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Diageo Strategic Audit: A Deep Dive into the Management Strategies of Diageo

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Abstract

Diageo is a multinational premium drink producer and supplier, with over 200 brands and sales in over 180 countries. A conglomerate since its founding, Diageo controls and operates some of the world's well-known and loved drinks, like Guinness, Johnnie Walker, Smirnoff, Bailey's, Captain Morgan, and Crown Royal. The firm is an industry leader in consumer insight, innovation and creativity, and sustainability efforts. Diageo believes pursuing sustainability, efficiency, and positive drinking allows them to compete, now and in the future. This audit analyzes the history, leadership, business model, mission, external environment, internal environment, core competencies, recent performance, competitive dynamics, business level strategies, corporate level strategies, merger/acquisition strategies, corporate governance, and organizational controls of Diageo. The combination of ethical, innovative, and sustainable management strategies across all of these areas paints a vivid picture that explains the decades of success Diageo has had and continues to have in a fast-paced and ever changing industry.

Key Words: Diageo, Strategic Management, Case Study, Strategic Audit, Global Spirits Industry

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Executive Summary

Diageo is a multinational premium drink producer and supplier, with over 200 brands and sales in over 180 countries. A conglomerate since its founding, Diageo controls and operates some of the world's well-known and loved drinks, like Guinness, Johnnie Walker, Smirnoff, Bailey's, Captain Morgan, and Crown Royal. The firm is an industry leader in consumer insight, innovation and creativity, and sustainability efforts. The ambition of Diageo is to be among the most trusted and best performing companies in the world. The goals set by the organization are not specific to the spirits or beer industry, but reflect a holistic and value-centered attitude. Diageo believes pursuing sustainability, efficiency, and positive drinking allows them to compete, now and in the future. The firm has made clear its desire to be the industry leader in deliberate and noticeable climate sustainability efforts, in addition to providing the most recognizable luxury brands.

Diageo operates more than 130 production sites across the globe for its many brands. The variety and status of Diageo's portfolio is the source of profit maintenance and growth. The spirits industry, where Diageo has the largest footprint, is growing, as more consumers select spirits instead of wine and beer. Diageo's reliance on the industry opens the firm up to risk, with little flexibility should the environment change. Though its success may be tied to macro trends, Diageo's success is difficult to imitate. Customers are loyal to Diageo's classic brands, and the company's immense infrastructure and resources make the firm unique.

Diageo's ability to leverage its marketing and wide product portfolio allow it to pursue a differentiation strategy that focuses on segment leaders. Along with Diageo's technological advancements, Diageo is able to effectively pursue cost leadership elements within its broad differentiation strategy to offer competitive prices. At the corporate level, Diageo focuses on creating value and furthering its commitment to sustainability at every level of its value chain through its extensive vertical integration strategies. The company's product and geographic diversification opens it up to new markets and allows it to reach a broader range of consumers. Since its founding, Diageo has engaged in an aggressive acquisition strategy, acquiring new brands and producers around the world, allowing the company to penetrate many different new, emerging markets.

Diageo's Board is structured to maintain diversity and drive executives to follow initiatives its leaders have made. Diageo's executives serve on several committees that promote checks and balances upon its leadership and business operations. Diageo has an extensive commitment to its core value of doing business the right way, and has a thorough code of conduct that all employees must follow to ensure every piece of Diageo is operating ethically.

As a large, diversified company, Diageo has adapted a complex organizational structure that incorporates elements of divisional and functional strategies. Diageo is devoted to business integrity and employs many different internal and external control systems to ensure that Diageo is carrying out its strategic goals focused on building a company that can prosper over the long term.

Firm Selection and Strategic Leadership

Firm History

Diageo was formed in 1997 from the merging of liquor and beer giant Guinness and food and beverage giant Grand Metropolitan. Based in London, England, Diageo is one of the world's premier alcohol producers and sellers. Its products represent prominent brands such as Guinness, Johnnie Walker, Smirnoff, Crown Royal, and Captain Morgan, sold in 180 countries across the globe. As a company, Diageo has roots in Distillers Company Limited (DCL), a 19th-century conglomerate composed of grain spirit distilleries and producers. Temperance movements at the turn of the century led to further consolidation, and by 1927, DCL controlled 75% of the global Scotch whisky market. The 20th century saw many ups and downs in the distilled alcohol industry, and by the 1980s, DCL was a target for takeover or merger. In 1986, the 200-year-old Irish brewing giant Guinness acquired DCL. Eleven years later, Guinness merged with Grand Metropolitan, a leisure, manufacturing, and food conglomerate, to form Diageo. The name combined the Latin words for "day" and "world," referencing the company slogan of "Celebrating Life, Every Day, Everywhere." The newly formed company made several massive adjustments to its portfolio soon after its organization, selling grain producer Pillsbury to General Mills in 2000 and fast-food chain Burger King to a Texas-based consortium in 2002. These changes allowed Diageo to focus primarily on its advantage in alcohol production. Over the previous twenty years, Diageo has continued to acquire major liquor companies across the globe, including significant producers in Turkey, India, Brazil, China, and South Africa. Today, Diageo houses a unique mix of recognizable brands across nearly every variety of alcoholic beverage. Recent developments include an emphasis on sustainable production and informed drinking. In 2020, Diageo launched its *Society 2030: Spirit of Progress Plan*, seeking to champion diversity, sustainability, and positive drinking through educational experiences, company-wide initiatives, and setting targets aligned to the United Nations' Sustainable Development Goals. In 2021, Diageo broke ground on its first carbon-neutral distilleries, one in Kentucky and one in Yunnan Province, China.

Business Model

Diageo's main business model idea comes from its mission to be "one of the best performing, most trusted and respected consumer product companies in the world." Diageo aims to achieve this by sustaining quality growth, embedding everyday efficiency, and investing smartly. It also aims to promote positive drinking, champion inclusivity and diversity, and pioneer grain-to-glass sustainability (*Our Strategy*, n.d.).

Diageo's strategic priorities use a global model that leverages global and local expertise, has the consumer at heart, and puts its responsibility to its stakeholders front and center. Diageo has a strong infrastructure with 132 sites globally devoted to research and development, distillation, maturation, brewing, warehousing, and packaging of spirits and beer. The firm is also set apart with its brand portfolio and geographic footprint. Diageo actively manages its leading brand portfolio to ensure it can offer consumers a broad range of products across regions, categories, and price points. Diageo has leading positions in many of the markets that are expected to contribute most to more long-term industry growth.

Guinness is Diageo's second biggest brand, and the work it is doing to deliver its ambition of becoming the 'most creative, innovative and sustainable beer in the world' is yielding results. This year, organic net sales from Guinness grew 32%, showing a primary way Diageo has made a lot of its money (Diageo plc., 2022, p.21).

In addition, Digeo's 2022 preliminary results show that reported net sales of £15.5 billion, up 21.4% (Diageo plc., 2022, p.19), are still primarily driven by strong organic net sales growth, with double-digit growth across all regions. Growth was also noticed across the realms of scotch, tequila, and beer. Premium-plus brands contributed to 57% of reported net sales and drove 71% of organic net sales growth (*2022 Preliminary Results*, 2022).

As a whole, the way Diageo has attained most of its profits shows its wide portfolio and status as a high-end adult beverage company. Its investments into products that Diageo knows are beloved, such as Guinness, emulate its business model and allow Diageo to obtain profit growth in 2022.

Strategic Leadership

Diageo has two main leadership committees, according to its Form 20-F, which are the Board of Directors and the Executive Committee. Javier Ferran is the Chairman of the Board of Directors. He has experience with board-level decisions in consumer goods industries. His previous experiences include being CEO of Bacardi Limited, Non-Executive Director of multiple companies, and member of the advisory board at ESADE Business School (Diageo plc., 2022, p.145).

Ivan Menezes is the Chief Executive for Diageo. He has over 20 years of experience in the consumer products industry, working at Nestle, Whirlpool, and Booz Allen Hamilton Inc. in marketing and strategy roles. He also has served as COO for Diageo PLC, president of Diageo North America, chairman of Diageo Asian Pacific and Latin America & the Caribbean, and senior management positions at Guinness. His extensive experience gives him much to draw on to effectively lead and implement strategy (Diageo plc., 2022, p.145).

Lavanya Chandrashekar is the Chief Financial Officer. She held various senior finance roles at Proctor & Gamble and Mondelez throughout multiple world regions. She brings strong expertise in financial issues, commercial skills, and consumer goods experiences (Diageo plc., 2022, p.145).

Susan Kilsby is the Senior Independent Director for Diageo. Her previous experience includes serving as non-executive director for multiple organizations including Coca-Cola and Goldman Sachs and Chairman at Shire and Credit Suisse. She also served as Senior Independent Director at BHP Group and BBA Aviation plc. She has great knowledge in mergers and acquisitions, corporate finance, and transaction advisory (Diageo plc., 2022, p.145).

Below are the remaining members of the Board of Directors who serve as Non-Executive Directors: Melissa Bethell, Karen Blackett, Valerie Chapoulaud-Floquet, Sir John Manzoni, Lady Mendelsohn, Alan Stewart, and Ireena Vittal.

The Non-Executive Directors held multiple board-level and C-suite positions at companies such as Louis Vuitton, Tesco, Tata Global Beverages Limited, and SABMiller. They bring in diverse experiences from a range of consumer goods industries and countries, which serves as an asset to Diageo (Diageo plc., 2022, p.146-147).

The executive committee is the other leadership group at Diageo. The executive committee includes Ivan Menezes, CEO, and Lavanya Chandrashekar, CFO. Listed below are the remaining members, their title, and their relevant experiences.

Name	Title	Relevant Experience
Ewan Andrew	President of Global Supply Chain & Procurement; Chief Sustainability Officer	• Multiple roles at Diageo including Senior VP for Manufacturing & Distilling (N. America) and Senior VP for Supply Chain & Procurement (L. America/Caribbean) • Supply Director at Diageo’s International Supply Centre.
Alvaro Cardenas	President, Latin America and Caribbean Region	• Finance Director for multiple regions for Diageo.
Debra Crew	President, North America Region & Global Supply	• President of multiple PepsiCo regions • CEO of Reynolds American • Non-Executive Director at Newell Brands and Mondelez International
Cristina Diezhandino	Chief Marketing Officer	• Global Brand Director for Johnnie Walker • Marketing & Innovation Director for Diageo Africa • Global Category Director and Scotch & Managing Director for Reserve Brands • Marketing roles at Unilever and Allied Comecq Spain, including Corporate Marketing Director.

