Davide Campari – Milano S.p.A.

Introduction

Headquartered in Milan, Italy, Gruppo Campari (Campari) is the sixth-largest beverage company in the world with operations in more than 190 nations, including being the self-proclaimed leader in Italy and Brazil and a top-tier presence in the USA, Germany and Switzerland.

Davide Campari-Milano S.p.A. traces its beginnings to 1860, when Italian drink master Gaspare Campari created the eponymous bitter aperitif at his bar in Novara. He soon opened the Café Campari in Milan's central gallery, where the drink gained widespread popularity and is credited with establishing the Milanese social cocktail ritual. Son Davide Campari helped focus the business on the most successful Campari aperitif and the Cordial Campari spinoff, and he soon began to build Campari into an internationally distributed liquor. The Campari product line was extended in 1932 with the introduction of Campari Soda, the world's first pre-mixed, single serve bottle marketed worldwide, which featured a distinctive bottle designed by Fortunado Despero. Chemist Domenico Garavoglia joined the Company in 1952 and would guard the secret Campari recipe and eventually lead the Company until his death in 1992. Under Garavoglia's leadership, Campari would continue to expand its reach, eventually reaching distribution in over 190 countries. Garavoglia inherited control of the Company after the last living Campari heir passed away in 1982.

As the spirits industry began a still-ongoing wave of international consolidation in the 1990s, Campari decided to join the fray in 1995 with the acquisition of Dutch company BolsWessanen's Italian soft drinks business. In exchange for a 35% stake in the Company, Campari acquired a portfolio including the non-alcoholic aperitif Crodino, Lemonsoda, and Cynar brands. Campari followed that up with the acquisition of Cinzano sparkling wine and vermouth, plus Greek liquor Ouzo12, from Diageo for €122.7 million in 1999. Campari also acquired a portfolio of local Brazilian brands from Diageo for $105 million in early 2001. To support additional growth and provide an exit for minority shareholders, Campari completed its initial public offering on July 6, 2001. Led by Deutsche Bank and UBS and listed on the Italian Stock Exchange, Campari sold 13.7 million existing shares at €31 per share (€1.55 per share, split adjusted). The IPO allowed Wessanen to exit its position in Campari, and the Company did not raise any money through primary share issuance. Campari's growth accelerated following the IPO through global expansion of acquired portfolios. Today Campari is a truly international Company with a broad wine and spirits portfolio; Campari and Campari Soda have declined from 43% of net sales in 2000 to just 14% in 2013.

Vision / Mission Statement

The company doesn't provide a written vision statement but it has provided what the company aspire to be (mission) and values that it lives through.
The company wants to be:

- Unique
- Fast growing & Profitable
- Fun
- Lifestyle brands

Davide Campari lives through values of:

- Integrity
- Passion
- Pragmatism
- Performance Orientation

The company aims to remain a highly profitable top player in the global spirits industry by combining its passion for brand building with entrepreneurial drive and functional excellence.
When reading the statement above, one can see that the company has managed to be profitable and remained a top player, currently sixth-largest beverage company in the world.

Objectives and Strategies

With the objective of *increasing cash flow generation over time*, Gruppo Campari has constantly increased its turnover and profits in the past years, which management believes is the combined result of organic growth through marketing and *brand building, innovation* and *enhancement in route-to-market* as well as development and expansion of recently acquired brands, with *external growth through selective acquisitions*, and a *focus on cost efficiencies.*
Key objectives of Group organic growth strategy are to:

- ✓ Drive faster growth of Top 5 spirits Brands and incubate High Potential Brands with best – in – class marketing, innovation and brand building.
- ✓ Generate steady growth in key local brands through periodical renewals.
- ✓ Leverage on rigorous cost discipline to reinvest savings into strategic brand building
- ✓ Develop the Group's presence in high potential markets.

