inc., 2012, p. 29; Kaczanowska, 2012, pp. 24-28). Brown-Forman is especially motivated to expand globally, due to their steady growth in foreign markets. Sales abroad comprised approximately 58 percent of the company's revenues in 2012, up 3 percent from 2011 and 5 percent from 2010 (Brown Forman, 2011, pp. 33-34; Brown-Forman, 2012, p. 4).

Impacts to internal forces. While increasing globalization has the potential to increase company revenue, it also has the ability weaken industry entry barriers and welcome new rivals to the distilleries marketplace. New entrants would increase the diversity and quantity of competitors, which could strengthen rivalry forces within the distilleries industry. This would be particularly true if more companies grew to make a larger portion of the market so that the industry was not dominated by four businesses. Global expansion could also weaken supplier bargaining power due to the potential increase in product, material, and labor availability.

Product and marketing innovation. In the distilleries industry, product and marketing innovation is what sets the top companies apart from others. For the most part, the different genres of spirits are already well established, so to keep consumer interest and to attract new customers, competitors have to come up with twists on the old favorites. This includes flavored spirits and RTD and RTP versions of classic cocktail mixes.

In a very concentrated industry, what helps companies remind consumers of their presence is creative marketing and advertising. On average, companies spend 15 percent of their revenue to market their products (Kaczanowska, 2012, p. 21). While companies make investments in their advertising, they risk having their message drowned out by their competitors. Companies with big brand names have a competitive advantage because they can use revenue generated by their most recognized products to promote their smaller, emerging brands (Kaczanowska, 2012, p. 21).

Impacts to internal forces. An increase in product and marketing innovation could weaken industry entry barriers. Potential entrants could develop a unique twist on a spirit which could meet the needs of a niche market or be bought up by a larger industry member who is looking to expand into a new product segment. If purchased by a larger company, it also has the potential to weaken buyer bargaining power because acquiring a new product can help to further differentiate the company’s product portfolio.

Regulatory influences and government policy change. The distilleries industry is a heavily regulated and taxed industry, making it very sensitive to changes in policy and tax rates. Since they contain alcohol, their advertising, sales, and distribution are restricted both at the federal and state levels. These products are also subject to a multitude of taxes including, excise taxes, sales taxes, corporate income taxes, value added taxes, import and export duties, and tariff barriers, to name a few.

Impacts to internal forces. Changes in regulations and taxes could weaken barriers of entry due to decreased cost advantages from increases in taxes, a shift of states from an open to a controlled regulatory environment, or changes in importing and exporting regulations. More restrictive importing and exporting regulations could also negatively impact foreign trade and limit industry entrants in that fashion as well. If a host government in international markets opens their domestic market to foreign participation or closes them to protect domestic companies, they can also impact industry rivalry, buyer bargaining power, and supplier bargaining power (Thompson et al, 2012, p. 75).

Changing societal concerns and attitudes. Alcohol tends to be a socially and culturally controversial product. While it has become significantly more acceptable since Prohibition, there are still some activists who advertise and promote the negative effects of alcohol consumption like underage drinking, drinking and driving, and alcohol dependence. These concerns are usually elevated after arrests, major accidents, or the loss of loved ones.

Impacts to internal forces. The change in societal concerns and attitudes has the potential to weaken entry threats due to the uncertain industry outlook caused by societal health and safety concerns. It can also impact the industry growth rate, which can strengthen rivalry amongst competitors and increase buyer bargaining power.

Understanding these industry drivers will help competitors to develop more effective strategies for managing the potential impacts caused by changes in these factors.

Key Success Factors

It is also important for Brown-Forman and other distilleries to understand the competitive factors that are critical to their "ability to survive and prosper" in the industry (Thompson et al, 2012, p. 83). The company's key success factors include (a) superior branding capabilities and product promotion, (b) product innovation, (c) a strong distribution network, and (d) guaranteed supply of key inputs.

Superior branding capability and product promotion. Buyers of the distilleries industry tend to choose between competitor products based on quality and brand name. Thus, the ability to effectively brand a product to differentiate it from other similar spirits in the industry is important to ensure a company's success. The only way to effectively brand a product is through clever marking, and companies will spend millions in advertising and promotions to reach customers to build their brand. With most companies trying to reach customers through similar promotion mediums, it is important for companies to be particularly creative to ensure that their products are remembered.

Product innovation. Since the different genres of spirits are already well established, competitors have to be innovative in how to maintain their existing consumer base and attract new customers. This creativity is centered on developing twists on the old favorites, including flavored spirits and RTD and RTP versions of classic cocktail mixes. Companies that can effectively come up with new products will have the best chance for continued success in the distilleries industry.

Strong distribution network. Without a strong network of distributors, many companies within the distilleries industry would be at a significant disadvantage. More and more companies are expanding their market overseas and without an effective distribution system, they will not be able to reach all of their existing and potential consumers. Thus, a strong distribution network and the strategic partnerships associated with them are keys to success within the industry.

Guaranteed supply of key inputs. Distilleries are fully reliant on raw materials to produce their spirits. These raw materials consist mostly of crops like coarse grains, vegetables, fruits, and sugar, which are available based on the quality of the growing season. This can cause their prices to be extremely volatile. To be successful within the distilleries industry, companies have to figure out ways to limit their exposure to shifts in raw material prices (Kaczanowska, 2012, p. 19).

By correctly identifying industry key success factors, companies will have a better chance of crafting an effective strategy to make it competitive within the distilleries industry. Companies can build their strategy to ensure they meet and even exceed these factors to be distinctively better than their rivals.

Internal Environment Analysis

Mission, Vision, Values, and People

Brown-Forman's company mission is to "enrich the experience of life by responsibly building beverage alcohol brands that thrive and endure for generations" (Corporate Responsibility, 2012, p. 2). In order to build the organization for generations to come, Brown-Forman implemented their "Building Forever" strategy in 2010, to guide the company's efforts toward the company's 150 anniversary. This strategy combines the company's values of integrity, respect, trust, teamwork, and excellence with five key behaviors (Be Curious, Be Courageous, Be Collaborative, Be Creative, Be a Champion) to help achieve enduring growth and high returns.

The company's values are further echoed in the company's Code of Conduct. Employees and leadership at Brown-Forman are expected to adhere to the company's Code that together with their Compliance Guidelines outlines the ethical conduct of the business in relations with fellow employees, customers, the public, competitors, suppliers, the media, government, and others (Code of Conduct, 2013). All personnel, in their dealing with others, are expected to be honest, transparent, fair, legal, ethical, accurate, confidential, and embody leadership (Code of Conduct, 2013, p. 6).