John Kennedy	President, Europe and India Region	• Diageo president of Europe and Western Europe regions • COO of Western Europe region • CEO for Diageo Canada
Daniel Mobley	Global Corporate Relations Director	• Corporate Relations Director for Diageo Europe • Regional Head of Corporate Affairs for multiple regions at Standard Chartered • Government experience working in treasury and the Foreign & Commonwealth Office
Hina Nagarajan	Managing Director and CEO of United Spirits Limited	• CEO of Mary Kay India • Multiple management positions with Reckitt Benckiser • Diageo Managing Director for the Africa Regional Markets
Dayalan Nayager	President, Africa Region	• Managing Director for multiple regions at Diageo • Regional Director for Global Travel Europe (Diageo) • Commercial Director South Africa (Diageo) • Customer Marketing Director South Africa (Diageo) • Key Account Director South Africa (Diageo)

John O'Keeffe	President, Asia Pacific Region & Global Travel	• Global Head of Beer and Baileys and Innovation • CEO of Guinness Nigeria • President of Africa and Beer
Louise Prashard	Chief HR Officer	• Global Talent Director • HR director for multiple Diageo regions • Talent Director for the Africa region • Held HR positions at companies like Stakis Group and Hilton.
Tom Shropshire	General Counsel & Company Secretary	• Partner & Global US Practice Head for Linklaters LLP

**Executive Committee Table (Diageo plc., 2022, p.148-149)

Mission and Goals

Diageo's mission is to become one of the best performing, most trusted and respected consumer products companies in the world. Currently, the company is focused on a commitment to positive drinking through addressing harmful uses of alcohol, promoting moderation, and advocating for sustainability in the future.

Diageo has five core values it relies on: to be passionate about customers and consumers, to have the freedom to succeed, to be proud of what we do, to be the best, and to value each other (*Purpose, Culture, and Work Values*, n.d.).

Diageo's major goals for this decade are outlined in the *Society 2030: Spirit of Progress* plan. This set of goals is hinged upon the motto of *Doing Business the Right Way: From Grain to Glass*. The three pillars of this plan are to promote positive drinking, champion inclusion and diversity, and pioneer grain-to-glass sustainability (*Society 2030: Spirit of Progress Plan*, n.d.).

To promote positive drinking, Diageo is focusing on education and responsible marketing to tackle issues such as underage drinking, binge drinking, and driving under the influence. Diageo created a separate website, called DRINKiQ.com, that provides consumers with education on the effects of alcohol consumption and resources for those who may be struggling with alcoholism.

Regarding championing inclusion and diversity, Diageo focused on hiring diverse talent, promoting individuals from various backgrounds into leadership, advertising to combat harmful stereotypes, and promoting diversity in their supply chain. Specifically, Diageo is committed to achieving 50% representation of women and 45% representation of people with ethnically diverse backgrounds in leadership by 2030 (*Society 2030: Spirit of Progress Plan*, n.d.). In the supply chain, Diageo is working to increase the percentage of suppliers who are run by women and minorities.

Finally, to pioneer grain-to-glass sustainability, Diageo is focused on water preservation and is committed to replenishing more water than it uses by 2026. Diageo is also set on becoming low carbon and is reaching for net zero carbon across all operations by 2030 (*Society 2030: Spirit of Progress Plan*, n.d.). Lastly, Diageo is working to become sustainable by design by reducing packaging, increasing recycling, and eliminating waste.

External Analysis

Chosen Industry: Spirits

To understand Diageo's external environment, we utilized the PESTEL Framework, examined the industry's profit potential, and analyzed Porter's Five Forces for the spirits industry. PESTEL stands for Political, Economic, Sociocultural, Technological, Ecological, and Legal. Over the next five years, the Political and Economic segments are the most likely to influence the industry. Economic recovery is likely to have a positive impact, as is any continued ostracization of Russian alcohol following the war in Ukraine. Political tension may have a negative impact, reducing international cooperation and trade. Over the next fifty years, the Ecological segment may have the largest impact due to changes in the climate. The technological segment presents some of the biggest opportunities for the firm.

PESTEL Analysis

Political

Political tension can strain Diageo's supply chain and supplier networks. The firm's profitability is exposed to risk due to the variability in political situations across the 180 countries where Diageo operates. Labor disputes, trade restrictions, pressure from politicians, antitrust laws, and safety regulations can vary worldwide. Appreciable attention must be paid to the shifting political sands in Diageo's most significant markets. Expansion to the Chinese market via new distilleries and brand expansions brings new risks should Sino-American relations continue to sour. Operation in countries with significant corruption and little to no law enforcement control opens Diageo up to corruption, legal problems, and losses. One of Diageo's most important resources is its intellectual property. Care must be taken to prevent the loss of this property across the vast spread of Diageo's business units. Political factors are likely to be a threat to profitability and sustainability.

Economic

Diageo employs over 27,000 people across 132 production and various office locations, meaning the conditions in the labor market, wherever it may be operating, are vital to its success. Typically identified as luxury goods (meaning a rise in consumer income means more purchases of the good), Diageo's brands rely on consumer savings and spending rates. If consumer expectations of the economy are low, that is a potential threat to profits since less money will be put into discretionary spending and more money saved. As a multinational enterprise, varying exchange rates can lower or increase Diageo's profitability, and special attention should be paid to this economic factor. The firm's expansion goals are influenced by the stability of macroeconomic trends and financial infrastructure. If markets operate efficiently and capital can be raised, liquidity will increase, and expansion will be easier. Without efficient financial markets, Diageo is at risk of losing substantial amounts of its invested money. Economic factors are not inherently threats or opportunities. Diageo stands to be either given the circumstance. The important note is that Diageo must be able to respond quickly and nimbly to shifts in the macroeconomic conditions.

Sociocultural

Diageo faces multiple sociocultural trends, some of which could be threats, but some of which are likely to manifest as opportunities for growth and expansion. Demographic changes should be paid close attention to, focusing on where to expand and how to market new or old products. Trends in health and dieting could threaten many of Diageo's product lines. Still, new developments and marketing directions to position products as healthier alternatives or cleaner and better drink options mean Diageo could make this more of an opportunity than a threat. Once again, the diversity of Diageo's various global markets means understanding cultural norms and societal values is a crucial topic. Much like health trends, the opportunity to position itself as the leader in this area means this is an opportunity for growth. Much of Diageo's consumer base has growing concerns over climate change and production sustainability. This should be a considerable concern for Diageo, which has begun addressing the factor through initiatives like "Society 2030: Spirit of Progress" and "Grain-to-glass sustainability" efforts. These moves to pioneer diversity, positive drinking, and renewability benefit Diageo in the long run with environmental-conscious consumers and safer, viable manufacturing.

Technological

Market movement toward virtual experiences and artificial intelligence-driven entertainment presents a threat to Diageo. Many technological advances represent alternatives to the product Diageo seeks to market and sell, namely, social experiences with a tangible product. Technology, however, is not simply a threat. Advances in marketing and microtargeting allow Diageo the opportunity to help their customer find the right drink for them much quicker. Diageo can build relationships with consumers via channels like Malts.com and TheBar.com, websites designed to connect the consumer with the product. Social media, on a macro and a micro level, give the firm chances to brand its products through company-wide initiatives and customer reviews. Innovations in manufacturing provide Diageo with new ways to monitor, control, and produce efficiently. Technology is not positive or negative by nature; it must be channeled carefully and watchfully.

Ecological

Global changes in climate are a threat to Diageo's production, manufacturing, and supply chain. Diageo's significant investments in Scotch Whisky and other distilleries and breweries involve places subject to temperature and atmospheric changes. The firm's significant reliance on premium ingredients and recipes as a differentiating mechanism is threatened by the changing climate and regulatory adjustments by concerned governmental bodies. Additionally, fuel and commodity shortages could result in higher prices for inputs. There is little doubt that all of these represent threats Diageo must work to mitigate. Investment in renewable energy, a strategic emphasis for the firm, is a material opportunity for risk mitigation and long-term growth.

Legal

Diageo's significant market presence opens it up to substantial legal factors. Diageo's various history with regulators in the past puts this factor in an exceptionally bright spotlight. In 2021, Diageo agreed to pay $5 million in a settlement with the Securities and Exchange Commission after pressuring distributors to buy products above demand, seeking to meet performance goals. Although the firm never admitted wrongdoing, it agreed to cease the activity. Diageo's official statement said the firm "regularly reviews and refines its policies and procedures and is committed to maintaining a robust and transparent disclosure process." Safeguarding intellectual property must be a priority for the firm. Understanding and reacting to changes in antitrust law protects the firm from significant headaches down the road. Diageo's massive employee payroll means shifts in employee protection law or norms (for things like health and safety or workplace discrimination) are particularly interesting. New labor regulations in Europe, the United States, China, or elsewhere could significantly alter company policy and culture. Diageo has made commitments to workplace diversity and representation, attempting to ensure a robust organizational image and a strong workplace culture. While legal factors are ever lurking as threats, Diageo still has opportunities to nip many of them in the bud and maintain a solid legal position.

Industry Value Potential

The profit for the Global Spirits Manufacturing industry is $19.9 billion for 2022 (Wood, 2022, p.7). The industry is expected to grow over the next five years, but with increasing competition and fluctuations in commodity prices, IBISWorld forecasts that industry profit will continue to slightly fall over the next five years (Wood, 2022, p.14). On the other hand, Diageo's market share in the spirit industry, while the profit potential has decreased slightly over the past few years, it is projected to grow. Diageo's operating profit is expected to grow an annualized 4.3% over the next 5 years. Even though there was a slight decline in the industry in 2020 due to COVID-19, Diageo has recovered well. While in the spirit industry, rising competition from new entrants and craft distilleries has suppressed some industry profit growth, for Diageo, the profit potential will also likely grow because of their strong positioning in acquiring local distilleries (Wood, 2022, p.28-29). Diageo is working hard to expand into emerging markets where income levels and customers' ability to purchase Diageo's spirits have grown.

Porter's Five Forces Analysis

Looking at Porter's Five Forces Model, we can assess the profit potential and biggest threats to the Spirits industry that Diageo operates in. Low threats to the spirits industry include the threat of suppliers, the threat of new entrants, and the threat of buyers, while threats of suppliers and existing competitors are higher.

Threat of Suppliers: Low

Typical suppliers needed are cardboard and container manufacturers, glass bottle manufacturing, and agriculture inputs (Wood, 2022, p.6). These are common resources needed by many different companies and industries, and there are many different suppliers in the market. The high volume and standard requests make it easy for companies to switch to a supplier providing them the most benefit.