Gruppo Campari strives to grow and maintain its market share by positioning and promoting its brands clearly and consistently across all their markets. Gruppo Campari invested 260.8 million (Euro) in advertising and promotion in 2014.
Key objectives of Group external growth strategy are to:

- ✓ Seek acquisitions in markets where Gruppo Campari controls its distribution.
- ✓ Acquire local brands with strong equity to build new distribution platforms
- ✓ Identify Specialty Brand with strong equity and pricing power.
- ✓ Maintain financial discipline.

Spirits are the company's core business and where it focuses its acquisition efforts. The group's strategic thinking is driven by *the desire to reach or enhance critical mass in key geographic markets.*

External Audit

Opportunities

1. *Increase in the consumption of alcoholic drinks worldwide*: over the past several years, almost all the firms in the industry have mostly done well. For example, in 2011, all European alcoholic companies outperformed most broad-based indexes. This result can be explained by a poor economy; food and beverage stocks – including alcoholic stocks – were perceived by investors as safer than broad-based investments.

2. *Strategic acquisitions* in this industry are one of the most effective means to make a significant step forward in terms of both size and regional diversification. Strategic acquisitions can strengthen a company's operations in its key spirits markets; companies operating in the alcohol industry can leverage on synergies to further improve their revenue growth as well as the market share in important spirit markets.

3. *Shift in consumer preferences*: The alcohol beverage industry is witnessing a shift in consumer preferences. A growing number of consumers are shifting to spirits and wines, especially the younger consumers, who are just forming their drinking habits and brand loyalties. These consumers perceive premium spirits as more sophisticated than traditional beers. Furthermore, the penetration rate of 'at home' drinking has increased in the recent past. Consumers have increasingly been seeking the comforts of their homes as the 'homing' trend becomes more important. The desire for everyday luxury also underlines the trend for greater indulgence at home and together these trends offer a number of opportunities to marketers.

Threats

1. *Increasing health concerns* as new data become available regarding alcohol consumption and various health problems. Other than contributing to traumatic death and injury (e.g. car crashes), alcohol is associated with chronic liver disease, cancers, cardiovascular disease, acute alcohol poisoning (i.e., alcohol toxicity), and fetal alcohol syndrome.

2. *Smoking bans at restaurant around the world may reduce revenues*. Studies have found that people who smoke are much more likely to drink, and people who drink are much more likely to smoke. Dependence on alcohol and tobacco also is correlated – people who are dependent on alcohol are three times more likely than those in the general population to be smokers, and people who are dependent on tobacco are four times more likely than the general population to be dependent on alcohol[1].

3. *Stringent advertising regulation*: alcohol companies have been criticized for irresponsible portrayal of alcoholic drinks in advertisements. Especially in the European countries, regulatory authorities have been coming down heavily on alcohol advertising, claiming that such advertisements fuel binge drinking. There are numerous restrictions, controls and statutory regulations that govern the advertising strategies of beverage companies. Most European

[1] NIAAA (National Institute on Alcohol Abuse and Alcoholism)

countries have imposed legal bans on advertising of spirits on television (TV) and radio; on broadcast advertisements linking alcohol with children, driving, sport or promoting alcohol abuse; and on sponsorship of TV and radio programs by companies primarily concerned in alcohol production. Such stringent advertisement regulations imposed on manufacturers of alcoholic beverages could have a negative impact on the brand image of the companies in this industry.

4. *Potential introduction of additional excise taxes and import duties*: Europe, one of the largest geographical market for the industry, faces a risk of potential federal excise tax increase on spirits. In addition, many other states and jurisdictions are considering possible excise tax increases. The Ministry of Finance in Russia proposed a 10 percent increase in excise tax applicable to high-alcohol-content beverages.

5. *Small changes in weather patterns could drastically impact wine prices*: Though grapes are grown worldwide, premium winegrape production occurs within very narrow climate ranges. Any shift in climate and weather patterns may affect the wine industry. In addition, changes in temperatures and humidity may increase the presence of insects and bird-related diseases.