Brown-Forman also has a very positive corporate climate. In the company's most recent Employee Engagement Survey, 86 percent of employees said that "[They] would, without hesitation, recommend this organization to a friend seeking employment," (Corporate Responsibility, 2012, p. 35). This is likely due to the company's dedication to ensuring their employee's professional development as well as their health, safety, and well being. Brown-Forman also encourages diversity and inclusion in the workplace because they believe that having a diverse workforce enables them to better understand and serve their customers around the globe (Corporate Responsibility, 2012, p. 32). All of these factors combine to create a positive workplace for employees to perform at their best.

Business Strategy

Brown-Forman utilizes a well-rounded, comprehensive business strategy to take advantage of industry trends, manage changes in the macro and industry environments, and meet the industry's key success factors. It also helps them capitalize on their financial strengths and sustainable competitive advantages within the industry. Successfully combined, these strategies help Brown-Forman maintain its industry leader position in the competitive market. Figure 4 in Appendix A shows the components of the company's business strategy.

Product innovation strategy. Product innovation is both a driving force within the distilleries industry, as well as an industry key success factor. It is absolutely necessary for Brown-Forman to establish means for differentiating themselves against their competitors in order to be competitive within the industry. In an industry whose genre of products are well established, Brown-Forman recognizes the need for product innovation to sustain the interest of their existing consumer base and to attract new customers.

The United States remains Brown-Forman's largest market and to ensure their long-term success, it is important that they develop new ways to maintain and if possible, increase their growth. In late 2011, they successfully did so with the launch of Jack Daniel's Tennessee Honey. They continued this success into 2012 with the launch of Southern Comfort Fiery. Brown-Forman exercised the same strategy abroad with the release Southern Comfort Bold Cherry in the United Kingdom (Brown-Forman, 2012, p. 25). Brown-Forman's plan for the future involves even more intriguing business moves including "new products, line extensions, label and bottle changes, product reformulations, and similar product innovations" (Brown-Forman, 2012, p. 8). In 2013, to help achieve the company's goal of expanding the reach of their tequila brands, the company intends to roll out new flavors and line extensions for New Mix, their tequila-based RTD brand.

Marketing strategy. Brown-Forman's product innovation and marketing strategy go hand-in-hand. Many of their product innovation strategies directly affect the marketability of their products. Like product innovation, branding and marketing innovation are also driving forces and key success factors within the distilleries industry. Brown-Forman has the competitive advantage of strong branding for many of its products. The most noteworthy is Jack Daniel's, which has become the world's largest American whiskey brand (Brown-Forman, 2012, p. 3). Since the company is best known for its whiskey, its goal is to become a global leader in the industry's whiskey product segment. In order to do that, the company plans to grow their other whiskey brands through effective marketing and distribution (Brown-Forman, 2012, p. 20).

Brown-Forman's second most recognized brand is el Jimador, which is the top selling tequila brand in Mexico (Brown-Forman, 2012, p. 25). Due to its success, Brown-Forman would like to expand both el Jimador and Herradura, their other tequila brand, into high-potential markets through product innovation and creative packaging. To test this idea, at the end of 2011, Brown-Forman changed the product packaging for Herradura and as a result, the product experienced strong growth in 2012. A similar marketing strategy may be used as these products are introduced to new markets.

Another objective for Brown-Forman is to stabilize the Southern Comfort brand family (Brown-Forman, 2012, p. 8). In 2012, the product experienced a decline in growth. Thus, to turn things around, Brown-Forman intends to initiate heavy marketing for the brand including a new parent brand communications campaign and a significant increase in media investment (Brown-Forman, 2012, p. 25). The company hopes that this strategy coupled with new flavor innovation will help reinvigorate the brand's growth.

Expansion and distribution strategy. The majority of Brown-Forman's revenues in 2012 were generated from foreign markets. Due to this positive growth, and the fact that the company only holds a one percent share in the global spirits market, many of the company's strategies are centered on further expanding their brands into developed and emerging markets (Brown-Forman, 2012, p. 26).

As a driving force of the distilleries industry, expansion into the global market could improve the potential for new entrants to come into the market. Another component of Brown-Forman's expansion strategy involves moving into profitable local spirits categories in key markets (Brown-Forman, 2012, p. 20). Instead of building a new company from the ground up, a more realistic move for Brown-Forman would be to acquire an existing company that has a presence in the market they are interested in entering. This move would provide them with access to new customers and spread their business risks, including political and economic, across multiple markets (Thompson et al, 2012, p. 211).

A strong distribution network is another industry key success factor. Brown-Forman intends to continue to "pursue strategies and partnerships that will improve [their] in-market brand-building efforts" (Brown-Forman, 2012, p. 26). One way the company can utilize partnerships is for the distribution of their products. Based on the company's annual report, Brown-Forman only has one strategic distribution partnership. In the United Kingdom, the company has a cost-sharing arrangement with Bacardi to sell a combined portfolio of the two companies brands (Brown-Forman, 2012, p. 25). The rest of Brown-Forman's products are distributed through company-owned distribution networks or directly to retail stores or wholesalers. This is one area of the company's strategy that could be improved to help reduce costs associated with building distribution centers in new markets.

Finance strategy. The basis of Brown-Forman's finance strategy is to grow profits. Since Jack Daniel's has maintained significant popularity across multiple markets, the company intends to increase the brand's price by three to five percent while reducing the amount of discounting (Brown-Forman, 2012, p. 20). Another way the company intends to grow profits is by investing more in its high-end brands. One of Brown-Forman's goals is to grow their whiskey and vodka brands, "especially in the premium and super-premium categories" which if successfully executed, would result in a higher profit margin (Brown-Forman, 2012, p. 20).

Human resources strategy. Brown-Forman believes that "the successful production, marketing, and sale of [their] brands depends first and foremost on the talent, knowledge, and dedication of [their] employees" (Brown-Forman, 2012, p. 32). In order to get the most out of their workforce, the company starts with ensuring the health, safety, and wellness of its members through their Global Employee Wellness Program. The company also integrates employees into the company and professionally develops them through their mentoring program and Building Brands University. A good deal of money, time, energy, and effort is required to develop and maintain quality employees, and Brown-Forman's employee engagement program ensures that they keep their employees happy and that they maximize the value provided to the company.