Threat of New Entry: Low/Moderately Low

Barriers to entry include capital requirements, time to make products, and legal processes. Firms require economies of scale to make money in the spirit industry. Some smaller companies do fine, but they have a well-known brand to help them turn a profit. New entrants struggle to compete with large companies that maintain the extra profits to spend on continuous advertisement and reinforcement of brand reputation. The prolonged time between starting production and the final product also poses a barrier to entry. Generally, it takes at least a year to produce a distilled spirit, often much longer for a high-quality or luxury product. New entrants might compete on the budget-friendly side of the industry, but it is difficult to compete successfully with premium spirits. Lastly, compliance with legislation can be a barrier to entry into the spirits industry. Regulations differ between countries, but the prices are typically high. Excise taxes are usually levied on producers, licenses are required, and detailed production accounts are typically required (Wood, 2022, p.26).

Threat of Buyers: Low

No one buyer can significantly impact the profitability of a company in the spirits industry, from individuals to liquor stores to bars and restaurants. However, consumer trends are still important to watch because the threat of substitutes is moderately high.

Threat of Substitutes: Moderately High

The spirits industry competes heavily with beer, wine, and nonalcoholic beverages. The spirits industry competes with these substitutes on factors such as price, taste, and branding for the same types of consumers (Wood, 2022, p.26). Some beer companies have tried expanding to include wine and spirits in their product line to capture an even greater demographic (Thomas, 2021, p.28). Trends do show, however, that consumers are choosing spirits over beer and wine (Wood, 2022, p.12). Wine and beer are the main substitutes for the spirits industry, but nonalcoholic beverages compete with spirits to a lesser extent, including soda, juice, seltzer, and bottled water.

Threat of Existing Competitors: High

The spirits industry is not dominated by a single company. The top three companies only make up 30% of the market share (Wood, 2022, p.23), which means no single company is at a significant advantage over another. Companies must compete with one another to gain market share. One upside is the industry is projected to grow, providing more opportunities to gain market share without taking it from others in the industry (Wood, 2022, p.14). However, with the saturation of companies and multiple reputable brand names, the threat of existing competitors is the biggest threat to profit potential.

Overall, the low threats of buyers, suppliers, and new entrants provide the spirits industry with higher profit potential. The low threats provide more space for growth and profitability for current firms. Companies are not at the mercy of buyers or suppliers to determine the price and quality of products to be competitive. The barriers to new entrants also help keep competition down, giving more opportunities to create profit. The high threat of substitutes and current competitors brings down the profit potential by diluting the market and providing more opportunities for profits to be lost.

Porter’s Five Forces Limitations

A significant weakness of Porter’s Five Forces industry analysis is the difficulty in analyzing a company that straddles different markets. A leading spirits producer, Diageo competes with many other firms in the industry, including both niche, small spirit producers and larger, inclusive spirit producers. However, Diageo also competes in the global beer market with its product, Guinness. Another limitation of Porter's Five Forces industry analysis stems from the backward-looking business analysis that fails to capture global concerns for the future. Diageo will face many challenges in the future against the volatility of escalating global conflicts, such as the war in Ukraine and climate sustainability. As a baseline, the analysis provides a strong background on the competitive environment in which the company exists. Diageo does face some risk due to substitutes not directly tied to the spirits, or even beverage, industry. An example would be other substance consumption, like nicotine or marijuana, that would not normally fall within the industry analysis, but Diageo should be aware of moving forward.

Internal Analysis

Chosen Industry and Firm: Global Spirits Industry, Diageo

Internal View of Industry

Diageo sees the industry growing in consumer base and moving towards quality over quantity, according to their 2022 annual report (Diageo plc., 2022, p. 13). Consumers are seeking premium, authentic beverages that come from sustainable production mechanisms. More spirits are being consumed relative to beer or wine than before the pandemic. Additionally, many consumers are pursuing "lower-tempo" experiences and building more in-home cocktail repertoires. While the spirits industry has benefitted from returns to bars, clubs, and social gatherings, Diageo sees growth opportunities through consumer insight and portfolio options. Innovation, quality, and sustainability matter more than a market driven by high-tempo, restaurant, or club offerings.

Economically, Diageo has identified significant growth in its consumer base over the next decade. According to the World Bank, 600 million consumers are expected to join the middle-class and above brackets by 2032. Higher middle-class disposable income represents a significant opportunity as millions more can afford quality spirits. Diageo is responding by increasing low-to-mid price point options, hoping to create a consistent consumer base heading into this growth surge.

One of the environmental aspects Diageo has identified as a threat is the regulatory domain. Alcohol has long been a closely and carefully regulated environment. The firm must ensure compliance with various laws and regulations. Additionally, Diageo looks to mitigate this threat by aligning itself with safe drinking and responsible alcohol use. This presents an image of a company considering how it can have a positive impact but also contributes to a more sustainable customer base. Diageo does not see sustainability only through the lens of the climate but also in maintaining its customers as safe and responsible consumers of its product.

Target Market

Diageo targets customers who are of legal drinking age, and who desire premium quality drinks across the spectrum of spirits and beer. While it is a European company, Diageo has over 200 brands sold in over 180 countries, appealing to customers of many places with different preferences for drinks (*Our Business*, n.d.). Diageo can appeal to its customers through its global policy and strategies that the company has in place. For example, Diageo promotes positive drinking, which can draw a crowd of people who want to drink safely and enjoy the experience of quality products. The company emphasizes moderation in drinking and addresses what abusing alcohol is with underage drinking, drunk driving, and more.

Diageo can also appeal to its wider demographic by being champions of inclusivity and diversity. It sources services from a wide variety of businesses to showcase diversity and aim to take away barriers, positively impacting partners, suppliers, and communities.

Lastly, Diageo appeals to customers by being pioneers of grain-to-glass sustainability. For instance, Diageo has an action plan called the ‘Society 2030: Spirit of Progress’ to help them preserve water for life, move towards a low-carbon world, seeking to become sustainable by design (*Our Strategy,* 2022).

Resource/VRIO Analysis

Diageo’s tangible assets include land, raw materials and inventory, facilities for creating and storing products, equipment for creating and packaging products, and biological assets (Diageo plc., 2022, p.163-177). The company also considers its 20,000+ employees an important asset in its business (Diageo plc., 2022, p.18).

Intangible assets include brand names and reputation, goodwill from acquisitions, and distribution rights for Ketel One Vodka products (Diageo plc., 2022, p.166-169).

Diageo has a large portfolio of over 200 products, with instantaneously recognizable brands like Johnnie Walker and Smirnoff. While branding is valuable for attracting and retaining customers, Diageo’s competitors have similar or more valued brand names. In a listing of the top ten most valuable spirit brands in the world, Johnnie Walker is the only brand from Diageo’s portfolio listed (Smith, 2022).

Diageo has 132 sites dedicated to research and development, distillation, maturation, brewing, warehousing, and packing spirits and beers. In total, Diageo owns £5,848 million in property, plant, and

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equipment and holds £7,094 million in inventory to be used for the upcoming year (Diageo plc., 2022, p.145). The holdings that Diageo owns, in addition to their recognizable brands, provide a strong competitive advantage over other similarly competing firms within the industry, posting a net revenue of £12.7 billion ($14 billion) compared to top competitor Pernod Ricard's net revenue of €8.8 billion ($8.6 billion) in 2021 (Pernod Ricard, 2021, p. 123).

Core Competencies

Diageo's core competency is world-class brand building. Every one of over 200 brands under Diageo's umbrella has a story and a specific market position. It focuses on timeless branding while still keeping up with trends and innovations in the market. Its motto is "creativity with precision," which inspires Diageo to combine data and creativity to create iconic brands. Each one of Diageo's marketers is put through the *Diageo Way of Building Brands* training to give their employees a backbone of knowledge to build off (*Building World Class Brands*, n.d.).

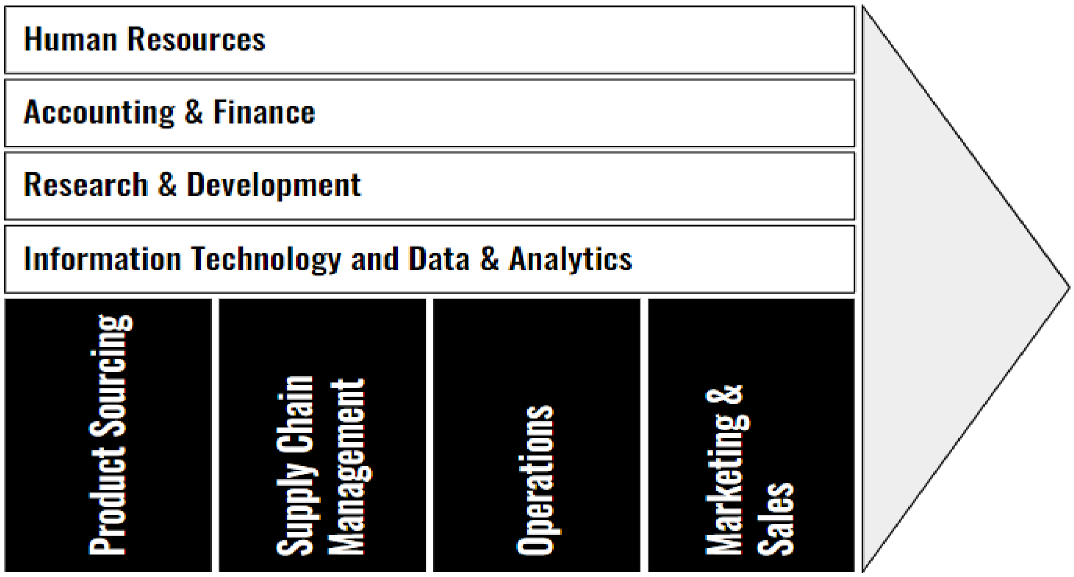
Johnnie Walker, one of Diageo's largest brands, is the world's number one Scotch whiskey brand. In 2021, Diageo launched a new "*Keep Walking*" campaign, which included a new look. This campaign was combined with many celebrity partnerships from multiple different countries and paired with inspiring quotes from icons such as Mark Twain. In 2022, Johnnie Walker sales grew 34%, and the *"Keep Walking"* campaign won multiple awards for branding success (Diageo plc., 2022, p.4).