6. *Growing trade of counterfeit alcohol*: counterfeit alcohol refers to the selling of cheap, fake alcohol under reputed brand names. According to industry sources, more than 30% of the alcohol consumed in the world is unregistered. Counterfeiting of alcohol products is increasingly becoming prevalent in China, one of the largest markets in the world. Industry sources estimate that counterfeit alcohol leads to an estimated €900 million loss annually in the European Union.

Competitive Analysis: Porter's Five-Forces Model

Rivalry Among Competing Firms: **Moderate to High**
Many of the bigger players in the industry are competing fiercely with one another. Companies usually strive to gain or limit or prohibit the distribution rights in select markets. Over the last decade, the beverage industry experienced many acquisitions as well as joint ventures for distribution rights in select markets.

Potential Entry of New Competitors: **Low**
Barriers to entry are high in the beverage industry; to start a winery of any size in the USA it is estimated requires a $1 million investment after accounting for the vineyard, equipment, government regulation, a tremendous amount of knowledge, and so on. Assuming a successful wine product, it would still take more than three years to return a profit. In addition, a strong distribution network is required to operate in this industry. Last but not least, strong brand names are important, because customers tend to be loyal to their favorite brands.

Potential Development of Substitute products: **Low to Moderate**
New trends include consumers shifting towards healthy lifestyles and substitute alcoholic products for more healthy choices such as water. However, there is still a very significant market

for alcoholic beverages. On the opposite, there are no real substitutes for alcohol-based beverages, even if some people would say that drugs can be considered a substitute good.

Bargaining Power of Suppliers: **Low**
Suppliers in this industry face high competition and rely on high volumes. As a consequence, they have less bargaining power, because a producer can threaten to cut volumes and hurt the supplier's profits. In the beverage industry, basic inputs are farm outputs and they are not a big component of costs; in addition, there are a large number of substitute inputs and critical production inputs are similar.

Bargaining Power of Buyers: **High**
Campari and rivals are concerned about having their products shut out of select market; for this reason, distributors often have the upper hand and consequently sell their business for values in excess of a fair price, thus inflating the purchasing firm's goodwill on the respective balance sheets.

External Factor Evaluation Matrix

External Factor Evaluation Matrix			
Key External Factors	**Weight**	**Rating**	**Weighted Score**
Opportunities			
1. Increase in the consumption of alcoholic drinks worldwide	0.12	2	0.24
2. Strategic Acquisitions	0.20	3	0.60
3. Shifts in consumer preferences	0.10	4	0.40
Threats			
1. Increasing health concerns	0.06	1	0.06
2. Smoking bans at restaurants/bars around the world may reduce revenues	0.03	1	0.03
3. Stringent advertising regulations	0.10	3	0.30
4. Potential introduction of additional excise taxes and import duties	0.20	2	0.40
5. Small changes in weather patterns could drastically impact wine prices	0.04	3	0.12
6. Growing trade of counterfeit alcohol	0.15	2	0.30
Total	**1.00**		**2.45**

Davide Campari - Milano EFE score is 2.21. To understand this outcome we should consider that the firm is responding relatively well to existing opportunities. However, the size and market share of the company is too small compared with its competitors; such limitations do not allow the company to effectively face the global competition.

Competitive Profile Matrix

Wow!!

Competitive Profile Matrix												
		Davide Campari		Constellation Brands		Beam		Diageo		Central European Distribution	
Critical Success Factors	Weigh	Rating	Score	Rating	Score	Rating	Score	Rating	Score	Rating	Score
1. Market Share	0.15	2	0.30	3	0.5	3	0.45	4	0.60	2	0.3
2. Global Expansion	0.20	3	0.60	3	0.6	3	0.60	4	0.80	2	0.4
3. Brand Recognition	0.30	3	0.90	3	0.9	3	0.90	4	1.20	3	0.9
4. Range of Products	0.20	2	0.40	3	0.6	2	0.40	4	0.80	2	0.4
5. Customer Loyalty	0.15	4	0.60	4	0.6	4	0.60	4	0.60	4	0.6
Total	1.00		2.8		3.15		2.95		4		2.60

Davide Campari scored 2.8 and ranked number four, situation we consider realistic due to the current size and market share of the firm's top competitors. The company is doing well overall, however, there surely is room for improvements.