Corporate responsibility strategy. Changing societal concerns and attitudes are major driving forces within the distilleries industry. In order to mitigate the impacts of changes in the social acceptability of alcohol and to maintain a positive image within the community, Brown-Forman has implemented their Our Thinking About Drinking strategy. The strategy has five aims including (1) developing “responsibility leaders” within the organization, (2) partnering with distributors to promote responsible drinking, (3) supporting public policies that help reduce alcohol misuse, (4) utilizing their brand power to affect change, and (5) being a champion for responsibility (Corporate Responsibility, 2012, p. 4).

Developing “responsibility leaders” is tied directly to the employee development and engagement program. Brown-Forman developed the Think and Drink Tavern board game and online module to simulate a bar environment and provide critical information about alcohol to their employees in a more interactive, personalized, and memorable way. This training and implementation within the organization helps them lead by example in the responsible enjoyment of alcohol. To further promote responsible drinking, Brown-Forman partnered with Best Bar None in the United Kingdom to recognize award bars and clubs for preventing crime, disorder, and public nuisances, ensuring the public’s safety, and protecting children from harm (Corporate Responsibility, 2012, p. 6). This program not only promotes the responsible use of alcohol, but also improves local businesses’ practices and relationships in the community. Brown-Forman makes regular donations to the Ad Council to help fund its work on changing attitudes towards drunk driving (Corporate Responsibility, 2012, p. 11). Brown-Forman uses its own social media sites to promote the Ad Council’s “Buzzed Driving is Drunk Driving” message. Brown-Forman also utilized its brand power to promote responsible drinking at sporting events for teams like the Los Angeles Angels and New England Patriots and by supporting designated-driver programs like CityScoot, Lilybug, and BeMyDD (Corporate Responsibility, 2012, p. 5). All of these actions and involvement in the community combine to make Brown-Forman a champion for the responsible enjoyment of alcohol.

Brown-Forman also furthers its positive reputation in practicing environmental sustainability. Since their company relies on a healthy, thriving environment for its key product inputs, the company is committed to promoting sustainable farming, conserving energy and reducing greenhouse gases, investing in renewable energy, mitigating product and packaging waste, and conserving water, which is a key input to many of the company's brands (Corporate Responsibility, 2012, pp. 18-19). With these efforts, in 2012, Brown-Forman decreased energy consumption and greenhouse gases by 30 percent and sent zero waste to landfills from their facilities (Corporate Responsibly, 2012, p. 19).

With the public's concern over the use of alcohol and emphasis on environmental sustainability, addressing both of these issues is important to the company's corporate responsibility strategy and overall success.

Financials: Quantitative Assessment of Strategy

One of the best indicators of how well Brown-Forman's strategy is working is comparing it to compare it another major competitor in the industry, Beam. The financial data used to compute the companies' financial ratios are provided in Appendix B.

Profitability. Table 1 shows the profitability ratios for the two companies over the last three years. Based on the financial data from fiscal years 2010 to 2012, both Brown-Forman and Beam had strong profitability ratios. Brown-Forman had high gross profit margins, which stayed fairly constant at 74 percent. This was almost ten percent higher than Beam's gross profit margin, which stayed around 66 percent over the same period. Both companies have an adequate percentage of revenue to cover operating expenses and yield a profit. The trend was similar with the companies' high operating profit margins. This shows that both companies are able to earn a solid profit on each dollar of revenue. While gross profit margin and operating profit margin are high for both companies, their net profit margin was less impressive. This significant decrease in profit margin shows the significant impact of taxes on the distilleries industry. Generally, higher profit margins are better, and the trends should be upward, but neither Brown-Forman nor Beam showed upward trends.

Both companies experienced strong returns on assets. Brown-Forman's return on assets was nearly double that of Beam's indicating that Brown-Forman earned a significantly higher return on their total investments. Brown-Forman's return on equity was even more impressive, nearly tripling Beam's return on equity. This shows that Brown-Forman provided a higher return to stockholders on their investments. Additionally, at nearly 25 percent, Brown-Forman is well above the return on equity "average" of 12 to 15 percent (Thompson et al, 2012, p 94). Brown-Forman's return on capital was also much higher than Beam. This shows that Brown-Forman used the monetary capital invested in its operations more efficiently than Beam.

Another observation was that Beam's profitability ratios all peaked in 2011, due to the significant increase in net income, which made their 2012 results unimpressive. Brown-Forman was able to maintain a steadier profitability trend over the three-year period.

Liquidity. Table 2 shows the companies' liquidity trends over the last three years. Between the two firms, Brown-Forman had higher current and quick ratios, which indicates that the firm was in a strong position to pay its short-term debt. Both ratios were also trending upward, which indicates that the company's ability to pay its short-term debt is improving over the long-term. While Beam maintained a current ratio of above 2.0 over the three-year period, their trend was erratic. Their quick ratio was also well below 1.0. Based on these two ratios, Brown-Forman was in a better position to pay its short-term debt than its competitor.

For working capital, both companies had over one billion dollars to pay their current liabilities in a timely basis while being able to finance other activities like inventory expansion, accounts receivable, or a larger base of operations without the need for more equity capital. The difference between the two firms is that Brown-Forman's working capital increased over time, while Beam's decreased.

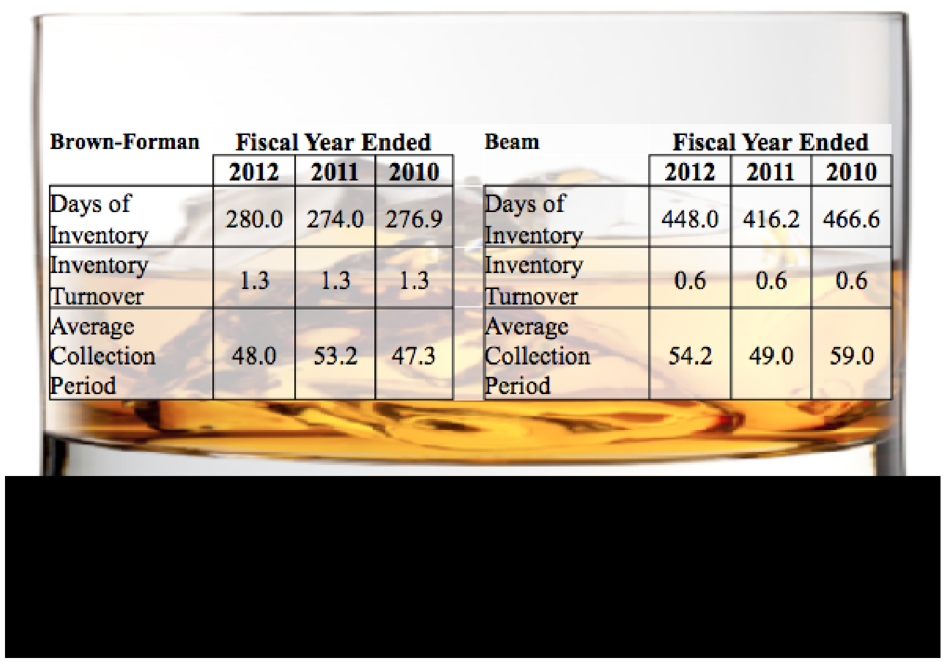
Based on the two company's liquidity ratios, Brown-Forman was in a better position to pay its short-term debt and had a more desirable trend in the availability of working capital for managing liabilities and making future investments.