In addition to the Johnnie Walker campaign, Diageo has followed similar suits for numerous other brands over the past several years. It partnered with Netflix's Bridgerton, a regency era-inspired series, to launch its new campaign for Tanqueray: "*It's not teatime - it's T-Time*." In October of 2021, Diageo ran a new campaign for Baileys, *"Halloween is for adults, too*," which featured three of the UK's popular drag queens. Diageo ran a campaign for Talisker in partnership with Parley for the Oceans called "*the One for the Sea,"* where Diageo committed to preserving and protecting 100 million square meters of marine ecosystems. All of these campaigns have been successful in not only increasing sales but also pushing forward the social responsibilities of Diageo, like diversity/inclusion and sustainability (Diageo plc., 2022, p.5).

These examples show that Diageo is a master of branding and rebranding to keep its brands fresh and relevant while leaving a positive social impact on the community.

Value Chain Analysis

To capitalize on Diageo's core competencies and competitive advantages, it must closely monitor and control its different activities in the value chain. The following activities are split into primary activities, which add value directly as the firm transforms inputs into outputs, and support activities, which add value indirectly.



Primary Activities

To manufacture high-quality products, Diageo must source the best raw materials ethically and sustainably. The main inputs into Diageo's products are barley, sugar, corn, sorghum, agave, and aniseed, which are sourced from all over the globe (*Building Sustainable Supply Chains*, 2016).

To ensure efficiency, Diageo must manage its supply chain, from getting raw materials to factories to delivering final goods to consumers. For a company as global and diversified as Diageo, the supply chain is vital to success.

It also needs to ensure that its factories operate safely and effectively to manufacture the best products in a way that takes advantage of the economies of scale that a large company like Diageo has.

The final primary activity in Diageo's value chain is marketing and sales. To build the best brands and position them for success, the firm must invest intelligently and appropriately in marketing and sales to showcase Diageo's value to consumers (Diageo plc., 2022, p.19).

Support Activities

To support the primary activities, Diageo needs to invest in information technology and data, and analytics to improve internal efficiencies and provide consumers with an enjoyable experience. It also needs to research the market and competitors, as well as focus on product enhancement and creation. The accounting and finance departments at Diageo help to support and ensure the profitability of all of its activities. To be successful in every aspect of the value chain, Diageo must focus on recruiting and retaining the best talent by investing in Human Relations.

SWOT Analysis

Strengths

Diageo is an industry leader, providing them with advantages in a market where it controls a significant share. Among its strengths is an innovative and diverse portfolio in a growing industry. As the spirits industry grows, Diageo has the brands and infrastructure to match the growth. The firm has a track record of innovating new products, leading to high customer satisfaction. This emphasis goes hand-in-hand with another strength: Diageo's recognizable brands. Competitors may try to imitate their product or model, but Diageo's control of brand names like Guinness, Johnnie Walker, and Smirnoff provide a baked-in strength. Consumers worldwide know and trust the Diageo brands, a strength that is not easily imitable.

Diageo emphasizes its workforce and its process. Highly trained employees provide significant human capital to the firm. The brewing, distillation, storage, and promoting processes that are the backbone of Diageo's business are dependent on a knowledgeable and experienced workforce. Diageo received a 90% employee satisfaction response on internal surveys and an 80% positive response from employees who asked if Diageo supported their health and well-being (Diageo, 2022, 18). Developing talent is both a necessity and a strength.

Diageo's product is positioned in a growing industry. Higher price spirit tiers grew seven times faster than the total spirits category, according to International Wine and Spirit Research (International Wine and Spirits Research, n.d.). Diageo's luxury brands, making up a significant part of the portfolio, maintain high-profit margins, providing the firm with more flexibility compared to its competitors.

Diageo's large size and scope are manifested in a significant global presence. The firm competes in existing and growing markets worldwide and maintains an extensive supplier and dealer network. Having major infrastructure for supply and production is a strength of Diageo, especially in the face of significant supply chain upheaval.

Diageo has substantial cash flow and financial strength, enabling capital asset allocation to be reinvested in the business and returned to shareholders. Re-investment of top-line productivity savings has resulted in new production facilities in North America and China, in addition to new digital capabilities strengthening customer insight. For every year since 2001, Diageo's full-year dividend per share has increased, even during the Covid-19 crisis. Over the last five years, Diageo has returned £7.9 billion to shareholders through share buybacks (Diageo, 2022, p. 7).

Weaknesses

Diageo’s model, process, and brand contain several weaknesses in addition to its strengths. First, the underlying business model of the spirits industry can be imitated. The industry is flooded with competitors seeking to do the same thing Diageo does. To fight this, Diageo must work to integrate local relationships and leverage its financial strength and infrastructure to differentiate and distance itself from the competition.

Diageo’s supply chain and logistical networks are extensive and lengthy, making it naturally expensive. Technological advances force Diageo to evolve its network from a primarily dealer-focused strategy to one influenced by artificial intelligence.

Relative to the industry, Diageo relies more on its existing brands than its research and development team to develop new products. Although the firm is historically an innovator and has made significant advances in sustainability and customer insight, Diageo tends to rely on its existing product mix to provide value. That reliance presents a risk should competitors innovate the market and go around Diageo.

Along the same lines, Diageo’s business model is limited to its current industry. Although the spirits industry is growing, Diageo has little flexibility to adjust or adapt if that changes. Attempts at other segments have been met with little success, and the firm’s value chain and strategic process rely on luxury spirits and beer. Expansion is therefore constrained, for better or worse, to those areas.

Opportunities

In the current conditions, Diageo has many opportunities it could take advantage of, as highlighted in the external analysis. As consumers are becoming more conscious about their health, Diageo has the opportunity to create and manufacture beverages that align with this shift. It could look to produce some non-alcoholic beverages or low-calorie/low-sugar versions of current drinks. In addition, Diageo could include healthy drink recipes using its products in its marketing efforts to show consumers how to incorporate its products into a healthy lifestyle.

As alcoholic beverages are considered a luxury good, their popularity rises when people have more disposable income. In the BRIC nations (Brazil, Russia, India, and China), wealth is growing, and their citizens have more disposable income to spend on goods like beer and spirits (Wood, 2022, p.10). Also, global consumer spending and global per capita income are on the rise and are expected to continue to increase through the rest of 2022. As COVID-19 lockdowns are ending, bars and restaurants are opening again, providing another avenue to get Diageo's products to their consumers.

Lastly, Diageo has a great reputation in the sustainability space, but there is a consistent need to innovate to preserve resources better and give back to the earth. Making efforts to be more sustainable is great for Diageo's current image and is vital to the viability of future operations.

Threats

Diageo faces several threats to its business. As mentioned in the opportunities section, alcoholic beverages are a luxury good and thus are subject to volatility in sales based on the current environmental trends. In the United States, a large market for Diageo, 2022 has seen high inflation and some other economic indicators pointing towards a possible recession, which could slow sales there. Additionally, the ongoing war in Ukraine has threatened the global economy, specifically with fuel prices, and brought instability into the supply chain, both of which threaten Diageo's success (Stackpole, 2022). Furthermore, the regulatory environment is generally quite restrictive for alcohol sales. Each nation has its laws and licensing procedures

Diageo must abide by to do business. The ever-changing laws can make it difficult for Diageo to continue operations.

Another threat to Diageo is the growing number of substitutes, both alcoholic and non-alcoholic. The main substitutes for spirits are wine and beer, but as more people are becoming increasingly health conscious, Diageo may seek out alcohol-free options as substitutes as well. A popular substitute on the rise is hard seltzers. Diageo recently acquired a hard seltzer company, Far West Spirits, but it still has a very small foothold in the rapidly growing market, which threatens spirit sales (*Diageo Acquires Far West Spirits*, 2021). In addition to substitutes, Diageo is facing growing pressure from its direct competitors, which further threatens its market share.

Performance Analysis

Chosen Industry and Firm: Global Spirits Industry, Diageo

Performance Relative to Expectations

Diageo performed relatively well, according to Diageo's Chief Executive, Ivan Menezes. After a year of global supply chain disruption due to COVID-19, Diageo was still able to achieve double-digit volume growth in regards to its organic net sales growth across all regions. Not only has Diageo increased marketing investments, but Menezes is also proud of the company for long-term growth investments. While cost inflation, and uncertainty in the operating environment, Diageo has performed well with resilience and the ability to navigate uncertainties (Menezes, 2022).

In addition, Diageo performed well with its expectations of strengthening its portfolio through acquisitions and disposals. This came through acquiring 21Seeds, a tequila brand, and Mezcal

Unión, a premium mezcal brand. Diageo also disposed of a brewery in Ethiopia and expanded its business portfolio in other countries like Korea and India, which matched expectations.

Diageo also has stayed on track with its Society 2030 goals, which include more diversity and inclusion within leadership and brand moderation campaign awareness. In addition, water stewardship was continued with a 3.7% improvement in water efficiency globally.

While free cash flow decreased by £0.3 billion to £2.3 billion, this is not considered a lack of success as the decrease was due to lapping a quite strong working capital benefit in the previous fiscal year, according to the company (*2022 Preliminary Results,* 2022).

Performance Metrics

In evaluating performance, Diageo takes a holistic approach. The importance of people, both employees and consumers, communities, and economic growth is seen through all beliefs, goals, and actions of the organization.

Diageo states, "Our ambition: To be one of the best performing, most trusted and respected consumer products companies in the world." Based on Diageo's ambition are four strategic outcomes with which the company measures its performance.

- Efficient growth
- Consistent value creation
- Credibility and trust
- Engaged people

Efficient growth and consistent value creation outcomes focus on economic growth. Credibility and trust outcome focuses on consumers and the communities in which Diageo resides, and the engaged people outcome focuses on the wellness, diversity, and engagement of employees

(Diageo plc., 2022, p.5). Diageo effectively summarizes its reasoning for a holistic approach with the following quote.

> “To be the best performing, we need to deliver efficient growth and value creation for our shareholders…We don’t believe we can become ‘best performing’ without also being ‘most trusted and respected. This means we must do business the right way, from grain to glass, and ensure our people are highly engaged and continuously learning” (Diageo plc., 2022, p.5).