Internal Audit

Strengths

1. *Major players in the global branded beverage industry.* The group ranked 6[Th] in the global beverage industry with a portfolio of over 50 brands marketed and distributed in over 190 countries worldwide. The company has self-proclaimed as leader in Italy and Brazil and top-tier presence in the USA, Germany, and Switzerland. Internationally-renowned brands include Aperol, Appleton Estate, Campari, Cinzano, SKYY Vodka and Wild Turkey among others. Also, Campari was ranked among the top 50 spirits by an industry source in 2013. It was also ranked among world's most powerful spirits and wine brands in 2013 by an industry source specialized in brand valuation and strategy.

2. *Solid expanding international footprint.* The company has an extensive presence worldwide and distributed in over 190 countries. Campari has excellent coverage in the Americas and Europe region.

3. *Strong and diverse portfolio of brands.* Campari has a strong portfolio of over 50 premium, super premium and ultra-premium brands in the spirits, wines and soft drinks segments.
The Aperol, Wild Turkey, and SKYY brands were also ranked among world's most powerful spirits and wine brands in 2013.The group's wine portfolio consists of brands such as Cinzano sparkling wines, Cinzano vermouth, Riccadonna, Mondoro, Odessa and Sella&Mosca. Cinzano Vermouth brand was also ranked among the most powerful spirits and wine brands in 2013.The group's soft drink brand portfolio includes Crodino, single-serve non-alcoholic aperitif; and Lemon soda, the soda range. Both these brand share market leaders in Italy. Strong brand portfolio in diverse product categories allows the group to supply to different customer groups.

Campari has leveraged its brand strength to expand its market potential, thereby becoming a strong player in the beverage segment.

4.Powerful distribution network. The group operates through a strong distribution network. Depending on the size and economies of scale, distribution is supported by internal network, external network or through joint-ventures. Campari owns 16 plants and 3 wineries worldwide and has its own distribution network in 19 countries such as Italy, Austria, Belgium, Germany, Spain, Switzerland, the UK, Ukraine, Jamaica, Mexico, the US, Argentina, Brazil, and China. These facilities manage the group's own brands and distribute a number of other leading brands under license. The flexible distribution approach facilitates the group to reach an extensive market and satisfy consumer needs and the demands of the individual countries, increasing probabilities of additional growth.

Weaknesses

1. History of acquiring too much goodwill with acquisitions. Campari's balance sheet from 2012 reveals that about 50 percent of the company's assets are good will, which is not a good thing. Campari has a history of acquiring too much good will with acquisition; but these acquisitions are vital to obtaining distributions rights. It is generally good to see a company increasing its assets regularly; however, if these increases are coming from intangible assets, such as goodwill, the increases may not be as good. It can mean that the company is recording a proportionately higher amount of goodwill, assuming total assets are remaining constant, and this has not effect on cash flow.

2. Trading conditions in Italy affects negativity the overall Campari's performance. Tradeoff conditions in Italy remain volatile and adversely impacted by high unemployment, higher taxation and legislation. Recent policies introduces restrictions affecting some of their commercial relationships and trade destocking

3. Less exposure to emerging markets limits future growth opportunities. Although Campari is the world's sixth largest beverage company, it does not have significant presence in some of the emerging and profitable markets like India and China. Strong competitors like Pernod Ricard and Diageo have strong presence in these markets. The outlook for the spirits market in Asia Pacific is excellent because by 2017, this market is expected to reach a value of $130.3 billion, an increase of 25.5% since 2012. Therefore, Campari's fragile presence in such emerging markets places it in a disadvantageous situation against its competitors with significant presence. Moreover, it limits the group's future growth prospects.