Leverage. Table 3 compares Brown-Forman and Beam's leverage ratios from 2010 to 2012. Both companies used debt effectively based on their debt-to assets ratios. Brown-Forman used less debt to finance its operations, but both firms trended downward, which is a positive sign. Between the two companies, Brown-Forman had better creditworthiness and balance sheet strength because its long-term debt-to-capital ratio was low and trended downward. This indicates that more money was being invested by stockholders to account for the company's total capital. Beam's long-term debt-to-capital ratio was slightly higher, but also trending downward. Unfortunately, their ratio was not optimum range of 0.25 or less, but the downward trend indicates a better use of debt over the long-term.

Both companies also exhibited positive trends in their debt-to-equity ratios. Brown-Forman kept their ratio below one and trending downward, which is a sign that the company's creditworthiness was improving. Beam, on the other hand, started with a ratio of 1.23 in 2010, which indicated an excessive use of debt and a weak balance sheet. Fortunately, over the three-year period, their ratio trended downward, a sign that things were improving. Brown-Forman and Beam also have low long-term debt-to-equity ratios. Brown-Forman's was almost half of Beam's long-term debt-to-equity ratio, indicating that the company had nearly double the capacity to borrow additional funds as needed.

Finally, times-interest-earned proved Brown-Forman's effective use of leverage. While both companies had ratios over 3.0, Brown-Forman maintained a coverage ratio in the 20s over the last three years, making Beam's 3.0 to 5.0 range unimpressive.

Based on all of these ratios, Brown-Forman has more effectively used debt over the last three years than Beam. All of Brown-Forman's ratios display positive trends and indicate high creditworthiness and a strong balance sheet.

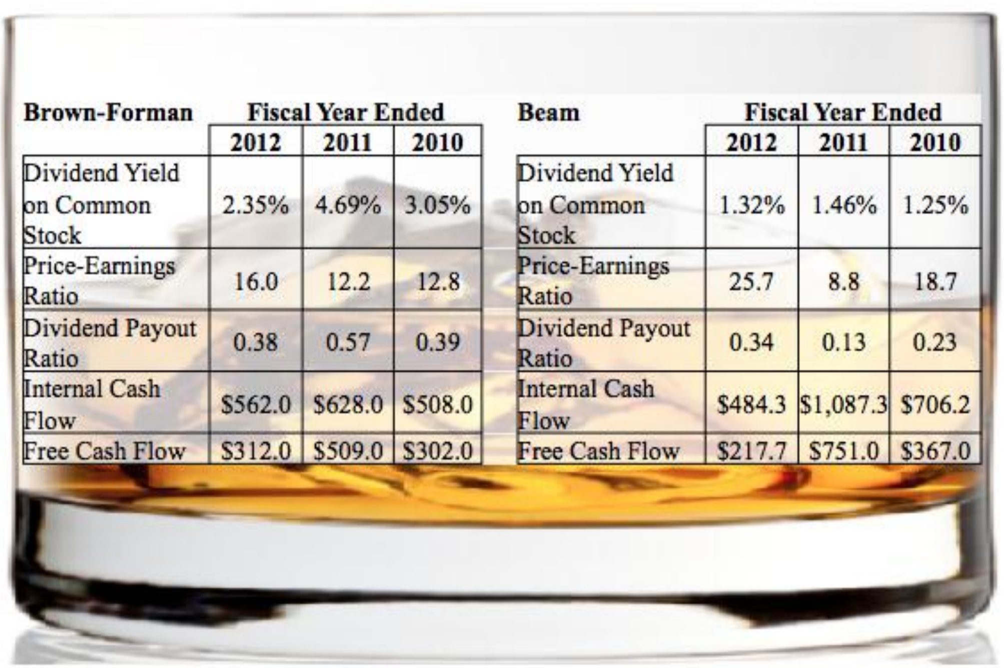


Brown-Forman	**Fiscal Year Ended**		
	2012	**2011**	**2010**
Days of Inventory	280.0	274.0	276.9
Inventory Turnover	1.3	1.3	1.3
Average Collection Period	48.0	53.2	47.3

Beam	**Fiscal Year Ended**		
	2012	**2011**	**2010**
Days of Inventory	448.0	416.2	466.6
Inventory Turnover	0.6	0.6	0.6
Average Collection Period	54.2	49.0	59.0

Activity. Table 4 shows the activity ratios for Brown-Forman and Beam over the three-year period. Due to the aging requirements of some spirits, most companies within the distilleries industry have a high number of days in inventory. Brown-Forman's days in inventory trended upward, which could be indicative of their preparation for the higher demands due to the growth of the drinking population. Beam's days of inventory were also trending upward, but were nearly double that of Brown-Forman's. As a result, Brown-Forman turned over more inventory per year than Beam, which could explain the company's higher revenues from 2010 to 2012.

Brown-Forman and Beam had comparable average collection periods. Compared to Beam, Brown-Forman took less time on average to convert their accounts receivable to cash. This indicates that Brown-Forman may have a better credit policy than Beam. Overall, Brown-Forman had stronger activity ratios and more positive trends than Beam.



