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Barman: The Amazon opportunity

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On a rainy November morning in Amsterdam in 2017, Phillipe Carrier, executive president of Barman in Europe, was discussing a potential deal with Amazon for the Iberian market with John Blaston, the company's commercial director:

> John, I'm not sure whether we should accept the deal for the Iberian market. Although it seems modest at first glance, it offers enormous potential for the future. But the risks are significant. Amazon is a colossus and could become our main customer in a short time. This poses a dilemma: We benefit in the short term, but we could suffer consequences in the long term. I'm really undecided.

Blaston didn't know what to say. He had to make a series of urgent decisions: To what extent would the agreement with Amazon be sustainable in Iberia? Was it profitable? How would their existing customers react? How would the deal affect Barman's European strategy with respect to Amazon?

Barman

Barman was one of the four leading players in the spirits industry. The company had grown out of a family business and had tremendous entrepreneurial drive, but had been through some very difficult times. Despite these challenges, Barman had always pulled through thanks to its long-term vision and strong leadership. The company was very brand-focused. It had global and iconic brands and a strict policy of not producing private labels, despite constant requests from customers. Although the brands were increasingly global, individual markets were able to operate locally with considerable autonomy. They were governed by the "freedom in a framework" philosophy, but

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there were always tensions between the countries and the organization because objectives weren't always aligned.

Barman's European business was huge, diverse and complex. It generated 31% of the company's global profit on 25% of revenue, a result that Carrier was very proud of (see **Exhibit 1**). He knew that percentage put his region in a strong position, but he also felt a great sense of responsibility because of its role in closing deals with global customers.

In Europe, Barman had a regional structure with several key functions (finance, marketing, trade marketing, sales, legal, etc.). Its most important task was to set the region's strategy and guidelines for countries, from growth targets to specific investments. The region was actively involved in key decisions, particularly those related to international customers. But because of the differences between European countries, each had its own general manager and commercial director. There was great diversity, and as a result, the significance of product categories, channels and market shares, among other things, varied from country to country. For example, the cluster consisting of Germany, Switzerland and Austria sold 90,000 cases of liqueurs, while the UK and Ireland sold only 5,000 cases. On the other hand, the latter cluster sold 25,000 cases of gin, while the German cluster sold 19,000.

The growing importance of the digital channel led the company to adapt to the needs of international customers such as Amazon by developing specific structures to manage e-commerce in a customized and efficient way at the global and regional levels (see **Exhibit 2**).

Barman had always been known for its large global brands. Over the past twenty years, it had invested in the acquisition of major brands, all of them iconic. The company also had a portfolio of more than 200 small brands with a promising future.

In all markets, a distinction was made between core and premium brands. This distinction had always been an obsession for Blaston and Carrier, who were fervently committed to premium brands as a key strategy to strengthen Barman's connection with the most sophisticated consumers and achieve greater profitability. However, the weight of the brands varied from market to market, depending on local tastes and the size of the various product categories in each country.

Blaston began to receive complaints from various clusters whose hospitality customers were starting to make purchases online in other countries because they found lower prices. Faced with these challenges, the company had opted to win over consumers through innovation. Barman focused on being a pioneer in developing new products and formats. Initiatives included the launch of a pink gin, innovation in traditional products, and entry into new categories.

Barman's business with Amazon

Under pressure to meet sales targets, the commercial directors in almost all the European clusters had decided to establish business relationships with large customers in the e-commerce channel, including Amazon. In some cases, these were opportunistic and scattered collaborations around key times of the year, such as Christmas, Black Friday and Prime Day. In others, the relationships had reached a very significant scale for the business as a whole. The clusters that sold the most on Amazon were as follows:

- Germany, Switzerland and Austria: sales of €14.4 million, gross margin of 55%, price per case of €93.
- UK and Ireland: sales of €6.5 million, gross margin of 70%, average price per case of €108.

- Benelux: sales of €2.9 million, gross margin of 65%, average price per case of €115.
- France, Italy and Greece: sales of €1.3 million, gross margin of 85%, average price per case of €127.

Blaston, the commercial director for Europe, was desperate. Despite his insistence, the countries had not strictly followed the pricing instructions from the region. For example, the minimum price for a case of gin was supposed to be €100. The German cluster complied (Amazon price of €100), but the UK/Ireland cluster did not, selling a case of gin for €65. For liqueurs, the minimum price per case was €76. Neither the UK/Ireland cluster nor the German cluster met this requirement (Amazon price of €69 and €59, respectively). These clusters did comply with the minimum price for rum, for example, which was set at €70 per case.[1] Blaston had estimated that if Amazon got the lowest price for each category in each cluster, the average price per case would drop by €15.

The e-commerce share of sales varied from cluster to cluster. The share of sales in the online grocery channel for Barman in each cluster and Amazon's weight within this share were as follows:

Cluster	Barman's share of e-commerce in the grocery channel	% of Barman's grocery channel sales made through Amazon
UK and Ireland	12%	30%
France, Italy and Greece	9%	5%
Benelux	5%	40%
Germany, Switzerland and Austria	10%	51%
Iberia	2%	0%

Blaston still remembered his conversation with Stephan, the commercial director for Germany, about the prices and conditions he was offering Amazon for its Prime Day campaign. At one point, Blaston said, "Stephan, if other customers find out about the deal you gave Amazon, we're going to have a serious problem. You can't keep going it alone. We can't handle things this way!"

Stephan understood the point Blaston was making, but the opportunity to salvage Germany's year-end results was too tempting:

> John, I'm responsible for the income statement for Germany and I'm not willing to pass up an opportunity to make an additional €3 million in sales that generates a higher average price than the grocery channel. In other words, we want to over-deliver on our budget. My people deserve this prize. Please trust us.

Stephan was a leader with strong convictions, and David, his UK counterpart, always backed him up by pursuing the same aggressive commercial policies. Thinking about the conflict that might arise if other customers found out about the deal Stephan had made with Amazon was keeping Blaston up at night.

[1] These prices assume the same brand mix in each market.