4. Lack of scale compare to competitors. Campari lacks favorable scale of operations in comparison to its competitors. Many of its competitors, such as Diageo, Pernod Ricard and Brown-Forman are much larger in size in terms of revenues. The follow table shows this difference in terms of profit margin and sales 2013 period:

company	market cap	sales	profit margin	dividend
Diageo	76.25 B	18.38 B	21.74%	2.4%
Pernod Ricard	31.52 B	11.10 B	13.87%	1.7%
Brown-Forman	14.15 B	2.87 B	20.46%	1.5%
Beam Inc	10.75 B	2.55 B	15.35%	1.3%
Campari	5.1 B	1.84 B	9.6%	0.7%

Source: seekingalpha.com/article/1738592-5

The group's small scale of operations may turn out to be a disadvantage in the aggressively competitive market. It may also decrease the bargaining power of Campari.

Internal Factor Evaluation Matrix

Internal Factor Evaluation Matrix			
Key Internal Factors	**Weight**	**Rating**	**Weighted Score**
Strengths			
1. Major player in the global branded beverage industry.	0.15	3	0.45
2. Solid expanding international footprint	0.13	3	0.39
3. Strong and diverse portfolio of brands	0.15	4	0.60
4. Powerful distribution network	0.15	4	0.60
Weaknesses			
1. History of acquiring too much goodwill with acquisitions	0.08	1	0.08
2. Trading conditions in Italy affects negativity the overall Campari's performance	0.07	2	0.14
3. Less exposure to emerging markets limits future growth opportunities	0.13	2	0.26
4. Lack of scale compare to competitors	0.14	1	0.14
Total	**1.00**		**2.66**

Davide Campari scored 2.66. The company is doing well internally. However, they need to develop different and better strategies to meet the gaps to improve weakness.

Financial Ratios

	Davide Campari-Milano		Constellation Brands	Diageo PLC	Beam, Inc.
Key Financial Ratios	**2012**	**2011**	**2012**	**2012**	**2012**
1. Current Ratio	2.51	1.95	1.7	1.52	1.09
2. Quick Ratio	1.53	1.31	0.44	0.64	0.64
3. Debt-to-Equity Ratio	0.82	0.58	0.9	1.32	0.64
4. Inventory turnover Ratio	1.47	1.72	1.16	1.15	1.47
5. Gross Profit Margin	57.4	57.7	35.7	60.4	39.3
6. Net Profit Margin	11.69	12.49	14.94	18.05	-2.62
7. ROA	4.97	5.73	6.23	9.22	-1.31
8. ROE	11.22	12.18	17.02	35.85	-9.26

Davide seems to doing better in some cases than Diageo PLC.

Current Valuation Ratios	April 24, 2015
EPS	**(EUR) 0.24**
P/E Ratio	**30.38**
Share Price	**(EUR) 7.28**

1. **Current Ratio**: with a current ratio of 2.51, the company is capable to pay its obligations by using its assets. The company current ratio is very high compare to its direct competition.

2. **Quick Ratio**: a quick ratio of 1.53 simply means that the company would be able to meet its obligation using liquid assets. This ratio is higher than the company's competition.

3. **Debt-to-Equity Ratio**: the low debt to equity ratio of 0.82 simply indicates lower risk, because debt holders have fewer claims on the company's assets. Davide Campari's debt to equity ratio is almost average when compare to its competitors. But we can also note that this ration has increased from 0.58 in 2011 to 0.82 in 2012.

4. **Inventory Turnover Ratio**: This ratio gives us an idea of how well the company manages its resources. The company low ratio of 1.47 means, Campari has much more inventory than it really needs at any one time. When compare to its competitors, one can see that the company ratio is pretty consistent with its competitors.

5. **Gross Profit Margin**: the amount of each dollar of sales that the company keeps in the form of gross profit has pretty much stayed constant from 2011.