Brown-Forman	**Fiscal Year Ended**		
	2012	**2011**	**2010**
Dividend Yield on Common Stock	2.35%	4.69%	3.05%
Price-Earnings Ratio	16.0	12.2	12.8
Dividend Payout Ratio	0.38	0.57	0.39
Internal Cash Flow	$562.0	$628.0	$508.0
Free Cash Flow	$312.0	$509.0	$302.0

Beam	**Fiscal Year Ended**		
	2012	**2011**	**2010**
Dividend Yield on Common Stock	1.32%	1.46%	1.25%
Price-Earnings Ratio	25.7	8.8	18.7
Dividend Payout Ratio	0.34	0.13	0.23
Internal Cash Flow	$484.3	$1,087.3	$706.2
Free Cash Flow	$217.7	$751.0	$367.0

Table 5. Other measures of financial effectiveness for Brown-Forman and Beam from 2010 to 2012.

Other measures. Table 5 shows other measures of the companies' financial effectiveness from 2010 to 2012. Both Brown-Forman and Beam paid out dividends to owners over the three-year period. Overall, Brown-Forman returned a higher percentage of the company's profits to owners than Beam, as indicated by the companies' dividend yield and payout ratios. Brown-Forman's price-earnings ratio in 2012 was average. Ideally, like Beam's, their ratio would be above 20, which would indicate a strong investor confidence in the firm's outlook; nevertheless, Brown-Forman's ratios were still competitive.

Both companies had positive cash flows over the past three years. Similar to the company's profitability ratios, Brown-Forman maintained a fairly constant internal cash flow. Beam, on the other hand, experienced a spike in 2011 due to their significant increase in net income. This indicates that both companies effectively generated cash after operating expenses, interest and tax, which they could use to supply dividends to stakeholders or fund capital expenditures. Both companies also had strong free cash flows, indicating that after operating expenses, interest, taxes, dividends, and reinvestments into the company, they still had money left over for strategic initiatives.

Balanced Scorecard: Qualitative Analysis of Strategy

Another strong indicator of how well Brown-Forman's strategy is working is whether or not the company is achieving its stated strategic objectives. Table 6 below is an assessment of Brown-Forman's financial, customer service, internal processes, and growth and learning objectives and the measures and objectives that the company is utilizing to achieve them.

	Objectives	Measures	Initiatives
Financial	1) Increase net sales by 8-9 percent 2) Increase operating income growth by 8 to 9 percent (Brown-Forman, 2012, p. 29)	1) Compare monthly sales 2) Compare monthly sales and operating expenses	1) Increase prices strategically 2) None provided (Brown-Forman, 2012, p. 23)
Customer Outreach	1) Extend the breadth of products to attract new customers (Brown-Forman, 2012, p. 25)	1) Extend the breadth of products to attract new customers	1.1) Leverage existing assets by introducing several of a our brands in markets worldwide 1.2) Introduce innovative brands and line extensions (Brown-Forman, 2012, p. 23)
Internal Processes	1) Improve product and brand innovation (Brown-Forman, 2012, p. 20)	1.1)Measure innovative thinking 1.2)Track consumer response to new product and branding ideas	1) Develop new packaging and flavors for a number of brands in our portfolio (Brown-Forman, 2012, p. 23)
Growth	1) Continue expanding international growth (Brown-Forman, 2012, p. 23)	1) Identify profitable markets for potential expansion	1) Enter growing, profitable local spirit categories in key markets (Brown-Forman, 2012, p. 20)

Table 6. Balanced Scorecard: Identifies the measures and initiatives to achieve strategic objectives.

Resources and Capabilities

The effectiveness of Brown-Forman's business strategy is dependent on the company's resources and capabilities. To properly assess them, business leaders must first identify their resources and capabilities, determine which of them are competitively valuable, and then determine how they can be utilized to achieve a sustainable competitive advantage over competitors (Thompson et al, 2012, p. 96).

Resources. Brown-Forman has several tangible and intangible resources. Their tangible resources include physical resources like their cooperage, stave and heading mills and their production and warehouse facilities as well as their financial resources like their ability to generate cash from operations and achieve a high return on invested capital. Their intangible resources include their employees, company brands, and relationships with key distributors.

Capabilities. Brown-Forman also has several different capabilities, many of which echo the company's resources. First, is the knowledge that resides in the company's human resources including how to properly distill, age, and bottle Brown-Forman's key products. Second, is the company's brand management, which has successfully made Jack Daniel's one of the industry's leading whiskey brands. Third, is the company's ability to innovate new and exciting products that peak the interest of existing consumers and also to attract new customers.

Four tests of competitive power. To determine whether these resources and capabilities have strong competitive power, they must pass four tests: (1) the resource or capability must be competitively valuable, (2) the resource or capability must be rare, (3) the resource or capability must be difficult to replicate, and (4) the resource or capability must not able to be trumped by a substitute (Thompson et al, 2012, pp. 100-101).

Competitive value of resources and capabilities. Many of these resources and capabilities could be considered competitively valuable within the industry. Undeniably, their most competitive assets are their brands and branding capability. Superior branding is a key success factor of the distilleries industry. Thus, being able to effectively build and promote the company brands to the level of Jack Daniel's or el Jimador is a big competitive advantage. Product innovation is another one of Brown-Forman's capabilities and a key success factor in the distilleries industry. The company is consistently developing new product flavors and line extensions to keep the interest of existing consumers and also to attract new customers. Being able to respond to changes in industry trends in consumer preferences is competitively valuable.