Competitive Advantage

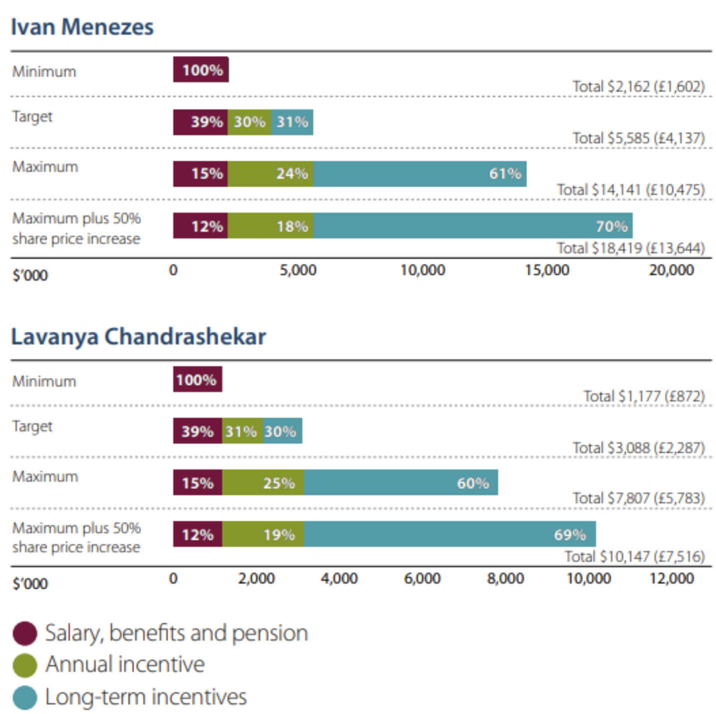
Diageo has a competitive advantage in the Global Spirits Manufacturing Industry, but is also able to compete in the Global Beer Manufacturing Industry. Diageo has a niche set of spirits and beer brands that are hard for other companies to mimic. This has led to more stable and predictable profits and cash flows. Looking at the financials for Diageo and key competitors, Pernod Ricard and Anheuser-Busch InBev, Diageo’s competitive advantage is apparent. Regarding spirits, Diageo has the highest net income, revenue, and operating profit showing their comfortable position. In comparison to Anheuser-Busch InBev, Diageo is mostly known for its spirits, but when it comes to premium beer, like Guinness, Diageo still is a leader compared to the lesser ‘premium’ beers of Anheuser-Busch InBev (Diageo plc., 2022, p.8). Guinness is Diageo’s second biggest brand, and this past year, organic net sales grew 32% (Diageo plc., 2022, p.21). In addition, when comparing the operating margin of Diageo, Pernod Ricard, and Anheuser-Busch InBev, Diageo has the highest of +31.13. This means that it is making more profit after variable costs and shows the operational efficiency that Diageo excels in.

Financial Metrics (for 2021)

	Revenue ($m)	Growth (% change)	Operating Profit ($m)	Growth (% change)	Net Income ($)	Operating Margin
Diageo PLC	15,907.7[1]	19.3[1]	4,415.4[1]	13.0[1]	15.45 B[3]	+31.13[2]
Pernod Ricard SA	11,285.5[2]	18.0[2]	2,602.3[2]	1.7[2]	10.7 B[4]	+28.26[4]
Anheuser-Busch InBev	21,277.5[2]	7.9[2]	4,765.9[2]	96.9[2]	45.94 B[5]	+25.52[5]

Data from (Wood, 2022, 29)[1], (Thomas, 2021, 32)[2], (*DEO | Diageo PLC ADR Financial Statements - WSJ*, 2022)[3], (*RI.FR | Pernod Ricard S.A. Financial Statements - WSJ*, 2022)[4], (*BUD | Anheuser-Busch InBev S.A. ADR Financial Statements - WSJ*, n.d.)[5]

Diageo has a competitive advantage due to a variety of factors like the loyalty of customers with many of the brands Diageo owns, its diverse portfolio, and the development of its company in other countries. It is also shown that consumers who drink alcohol are increasingly choosing spirits over beer and wine, benefitting Diageo. This is a long-term global trend with a 7% increase in the spirits share of total beverage alcohol (Diageo plc., 2022, p.13).



Management Compensation

Based out of the U.K, Diageo uses a remuneration system to provide compensation incentives to its top executives. At a glance, executives will receive a base salary, an annual incentive worth up to 200% of the base salary, and a long-term incentive worth up to 500% of the base salary. The remuneration figures were set with a balance between short-term, annual goals, and long-term company strategic objectives.

The main factors in determining compensation for short-term performance are financial measures like net sales, operating profits, operating cash conversion, and individual business objectives based upon strategic goals or individual performance. When determining the long-term incentive, Diageo utilizes growth metrics, performance relative to peers, and a metric considering the set ESG priorities. Diageo executives are also required to hold stock, with a minimum holding of 500% and 400% of their salary for the CEO and CFO, respectively. Overall, the performance compensation set out by Diageo encourages its executives to follow its strategic priorities and look out for both the current and future growth of the company (Diageo plc., 2022, p.106).

Competitive Dynamics

Chosen Competitor: Pernod Ricard

Industry Concentration

The degree of concentration in the spirits industry is low, with the top three firms taking up 23.7% of the market share. Individual contributions have Diageo as the industry leader at 11.8% market share, with Pernod Ricard and Bacardi holding 8.1% and 3.8% of the industry market share, respectively. Due to the low concentration, competition is high in the industry as smaller firms capitalize on specific products or spirits sold within smaller regions that are often not worth larger firms' production (Wood, 2022, p.23).

Competitor Analysis

Diageo's biggest competitor is Pernod Ricard, a wine and spirits company headquartered in Paris, France. Pernod Ricard's popular brands include Absolut Vodka, Jameson, Beefeater, Malibu, Ricard, Ballantine's, and Chivas Regal. Pernod Ricard's net sales totaled $8.8 billion in 2021 compared to Diageo's 2021 revenue of $16.3 billion (Wood, 2022, p.28-29).

The resources these two brands possess are quite similar, with the main differences coming in quantity. Pernod Ricard has 94 production sites with over 18,500 employees around the globe (Wood, 2022, p.29), while Diageo has 132 production sites and over 27,900 employees (*Where We Operate*, n.d.). Diageo and Pernod Ricard both possess over 200 brands under their companies. Both firms have stellar company cultures. The companies are both rated 4.1/5 on Glassdoor for internal culture by their employees, and both have commitments to their people, suppliers, and the environment (*Compare Working at Pernod Ricard vs Diageo*, n.d.).

While Diageo competes in spirits and beer, and Pernod Ricard competes in spirits and wine, both companies obtain most of their revenue from spirits. Spirits accounted for 80% of Diageo's net sales in 2021 (Diageo plc., 2022, p.75) and around 95% of net sales for Pernod Ricard in 2021 (Pernod Ricard, 2021, p.31). Both companies compete worldwide with a strong presence in Europe, but Diageo has more focus in North America, while Pernod Ricard concentrates on South America and the Asian-Pacific region (Wood, 2022, p.28-29). Despite the slightly different regional strategies, these two firms are direct competitors. The companies have brands in nearly every spirit category and price point that rival one another, and both companies are consistently focused on branding to increase their market share.

Strategic Actions and Responses

One of Diageo's most recent influential and dominant strategic actions is 'Society 2030: Spirit of Progress,' an action plan to address environmental, social, and governance goals expanding equality, inclusivity, and sustainability. These goals include promoting positive drinking, accelerating to a low-carbon world, preserving water, and championing inclusivity. The goal is to set priorities that match Diageo's material issues: the company, people, brands, suppliers, and communities. These targets align with the United Nations Sustainable Development Goals. A tangible manifestation of these corporate ambitions is a new whiskey distillery being constructed in Kentucky, which will be carbon neutral, a target for Diageo's actions by the end of the decade (Associated Press, 2021). These goals are intended to make Diageo a sustainable business, environmentally and culturally. Society 2030 will make Diageo adaptable to a changing climate and a changing world. Diageo competitor Pernod Ricard embarked on a similar strategy in 2019, entitled '2030 Sustainability and Responsibility: Good Times from a Good Place' (Pernod Ricard, 2021, p.36). With a similar set of ambitions, the firm intends to use the sustainability strategy to accelerate transformation, drive innovation, and attract talent. It is not immediately clear if either firm has captured more of a market share due to these efforts, but each believes it is a long-term investment in the industry's future (*Society 2030: Spirit of Progress Plan*, n.d.)

Diageo recently split from the Distilled Spirits Council of the United States, a national trade association representing producers and marketers of distilled spirits sold in the United States (Reynolds, 2022). Diageo is shifting its internal strategy towards its sustainability initiative and seeking to do so independently of the organization that spent $4.6 million on lobbying for the spirits industry (Oprysko, 2022). The firm intends to continue partnering in several areas, especially on responsible drinking but ultimately decided to focus its resources on its key priorities. Diageo's largest competitors, including Pernod Ricard, Bacardi, Brown-Forman, and Beam Suntory, are all still partners with the firm, and there does not seem to be a sign of their imminent exit. While it is too early to forecast if this move will provide Diageo with more flexibility or resources to focus on 'Society 2030' and other initiatives, it signals the firm's desire to build its sustainability efforts and willingness to flex its muscle as the largest firm in the industry to get there.

Business-Level Strategy

Differentiation

Diageo provides differentiated products to consumers with its wide portfolio, which includes over 200 different spirits and beers. Diageo is able to maintain its differentiation of each product through the unique characteristics of each brand. While Diageo has a large portfolio, the company still focuses on being the number one player in international spirits while continuing to grow its share of total beverage alcohol. One of Diageo's more well-known differentiated products includes Guinness, which is a part of Diageo's beer portfolio. Guinness is considered a premium, flavorful, and smooth beer.

Diageo focuses on differentiating itself from competitors through its premiumization as a long-standing trend within the company. This includes a global luxury portfolio of international spirits and premium drinks in the beer category, as mentioned earlier with Guinness. Diageo's acquisition of other premium brands like Don Julio, Aviation American Gin, and 21Seeds allows the company to maintain its high quality and differentiated portfolio compared to competitors (*Investing in Diageo*, n.d.). As a whole, Diageo aims to differentiate its products across tastes and occasions worldwide, maintaining a quality that is unique compared to competitors. With Diageo's premiumization focus, the company can have the world's best-selling products in several categories. This includes the scotch whisky brand Johnnie Walker, the premium distilled vodka Smirnoff, and the cream liqueur Baileys. With Diageo also selling the world's most celebrated gin, Tanqueray, and its world-leading iconic stout, Guinness, Diageo reaches many people through its wide variety of products (*Brand Profiles*, n.d.).

Cost-Leadership

In addition to Diageo's differentiation strategies, the company also relies on some cost-leadership to help stay competitive. Diageo holds the largest market share in the spirits industry, which allows Diageo to create lower per-unit costs compared to other industry firms. Only Pernod Ricard, Diageo's biggest competitor, holds a relatively similar market share (Wood, 2022, pg 8). With greater funds, customer awareness, and reach than many competitors, Diageo can invest more into creating more efficient processes and take advantage of the experience curve effect. Diageo invests in technology and data analytics, such as its new Luminate Control Tower (LCT). LCT allows Diageo to track its global shipments better and improve warehouse management to make its systems more efficient and cost-effective (Diageo plc, 2022, pg 23).