6. **Net Profit Margin**: David Campari's Net Profit Margin decrease from 12.49 in 2011 to 11.69 in 2012. This ratio is very different from competitor to competitor.

7. **Return on Assets**: ROA gives an idea as to how efficient management is at using its assets to generate earnings.

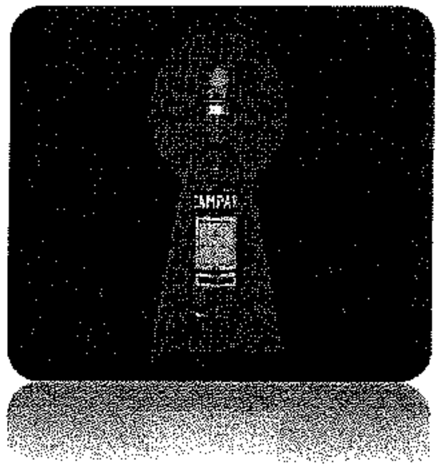
8. **Return on Equity**: ROE measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

SWOT Analysis

External/Internal	**Strengths (S)** 1.Major player in the global branded beverage industry 2. Solid expanding international footprint. 3. Strong and diverse portfolio of brands 4.Powerful distribution network	**Weaknesses (W)** 1. History of acquiring too much goodwill with acquisitions. 2. Trading conditions in Italy affects negativity the overall Campari's performance. 3. Less exposure to emerging markets limits future growth opportunities 4. Lack of scale compare to competitors
Opportunities (O) 1. Increase in the consumption of alcoholic drinks worldwide. 2. Strategic acquisitions. 3. Shift in consumer preferences.	**SO Strategies** 1. Acquisition of local businesses in growing markets (S2, O2) 2. Consolidate brand images in mature markets (S3, O3)	**WO Strategies** 1. Review distribution agreements (W3, O1)
Threats (T) 1. Increasing health concerns. 2. Smoking bans at restaurants/bars around the world may reduce revenue. 3. Stringent advertising regulations. 4. Potential introduction of additional excise taxes and import duties. 5. Small changes in weather patterns could drastically impact wine prices. 6. Growing trade of counterfeit alcohol.	**ST Strategies** 1. Invest in an international advertising campaign to communicate brand values and history. (S2, T6)	**WT Strategies** 1. Make substantial investment to expand its presence in China to meet the gap between weak current presence and the high counterfeiting of alcohol this country has. (W3, T6)

Strategy #1 – Invest in an international advertising campaign to communicate brand values and history to attract more customer and diversify the business worldwide

In Italy, Campari has a strong history and brand image. The company should bring its advertising strategy to an international level, in order to make its brand internationally recognized. Campari is not only associated with style, but also with aperitif and nightlife. Its history of successful advertising *Carosello*-style could surely be successful if expanded to different countries.



The new advertising campaign should be structured as a story, where spots change and evolve periodically. Customers may feel involved in the story and remember the brand when they have to choose what to drink. The famous *Crodino* advertising campaign, which during the Nineties and 2000s became very popular in Italy and Europe, is an example of such advertising strategy; the talking Gorilla, represented in a bar during many, different episodes was very successful and created several catchphrases, widely known among Italian and European customers.

In addition, Campari could sponsor several style-related events, making the customer associate the company's brand with fashion and luxury. For example, the Heineken Jammin' Festival is a very famous music event thanks to which customers started to associate the beer's brand to music and parties.