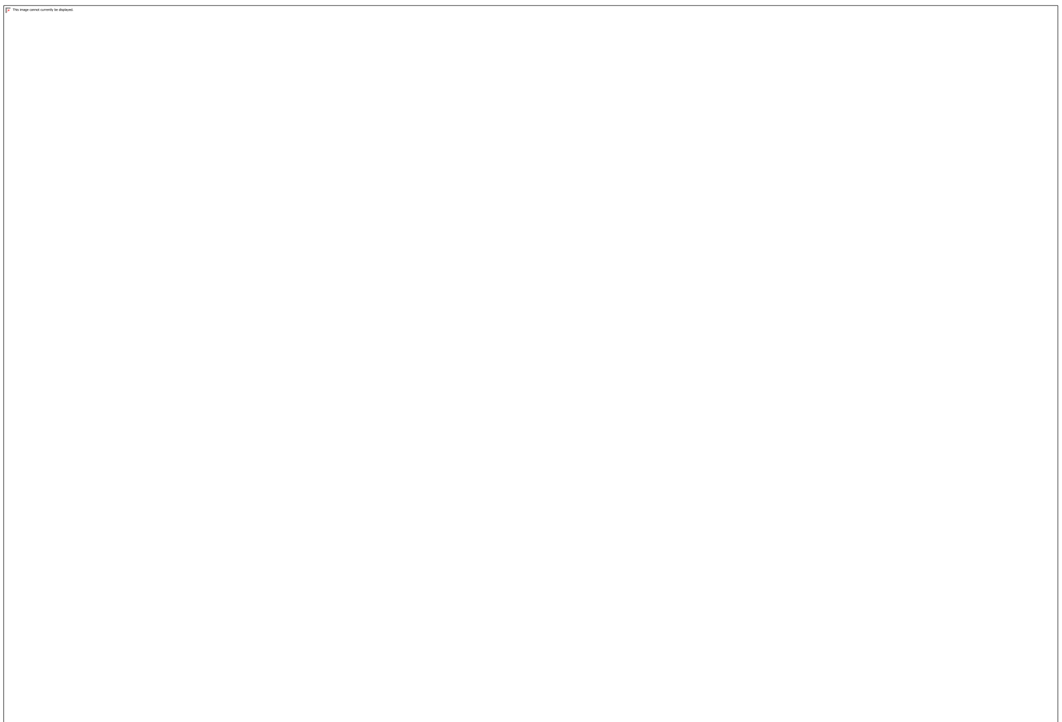
A strong distribution network is another industry key success factor. Brown-Forman owns and operates multiple distribution centers across the globe and partners with Bacardi to distribute their products in the United Kingdom. Thus, the company's ability to effectively distribute their products makes it competitively valuable to compete within the industry.

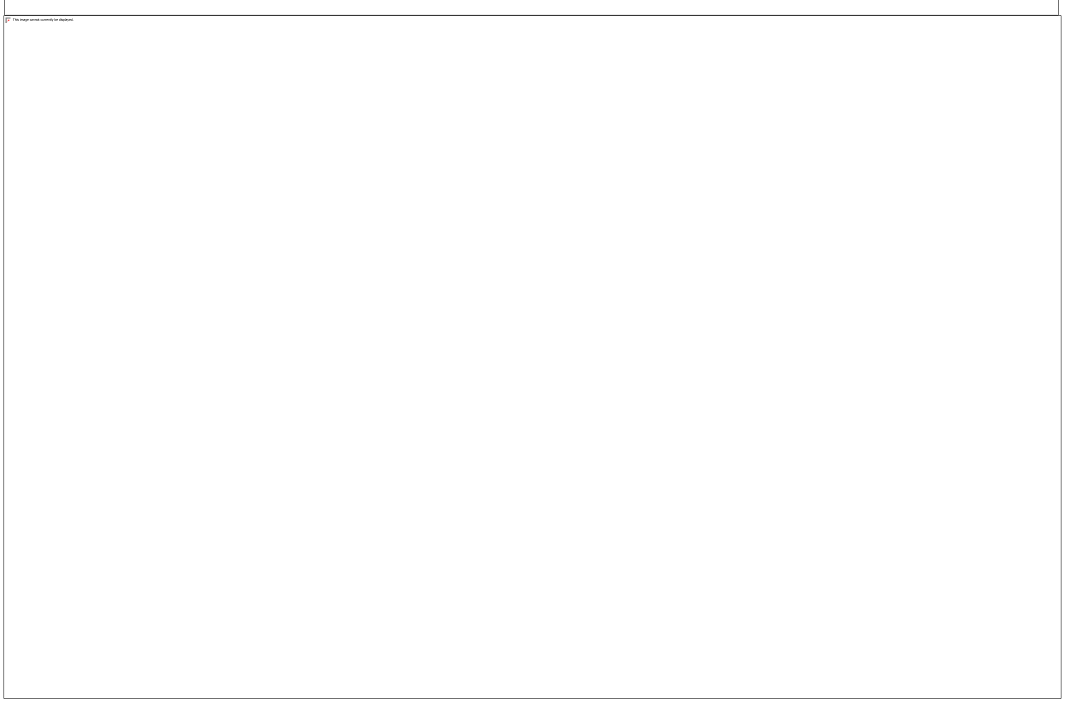
Rarity of resources and capabilities. Of the company's competitively valuable resources and capabilities, only one could be considered rare. It is very challenging to develop extremely successful brands in the distilleries industry. Brown-Forman has the unique resource of a few strong brands like Jack Daniel's and el Jimador. Owning the largest American-whiskey brand in the world and the number one selling tequila brand in Mexico is a unique advantage that Brown-Forman has over the rest of the industry. Unfortunately, most of Brown-Forman's other competitors in the industry possess the resources and capabilities for product innovation and distribution. These resources and capabilities are still distinctive core competencies to Brown-Forman due to their strength and competitive value, but neither is rare enough to pass the test.

Ability to replicate resources and capabilities. Replicating products can be easy to do, but replicating brands is very challenging. Many companies within the distilleries industry have experienced difficulties in Asian and Eastern European markets with product counterfeiting (Brown-Forman, 2012, p. 12). While some may be able to create a product and stick a Jack Daniel's or el Jimador label on it, the counterfeit product usually lacks the flavor and quality unique to the brand. Thus, Brown-Forman's brand is difficult to replicate.

Ability of resources and capabilities to be trumped by others. In terms of American whiskeys, very few other products have the ability to achieve the status of the Jack Daniel's brand. Having been in production for over 147 years, the product and brand has significant staying power. Unfortunately, while el Jimador has noteworthy strength in Mexico, it does not have the recognition and status of the Jack Daniel's family brand. Thus, of all of the company's resources and capabilities, Brown-Forman's Jack Daniel's brand has the best potential for providing the company with a sustainable competitive advantage.

SWOT Analysis: Internal and External Environments Combined





Recommendations

Key Result Areas

Based on the results of the SWOT analysis, as well as the industry's driving forces and key success factors, Brown-Forman should make some minor changes and additions to their business strategy. First, they need to figure out a way to better achieve the industry key success factor of guaranteed supply of key inputs. While the company does manufacture its own whiskey barrels and exercises environmental stewardship, they do not have a way to "guarantee" the supply of their primary raw materials. One way they could address this issue is to grow their own crops in greenhouses or contained vertical gardens. A more controlled environment would ensure high quality crops year-round, but could be very expense. A less expensive alternative would be to future promote sustainability in other companies and industries. By expanding the impact of their sustainable business practices, Brown-Forman could improve the chances of a more consistent crop.