Market Approach

When looking at its line of over 200 products, Diageo takes a broad approach to the market. Diageo aims to "offer something for every taste and celebration" as it has brands that come at various price points to reach every corner of the market (Diageo plc, 2022, pg 2).

Diageo separates its brands into three categories: global giants, local stars, and reserve (Diageo plc, 2022, pg 75). Within each category, the brands have different market approaches. The brands in the global giants category, such as Captain Morgan or Smirnoff, have a wider scope and broader market focus. In contrast, the local stars and reserve brands have a narrow scope and more targeted market focus. With a goal of "having the right product in the right place at the right time," Diageo focuses on identifying a target market for each brand, then marketing to the targeted consumer in a smart and effective way (Diageo plc, 2022, pg 9). By approaching the market differently between brands, Diageo can target consumers at each corner of the broader market in the best way for them.

Business Strategy

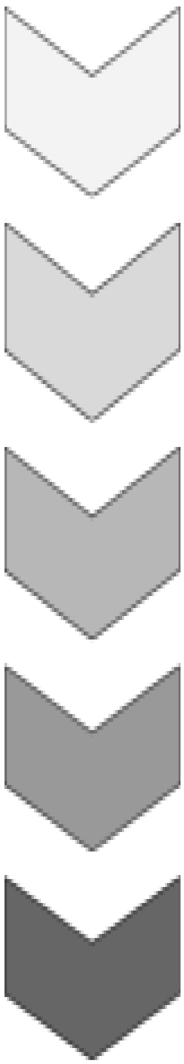
Overall, Diageo primarily employs a broad differentiation strategy, offering top products like Smirnoff, Johnny Walker, and Guinness across different segments of the alcohol market. Additionally, Diageo leverages cost leadership elements due to its sheer size and ability to leverage economies of scale to lower the overall per-unit costs. Marketing, technological investments, and a wide product portfolio are all value drivers that Diageo appropriately leverages in pursuit of its business strategies. Specifically, Diageo's ability to leverage its marketing and wide product portfolio allow it to pursue a differentiation strategy that focuses on segment leaders or global giants, like the previously mentioned Smirnoff and Johnny Walker, in addition to smaller offerings, such as the local stars and reserve brands. The primary cost driver that Diageo leverages is economies of scale. This, along with Diageo's technological advancements, allows for an effective pursuit of cost leadership elements within its broad differentiation strategy.

Competitive Context

Increasing demand creates an aggressive competitive environment, likely to grow and evolve quickly. The spirits industry is made up of several significant but non-hegemonic firms and a substantial number of small-scale companies operating in local markets. Diageo has sought to combat this growth by expanding to new markets and seeking to acquire innovative brands to add to an already extensive portfolio. The differentiation strategy sets Diageo brands apart, while the size and resources of the multi-domestic firm allow them to offer competitive prices. The downside of the strategy is Diageo is beholden to its various brands and duplicates much of its process in different contexts. The strategy requires constant development for new differentiated products while maintaining the previous portfolio to cover the significant overhead investments. The two sides of the model each require time and resources, reducing flexibility and increasing the cost to compete compared to smaller or more agile firms focused solely on cost leadership or distinction.

Corporate-Level Strategy

Value Chain Analysis



Stage 1: Raw Materials: Diageo partners with ethical and sustainable suppliers to procure high-quality raw materials, such as barley, wheat, maize, rice, sorghum, sugar, vanilla, anise, agave, and grapes (Diageo plc, 2022, pg 17).

Stage 2: Intermediate Goods: Diageo manufactures glass bottles and aluminum cans for use in packaging and invests in renewable energy creation and integration (Diageo plc, 2022, pg 208).

Stage 3: Brewing, Distilling, and Bottling: Diageo has several distilleries and breweries in countries all over the world. At these plants it transforms its raw materials into different spirits and beers, and bottles/cans them for distribution (Diageo plc, 2022, pg 208).

Stage 4: Marketing and Distribution: Diageo invests in world-class marketing campaigns, ensuring compliance with its Marketing Code. Recent investments in marketing technologies, like Catalyst, Demand Radar, and Sensor have increased campaign effectiveness (Diageo plc, 2022, pg 9). Additionally, Diageo has many different distribution systems across the globe that focus on customization for the kinds of consumers located in different countries (Diageo plc, 2022, pg 64).

Stage 5: Selling and After-Sales Support:

In addition, Diageo partners with customers through its sales tools to increase value for both parties. These sales tools support Diageo's customers before, during, and after the purchase. They offer efficient invoicing software and personalized analytics to support the customers' business (Diageo plc, 2022, pg 22).

Vertical Integration

Diageo's value chain is highly integrated, as demonstrated in the previous section. Diageo participates in all stages of the value chain with the exception of stage one, outsourcing raw materials rather than producing them in-house. For stage two, Diageo has integrated backwards to manufacture its own glass bottles and aluminum cans for use in its packaging, investing in new canning and glass production plants around the world. In stage three, Diageo produces three quarters of its products, and engages in joint ventures to produce the other 25%. Diageo spearheads all of its own marketing campaigns and customizes unique distribution channels in different regions to integrate through stage four. In the last stage of the value chain, Diageo has recently invested in new selling technologies, namely EDGE365 and Diageo One to further its reach in selling and sales support.

In addition, Diageo takes an integrated approach to sustainability – making improvements and launching initiatives that support climate, water, and biodiversity throughout each stage of the value chain. From ethical sourcing to carbon neutral production, responsible marketing, and sustainable distribution, Diageo takes large strides to ensure each and every piece of its operations are promoting its core values.

Diageo seeks to create value through its vertical integration by ensuring quality and lowering costs in each step of the value chain. Diageo partners with suppliers to ensure its products are ethically sourced and of the highest quality. The company brews, distills, and bottles most of its own products in different countries throughout the world with the goal of local production when possible. Through vertical integration, Diageo lessens the risk of disruption in its supply chain, facilitating all scheduling and planning rather than relying on the supply chain of other firms. Additionally, Diageo benefits from both economies of scale and scope through in-house manufacturing, lowering overall costs and further contributing to Diageo's competitive advantage.

Corporate Diversification

Diageo follows a dominant business corporate level strategy, with 80% of its revenues coming from spirit sales, 16% from beer, and 4% from ready-to-drink beverages. Though these products lie in different markets, they all share a majority of the same resources and capabilities, and all leverage Diageo’s core competency of brand building.

Diageo’s product diversification opens it up to new markets and allows it to reach a wide assortment of consumers. In the last fifty years, there have been multiple shifts in the popularity of beer versus spirits and other alcoholic beverages. By having a foothold in various product markets, Diageo is positioned to succeed regardless of the shifting environment. Presently, spirits is the fastest growing segment, hence Diageo’s focus. As the environment shifts, Diageo is set to restructure, expanding its holdings in the beer or ready-to-drink beverage categories (Diageo plc, 2022, pg 9). As a newer category in the alcoholic beverage industry, ready-to-drink alcoholic beverages have been gaining popularity. Because of Diageo’s ample spirits portfolio, it is able to create economies of scope when producing ready-to-drink beverages. Many of Diageo’s ready-to-drink beverages use popular spirits brands, offering value-creating synergies between the different products.

In addition to product diversification, Diageo also geographically diversifies its businesses by producing regionally targeted drinks, marketing them directly to the target market, and choosing a path-to-consumer that works best in each region. In India, Diageo manufactures and sells Indian whisky, rum, brandy through its subsidiary, United Spirits Limited, that is regionally focused in India (Diageo plc, 2022, pg 69). In Central American countries, Diageo partners with geographically exclusive distributors to get its products to the consumer rather than selling directly to wholesalers and retailers like Diageo does in Mexico and Brazil (Diageo plc, 2022, pg 73).

With regionally specific products, marketing, and distribution, Diageo has a high level of local responsiveness, lending it to a multidomestic international strategy. Diageo hopes to be perceived as a local company in each country around the world, calling itself “a global giant with a local voice,” which allows each consumer to make a personal connection with the brand, leading to higher brand loyalty (Diageo plc, 2022, pg 2). Diageo is able to achieve deeper market penetration by offering tailored products in a personalized way to consumers in different countries. Although it can be costly to not have standardized products and procedures, the benefits of a multidomestic strategy outweigh the costs for Diageo, whose core competency of building recognizable brands requires geographic tailoring to be effective.

Merger and Acquisition Strategies

Recent Acquisitions

Since its founding, Diageo has engaged in an aggressive acquisition strategy, acquiring new brands and producers around the world. The strategy has been a principal factor of Diageo’s growth, including the driver behind expansion into new markets in India and Turkey. In 2020, Diageo acquired Davos Brands, a premier wine and spirits company, and Aviation Gin, a small premium brand developed in partnership with celebrity Ryan Reynolds. CEO Ivan Menezes said the acquisition was designed to position Diageo within the premium gin and spirits segment in North America, stating it was "in line with our strategy to acquire high growth brands with attractive margins that support premiumisation" (Diageo Media Release). Davos and Aviation were young competitors with Diageo that had displayed quick growth in a competitive market. The acquisition was friendly, framed as a partnership by the Chief Executive of Davos Brands Andrew Chrisomalis, saying "Extraordinary partnership and teamwork brought us here, and with the continued creative genius of Ryan Reynolds, and this new, best in class global partnership with Diageo, the sky is truly the limit for Aviation American Gin and Davos Brands" (Diageo Media Release).

In 2022 alone, Diageo has acquired three new brands: Premium tequila producer 21Seeds, cold-brew coffee liquor brand Mr. Black, and a leading Texas whisky distiller Balcones distilling (Diageo Media Release). Each of these acquisitions strengthened Diageo's diverse portfolio of unique and marketable brands. All three were new companies, launching in 2013, 2019, and 2008, respectively, and each fit Diageo's sustainability and diversity goals. Diageo's acquisition strategy is designed to identify fast growing brands to pair with Diageo's old classics, like Johnnie Walker and Guinness. The balanced approach mitigates risk and prevents stagnation.

Financial Implications

Diageo acquired both Davos Brands and Aviation Gin on August 17th, 2020. Davos Brands was acquired for an undisclosed amount of money and Aviation Gin was acquired for up to $610 million depending on firm performance. Because Davos Brands and Aviation Gin are private, there is no information regarding the stock prices of either firm. Diageo's stock price saw an immediate jump from the previous close of $136.29 on August 14th, opening at $138.12 on August 17th (Yahoo Finance, n.d.).