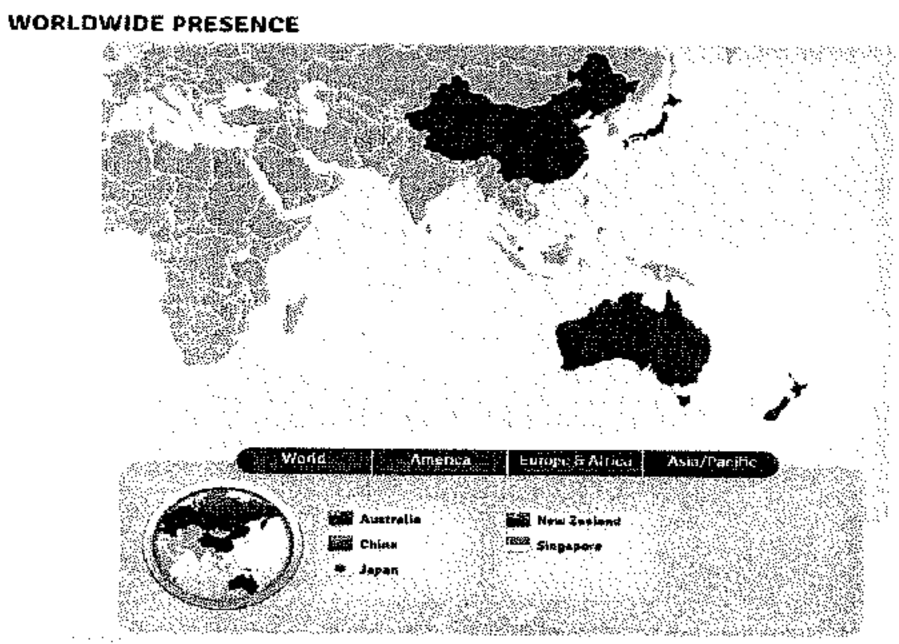
Strategy #2 – Investment in branding and marketing to expand presence in China / India

Campari's weak presence in emerging markets places it in a disadvantageous position against its competitors with significant presence. Besides, it limits the group's future growth opportunities. The group would have to make substantial investment in branding and marketing to expand its presence for example in China. This specific strategy might help to reduce the gap between the Campari's weak brand presences versus the market share of the strong beverage companies in that region; also to mitigate the counterfeiting of alcohol products that is increasingly becoming prevalent in this country, one of the largest markets in the world.

This expansion campaign should be focused on increasing brand recognition but also educate consumers on how to recognize original drinks and the associated risk of consuming counterfeit products.

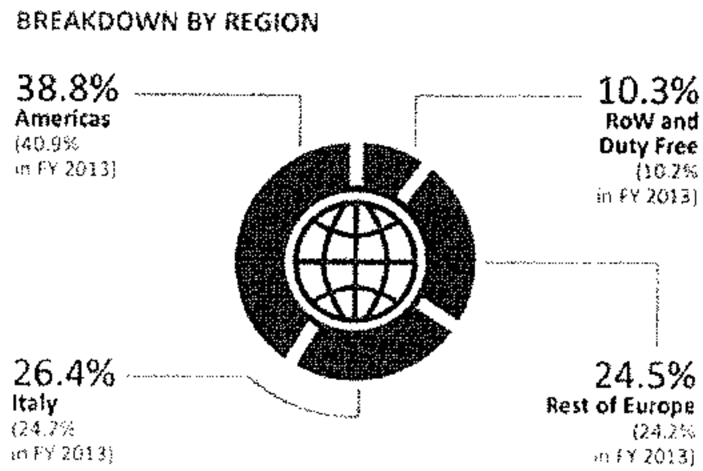
Expand operations in emerging areas such the Asia Pacific region represents a tremendous opportunity to impact on its profitability because the future outlook for those countries is excellent. According to some analysis, the spirits market in Asia Pacific grew by 4.8% in 2012 to reach a value of $103.9 billion. By 2017, this market is expected to reach a value of $130.3 billion, an increase of 25.5% since 2012. China and India account for 45.3% and 20.8%, respectively, of the Asia Pacific spirits market value.