Brown-Forman also needs to develop a strategy for mitigating the impacts of changes in regulatory influences and governmental policy, which are driving forces in the distilleries industry. While Brown-Forman promotes public policies on responsible drinking, their business strategy fails to provide a more substantial means of managing changes in this area of its macro environment. Since the company's profits are highly impacted by regulations and taxes, it is important for Brown-Forman to have a voice in the political arena.

One weakness that Brown-Forman should try to address is their use of strategic partnerships for distribution. Currently Brown-Forman only has one strategic partnership with Bacardi for distributing its products in the United Kingdom, and they own and operate the rest of their distribution centers. If the company intends to expand into new markets, it may be advantageous to utilize more cost-sharing partnerships as opposed to developing its own distribution center. This could reduce the costs associated with building a distribution network in a new market from the ground up.

Future Acquisitions

One of Brown-Forman's biggest strategies is expansion, both globally and into new product segments. Brown-Forman specifically mentions "stronger participation in fast growing spirits categories" like flavored vodka and whiskey. One company Brown-Forman should consider acquiring is Firefly Distillery in South Carolina. This company produces spirits with a Southern-twist like sweet tea and lemonade flavored vodka and whiskey. They also recently expanded to produce their own moonshine. With a majority of Brown-Forman's brands having strong Southern roots, this company and its products would complement the rest of Brown-Forman's product portfolio and help it achieve some of its strategic goals of participation in trending product categories.

Another option for Brown-Forman is to expand into the rum product segment. Currently Brown-Forman does not have any rum brands and this genre of spirits, and at 12.7 percent, rum makes up a significant part of the industry product segment in the distilleries industry (Kaczanowska, 2012, p. 12). Brown-Forman could expand into this segment by acquiring Bacardi, which is still privately owned. Bacardi has an extensive rum product line and has distribution centers all over the world. This acquisition would not only expand Brown-Forman into the rum product segment, but would also extend its product reach into other global markets.

Conclusion

Brown-Forman is an industry leader due to its winning business strategy. Their strategy is comprehensively designed to address both internal and external factors and is a living document that can evolve with the company over time. The key components of the strategy address important trends in the industry through product and marketing innovation and capitalize on the company's strongest resources, creating a sustainable competitive advantage through branding.

Their business strategy is proactively designed to address changes in the industry's driving forces through their finance and corporate responsibility strategies. Changes in any driving forces could have serious impacts on the success of the business, and their strategies provide a strong defense. Their product innovation, marketing, and expansion and distribution strategies ensure that the company achieves the industry's key success factors. The strategy's success is further reflected in Brown-Forman's financial performance. When compared to its biggest competitor, Beam, Brown-Forman had stronger profitability, liquidity, leverage, and activity results over the last three years, which explains its industry lead over Beam.

Based on this, the company meets the three key tests of a successful business strategy, which are the Fit Test, Competitive Advantage Test, and Performance Test. If Brown-Forman continues to develop and evolve this winning business strategy to address the dynamic trends, forces, and success factors of the distilleries industry over time, it will be able to fulfill its mission and responsibly grow its brands and profits for generations to come.

References

Alcohol Taxation (2006). *International Center for Alcohol Policies* (ICAP Report 18). Retrieved from http://www.icap.org/LinkClick.aspx?fileticket=Gf4%2BQD%2BX1hU%3D&tabid=75

Beam Inc. (2011). Form 10-K. Retrieved from http://www.sec.gov/Archives/edgar/data/789073/000119312512086286/d270277d10k.htm

Beam Inc. (2012). Form 10-K. Retrieved from http://www.sec.gov/Archives/edgar/data/789073/000119312512086286/d270277d10k.htm

Beam Historical Stock Quotes (2013). *Bloomberg Businessweek*. Retrieved from http://investing.businessweek.com/research/stocks/snapshot/historical.asp?ticker=BEAM

Brands (2013). *Beam*. Retrieved from http://www.beamglobal.com/brands

Brown-Forman 2011 Annual Report (2011). *Brown-Forman Corporation*. Retrieved from http://media.corporate-ir.net/media_files/irol/98/98415/Annual_Report_FY11.pdf

Brown-Forman 2010 Annual Report (2010). *Brown-Forman Corporation*. Retrieved from

Brown-Forman Historical Stock Quotes (2013). *Bloomberg Businessweek*. Retrieved from http://investing.businessweek.com/research/stocks/snapshot/historical.asp?ticker=BF/B

Code of Conduct (2013). *Brown-Forman Corporation*. Retrieved from http://www.brown-forman.com/company/governance/conduct.aspx

Corporate Responsibility Scorecard 2011-2012 (2012). Brown-Forman Corporation. Retrieved from http://www.brown-forman.com/_down/BF_CR_Report_2011-12_scorecard201112.pdf

Distilled Spirits (2013). *Alcohol and Tobacco Tax and Trade Bureau*. Retrieved from http://www.ttb.gov/spirits/index.shtml

Kaczanowska, A. (2012). *Distilleries in the US* (IBISWorld Industry Report 31214). Retrieved from http://0-clients1.ibisworld.com.helin.uri.edu/reports/us/industry/default.aspx?entid=290

Location (2013). *Beam.* Retrieved from http://www.beamglobal.com/about/locations

Our Brands (2013). *Brown-Forman*. Retrieved from http://www.brown-forman.com/brands/

Regions (2013). *Diageo*. Retrieved from http://www.diageo.com/en-sc/ourbusiness/ourregions/pages/default.aspx

Spirits (2013). *Diageo*. Retrieved from http://www.diageo.com/en-row/ourbrands/categories/spirits/Pages/default.aspx

Thompson, A. A., Peteraf, M. A. , Gamble, J. E., & Strickland III, A. J. (2012). *Crafting and Executing Strategy* (18^{th} ed.). McGraw-Hill: New York.

Vision (2012). *Brown-Forman*. Retrieved from http://www.brown-forman.com/company/vision

Appendix A: Figures

Figure 1. Macro environment factors that impact the distilleries industry.