Diageo Stock Chart: Aug: 14 - Dec 31, 2020

It is important to note that Diageo's stock price was lowered during this time due to the Covid-19 pandemic. This makes it difficult to comment on the long term changes in stock price due to the acquisitions Diageo made. As restrictions started to lift in late October and early November, a drastic increase was seen in the valuation of Diageo's stock as vaccinations began and demand continued to recover towards pre-Covid-19 levels (Golovniov, 2020).

Strategy Analysis

Diageo focuses on making acquisitions of high-growth brands in emerging markets and categories (*Building Our Portfolio*, 2021). Industry trends show the spirits industry providing greater opportunities in premium products and high-growth categories like tequila, whisky, scotch, and gin. Based on these trends, Diageo recently acquired Don Julio, Casamigos, and 21Seed to help it better compete in the premium-plus market (Diageo plc, 2022, pg 8-9). This strategy has been successful for the company. Acquisitions over the past five years were responsible for a 125.0% growth in net sales during 2021 (Wood, 2022, pg 28). The acquisitions also helped Diageo become the largest premium-plus company in the international spirits industry (Diageo plc, 2022, pg 9).

Corporate Governance

Board Compensation

Diageo uses a remuneration policy as compensation for its Board of Directors which follows four main principles in determining payment:

- Delivery of business strategy
- Creating sustainable, long-term performance
- Winning the best talent
- Consideration of stakeholder interests

These principles aim to guide Diageo Board members toward the correct balance of risk and reward, cost and sustainability, and competitiveness and fairness. The remuneration policy includes the base salary, benefits, Annual Incentive Plan (AIP), Diageo Long-Term Incentive Plan (DLTIP), and shareholding requirement policy, which guide the Remuneration Committee in determining total compensation for a Board member in adherence to the four principles. The non-executive Board member fee in 2022 was £101,000, with £35,000 in fees for the Audit and Remuneration Committee Chair (*Remuneration Policy*, n.d.).

Board Composition and Structure

Diageo's Board of Directors consists of 12 members, with seven independent, or non-executive, members on the Board. Diageo's Board is diverse with respect to the gender and backgrounds of each of its members (*Board Of Directors*, n.d.). In April 2020, the Board of Directors adopted a Board Diversity policy to ensure Diageo has inclusive representation on its Board. One specific point in this policy aims at ensuring gender diversity with its commitment to have no less than 40% female representation on the Board. Right now, Diageo's Board consists of seven women and five men. As for ethnic diversity, the policy states that Diageo must have at least one Director being ethnically diverse according to Parker Review standards. Parker Review standards define people of color as people 'who identify as or have evident heritage from African, Asian, Middle Eastern, Central, and South American regions. Currently, around half of the Board Directors are people of color per the Parker Review standards, and the other half identify or have predominantly White European heritage (*Board Diversity & Inclusion Policy*, n.d.).

In general, people appointed to Diageo's Board of Directors have previously been chairpersons, trustees, presidents, directors, and other distinctive positions, bringing diverse skill sets to Diageo. As of 2022, Diageo's CEO, Ivan Menezes, also serves on the Board and is able to provide guidance and a different viewpoint to the leadership team. In addition, Diageo's Chairman, Javier Ferrán, is in charge of the Board and is a part of the company after previously being a non-executive director. Diageo also has Susan Kilsby as the Senior Independent Director of Diageo. Kilsby's role includes acting as someone who gives advice and judgment to the Board of Directors. The Senior Independent Director role also includes being an intermediary for other directors while not being a current officer of the company (*Board Of Directors*, n.d.).

Committee Structure

Diageo has three committees under the Board of Directors: the Audit Committee, the Nomination Committee, and the Remuneration Committee. The Audit Committee ensures the integrity of Diageo's financial statements, internal controls, business conduct, and external auditor's performance. The Nomination Committee reviews and plans Board composition and talent strategy for senior leadership, while emphasizing diversity in these leadership positions. The Remuneration Committee makes recommendations on executive remuneration policy and ensures remunerations are appropriate given workplace policies, incentives, and culture (*Committees*, n.d.).

Every non-executive director on the Board serves in all three committees. Most have past and current non-executive director experience in other firms, so all have a strong understanding and competency to carry out the duties of the Board. The table below identifies where each non-executive director's additional skills and experiences make the most relevant contributions to the three committees. In addition to the non-executive directors, Javier Ferrán, the Board Chairman, serves as a member of the Nomination Committee. Ferrán brings Board and Chief Executive experience in consumer goods industries, bestowing unique insight to the Nomination Committee when developing criteria for senior talent acquisition (Diageo plc, 2022, pg 84).

Committee Member	Audit Committee	Nomination Committee	Remuneration Committee
Melissa Bethell	Strong financial experience in private equity, financial sectors, strategic consultancy and advisory services		

<table>
<tr><td>Karen Blackett</td><td></td><td>Brings voice for diversity: founding trustee of the Black Equity Organization, UK Race Equality Business Champion</td><td>Experience in public policy and strategic initiatives</td></tr>
<tr><td>Valérie Chapoulaud-Floquet</td><td></td><td colspan="2">Multiple past roles as CEO for luxury consumer goods/drinks industries; understands the leadership qualities, best practices etc. to be successful</td></tr>
<tr><td rowspan="2">Susan Kilsby</td><td rowspan="2">Experience in corporate finance and transaction advisory; senior advisor at credit suisse and board member for Goldman Sachs</td><td></td><td>Chair of Remuneration Committee; board experience working through mergers/acquisitions</td></tr>
<tr><td colspan="2">Corporate governance experience</td></tr>
<tr><td>Sir John Manzoni</td><td></td><td>Board experience specifically in the alcoholic beverage industry; knows what qualities, practices and leaders needed to be successful</td><td>Expertise in public policy and government regulation</td></tr>
</table>

Nicola (Lady) Mendelsohn	Specialist knowledge in areas like technology, privacy and data issues; can help reduce/catch areas of audit risk, improve internal controls, etc.		
Alan Stewart	Chair of Audit Committee: background in financial, investment banking, commercial matters		
Ireena Vittal		Experience from a career in executive consulting which focuses on consumer sectors and emerging markets	

(Diageo plc, 2022, pg 84-85)

Code of Ethical Conduct

Diageo has a global Code of Business Conduct that sets out what the company stands for. The Code contains five sections: personal integrity, commercial integrity, people, assets and information, and communities and partnerships.

Our *Code*

- We care about our business and are committed to the highest standards of business ethics and behaviour
- We are expected to demonstrate personal integrity, and live the values and behaviours that underpin all of our work, every day, everywhere

The personal integrity section outlines each employee's role in promoting responsible drinking, avoiding insider trading, and properly handling conflicts of interest. The commercial integrity section outlines how Diageo plans to uphold its reputation through responsible marketing practices, ethical dealings with regard to gifts/bribes and corruption, illicit trade prevention, adherence to competition law, mitigation of money laundering and tax evasion, and compliance with sanctions. The people section outlines how Diageo sets out to value each other and respect others. This section covers health, safety, personal security, discrimination, harassment, and human rights. In the assets and information section, Diageo calls on its employees to act as owners of assets and information by outlining information management and security practices, data privacy and personal information policies, and the protection of company property, resources, and business records. In the final section, communities and partnership, Diageo covers how they promote product quality, sustainability, charitable contributions, responsible external communications, and positive relationships with business partners. Diageo's Code of Business Conduct is updated regularly and is available in 20 languages to ensure accessibility to all of its employees (*Our Code*, n.d.).

In addition to Diageo's general Code of Business Conduct, it also has a Code of Ethics for the CEO, CFO, and senior financial officers as required by US regulations. This Code discusses the ethical handling of conflicts of interest, accurate and timely disclosures, and compliance with governmental rules and regulations (*Code of Ethics*, n.d.).

Largest Stockholders

Diageo has many stockholders invested in the company, with 9.3% of shares being held by institutions. The top institutional holder of Diageo right now is Bank of America Corporations, which has 5,016,329 shares. Following Bank of America Corporation, Morgan Stanley and

Fidelity Institutional Asset Management are the next two highest holders with a little over 3 million shares each (*Diageo Plc (DEO) Stock Major Holders*, 2022). In addition, the general public owns 21.1% of the shares of Diageo (*Diageo Insider Trading & Ownership Structure*, 2022).

Top Institutional Holders for Diageo

Institutions	Shares
Bank of America Corporation	5,016,329
Morgan Stanley	5,016,329
FMR, LLC	3,196,185
Wells Fargo & Company	2,294,729
UBS Group AG	2,103,040

[1]Data reported Sep 29, 2022, (*Diageo Plc (DEO) Stock Major Holders*, 2022)

As a large company, Diageo does not have a high degree of insider employee ownership of its stock. Diageo insiders own under 1% of the company, worth around £100 million of shares (*Diageo Insider Trading & Ownership Structure*, 2022).

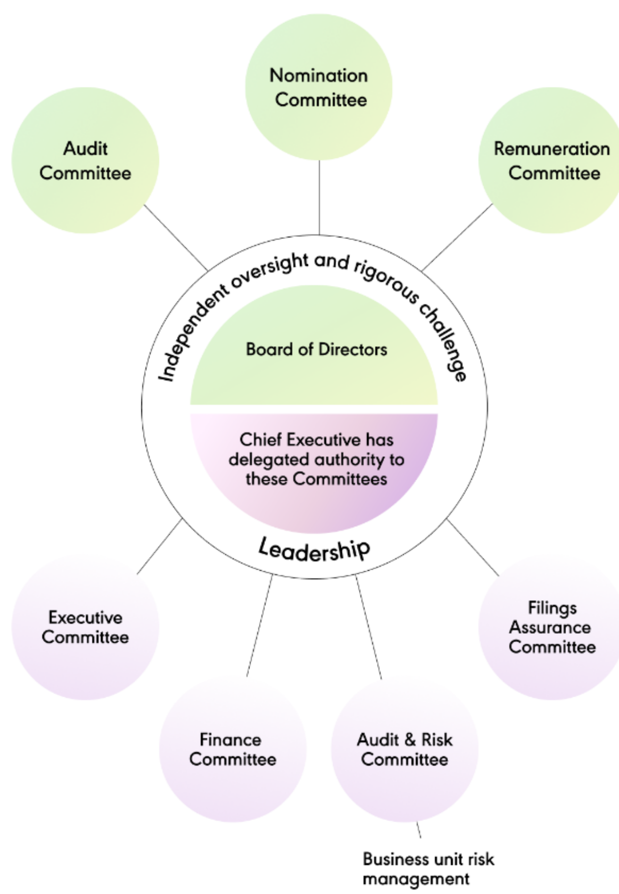
Recent Voting Issues

Diageo's most recent Annual General Meeting (AGM) contains the ordinary resolutions, including the reappointment of many board members and remuneration reports for 2022. There were three special resolutions during the AGM: the de-application of pre-emptive rights, the authority to purchase own ordinary shares, and the reduced notice of a general meeting other than an AGM. The three resolutions allow the Board to issue ordinary shares for cash without first having offered them to existing shareholders, buy back just less than 10% of existing shares, and call meetings other than an AGM on less than 21 days notice. All three special resolutions and all nineteen ordinary resolutions were passed. There appear to be no concerns regarding the current governance of the firm, as the stakeholders have indicated trust in the current Board and the firm's financial position.