Campari currently presence in Asia Pacific:



Source: http://www.camparigroup.com/en/our-group/our-group/key-facts-and-figures

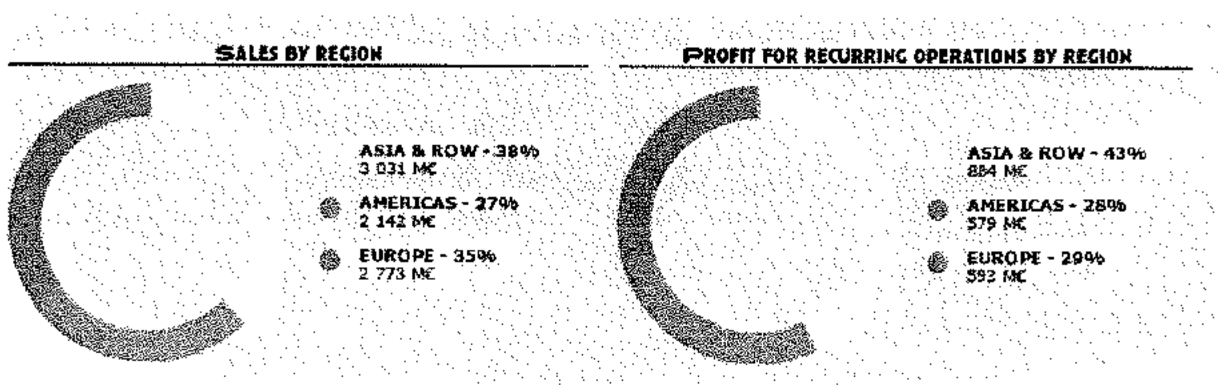
Although the group has presence in this region, the percentage derived for its sales is minimum (10.3 which also include duty free) comparing with others regions and strong competitors as the next breakdown shows:



Source: http://www.camparigroup.com/en/our-group/our-group/key-facts-and-figures

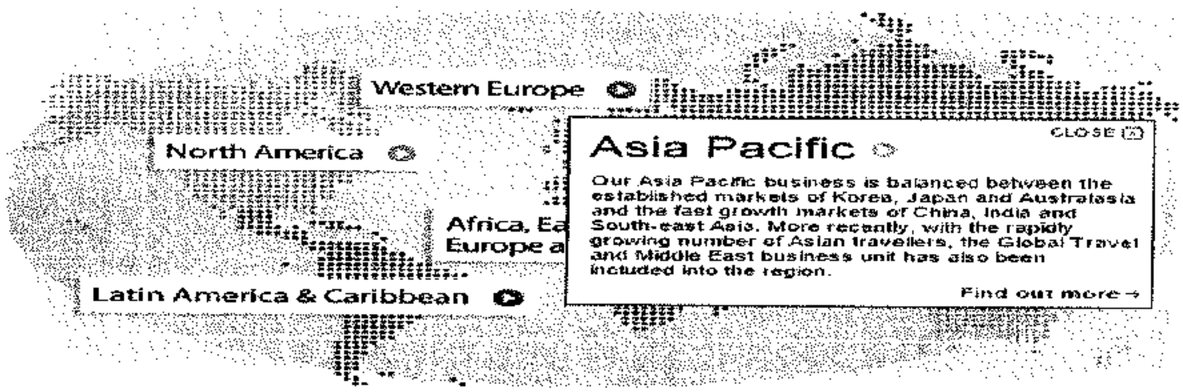
In comparison with its stronger competitors:

Pernod Ricard: derived nearly 40% of its sales from the emerging markets in Asia/rest of world in the financial year ended June 2013.



Source: https:/pernod-ricard.com/2013-14annualreport/key-figures

Diageo: derived approximately 15% of its revenues from Asia Pacific region in the financial year ended June 2013.



We sell products in approximately 180 countries within these five regions. In our financial year ending 30 June 2013, North America generated around 33 per cent of net sales, Western Europe 19 per cent, Africa, Eastern Europe and Turkey 20 per cent, Latin America and Caribbean 13 per cent and Asia Pacific 15 per cent.

Source: http://www.diageo.com/en-us/Pages/default.aspx