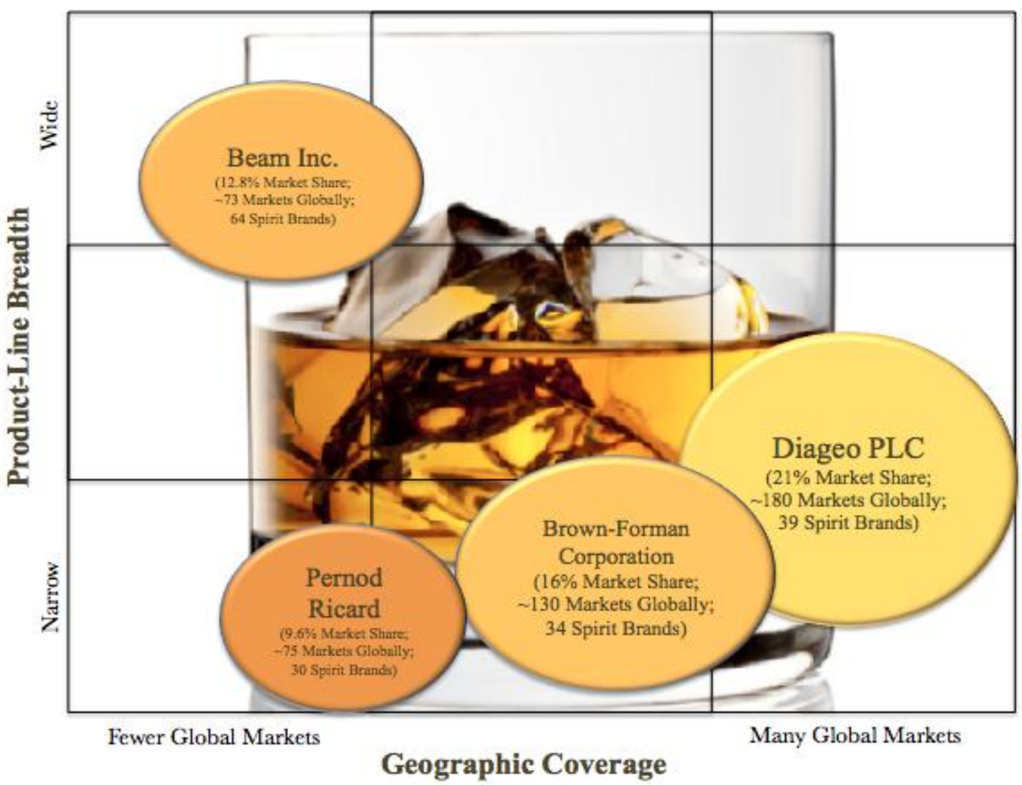


Figure 3. Strategic group map comparing industry competitors' geographic coverage and product-line breadth.

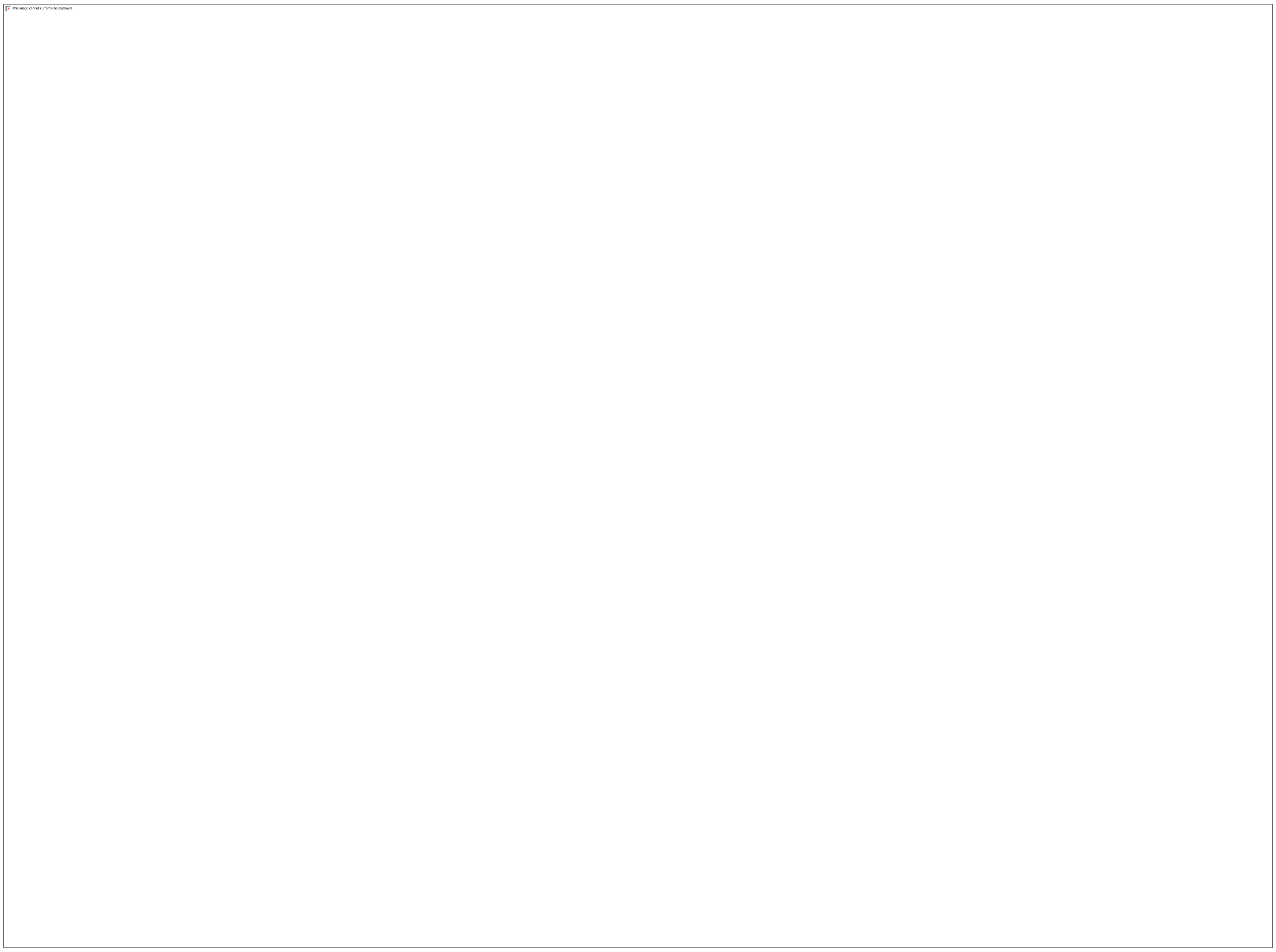


Figure 4. Brown-Forman's current business strategy.

Appendix B: Financial Statement Excerpts