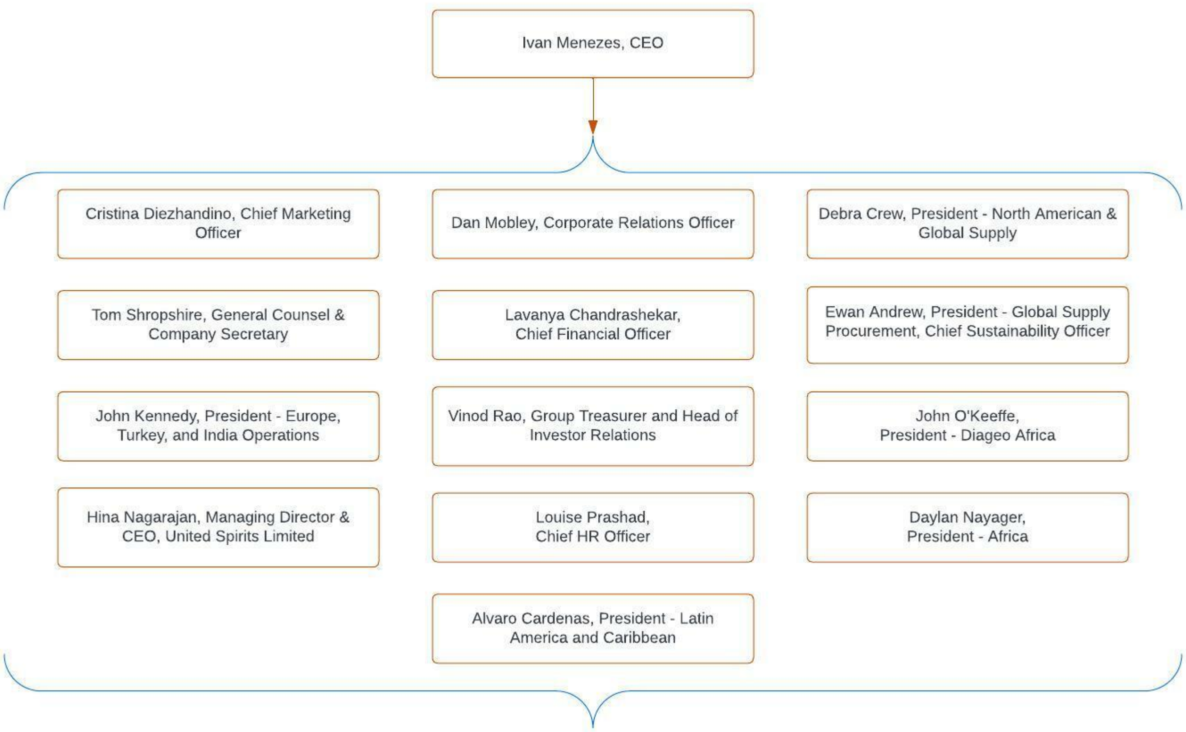
Organizational Structure and Controls

Overview

Diageo uses a mix of divisional and functional organizational structure. At the top, they are a functional structure, with the Chief Executive delegating based on role to principal committees and groups, including the Executive, Finance, Audit & Risk, and Filings Assurance Committees (Diageo). Additionally, Diageo has teams that span these committees, like the Leadership Team (Diageo).



Beneath the principal directorate committees, Diageo divides its organization divisionally and functionally. There are division presidents representing Diageo’s chief markets, including Africa, India, Turkey, Europe, and Latin America. These overlap with functional divisions, like the Chief Financial Officer and Chief Human Resources Officer. Each of the leaders in the figure below are listed as peers, some with divisional roles and some with functional roles (Diageo). Moving further down the business model, the company operates with strategic financial, marketing, and human resources departments, but necessarily divides the product development and production divisionally. Diageo's diverse and global portfolio means many employees operate within product and market divisions, while some work for strategic functional departments.



Structural Fit

The expansive Diageo business model and multidomestic strategy incentivizes a centralized strategic team with diverse and integrated product teams, lending itself to pursue its mixed multidivisional and functional structure. For a corporation as large as Diageo, a simple structure would not be able to handle the complexities of the business operations.

Diageo's organizational structure is well suited for its differentiation strategy based on goals of innovative production and international recognition. Divisions can adapt to the local environment while remaining connected to the central company. Diageo can scale different portions of its portfolio up or down based on the market environment and the brand's performance. Diageo's dominant business corporate strategy requires centralized decision making to ensure all of its business activities are aligned with its strategic goals, even when operating outside of its core business.

Committee Structure

Diageo relies on a multidivisional structure to remain efficient and competitive. The Board of Directors committee structure is mostly aligned with a matrix structure with many members serving on multiple committees and reporting to different committee chairs in addition to normal Board activities. All eight non-executive directors serve on all three committees under the Board of Directors in addition to normal Board duties. Board chairman Javier Ferrán also serves as a member of the Nomination Committee (*Committees*, n.d.). A matrix structure is successful for the Board of Directors, as members bring a multitude of experience and knowledge useful in many areas. Even though not completely aligned, the structures of the Board of Directors and Diageo do not hinder one another in pursuit to be a competitive, profitable company. Maximizing all board member experience and knowledge to make informed, strategic business decisions sets the foundation for company divisions and departments to be successful.

Control Systems

Externally, Diageo undergoes a yearly audit by PricewaterhouseCoopers which encompasses a review of its financial statements, internal controls, risk management processes, business conduct and integrity among other things. In addition, the Audit Committee reviews the annual report to ensure that Diageo is appropriately disclosing all risks and their potential impact on the company's financial statements. This external audit process serves to promote the integrity of Diageo's employees and to protect shareholder interests (Diageo plc, 2022, pg 99).

Internally, Diageo has many controls that help to keep Diageo's activities aligned with its strategic goals and forecasted financial outcomes. Diageo's remuneration policies focus on a pay-for-performance strategy as a control-and-reward system that aligns the goals of employees and shareholders. Diageo has an annual incentive plan for all employees that sets individual goals for contribution to determine bonus amounts. These annual bonuses are paid out in both cash and shares. Furthermore, Diageo has a minimum shareholding requirement of 500% of base salary for its CEO and 400% for all other Executive Directors. These policies give employees of all levels ownership in the company, which incentivises their performance to be in line with Diageo's strategic goals (*Remuneration Policy*, n.d.).

For each of its strategic goals, to sustain everyday growth, embed everyday efficiency, invest smartly, promote positive drinking, pioneer grain-to-glass sustainability, and champion diversity and inclusion, Diageo sets out specific, long-term goals to meet by 2030 as output controls. For example, for the goal of promoting diversity and inclusion, Diageo aims to have women sitting in 50% of leadership roles, and people with diverse ethnic backgrounds to hold 45% of leadership positions by 2030. Additionally, Diageo has a goal of increasing its spend on diverse-owned suppliers to 15% of its overall supplier spend by 2030. At the end of each year, Diageo evaluates its commitment and progress on these goals, and redirects specific action plans for the next year (Diageo plc, 2022, pg 35-36).

<u>Strategic Decision Analysis: Diageo One and EDGE365</u>

Overview

Diageo strives to create mutually fulfilling partnerships with businesses, such as bars or hotels, that buy and sell its products and brands. The company also has a top strategic priority to embed everyday efficiency in its processes and customer offerings (Diageo plc, 2022, pg 19). To reach both organizational goals, some of Diageo's most recent strategic decisions apply new technology to enhance customer experience and support customers' businesses. One strategic decision Diageo made was to implement two new applications under its Every Day Great Execution (EDGE) technology suite, which focuses on creating more efficient and effective execution of business processes. The new applications, Diageo One and EDGE365, focus on management and building of strong customer partnerships (*Transforming Our Execution: Every Customer, Every Day, Everywhere*, 2021).

Diageo One provides an all-in-one engagement point for customers. Diageo One portal users can access and complete the following (*Our Services*, n.d.):

- Manage accounts through access to invoices, statements, etc.
- Order Diageo products, 24/7
- Access business and industry content and articles to help grow user's business

- Access special offers and promotions

Diageo One is fully integrated with EDGE365, which is a digital sales tool used by Diageo's salesforce. The tool gives real-time data and analytics relevant to the growth of customers' businesses. Specific data includes product assortment and promotional activity recommendations along with training materials all tailored to the specific customer and region. With all information readily available to salespeople, EDGE365 allows greater quality time and customer interaction for Diageo's salesforce and has simplified sales activities (Diageo plc, 2022, pg 22)

Since EDGE365's launch in 2019, it has been rolled out in 23 countries and is currently being used in over 67% of net sales. In that time, Diageo has been able to call on 40% more customer outlets around the world, which is promoting global growth (Diageo plc, 2022, pg 22). In 2021, EDGE365 expanded into Kenya and in just one year, sales calls per day increased by over 14% (Diageo plc, 2022, pg 22). Diageo One was launched in late 2021, and by June of 2022, it already had over 43,000 customers. Over the next year, Diageo plans to expand both technologies and will have more information to offer on the impacts of Diageo One's rolling out.

Analysis

Diageo One and EDGE365 support Diageo's business strategy and strategic goals in two key ways, setting the firm on the path to success in the future. First, Diageo One leverages the firm's size and capacity to reach more customers. Connection to Diageo's portfolio of offerings is matched with a personalized sales experience, reducing friction in the sales and supply process. The firm's size and reach is valuable, difficult to attain, difficult to imitate, and, through initiatives like Diageo One, being organized to capture value. Second, Diageo aims to embed everyday efficiency throughout its business model (Diageo plc, 2022, pg 7). Diageo One and EDGE365 move the firm closer to that strategic goal. The consumer insight enables better customer service and a streamlined operation. The move makes the firm more agile and responsive, despite its size and global commitments. Less time is spent gathering data and more is spent improving product and performance (Diageo plc, 2022, pg 24). Diageo One and EDGE365 principally support Diageo's strategic goals, and have succeeded in practice, improving sales and promoting growth.

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