

Alyssa Gray
Conquistador Beer Case

Intro

What is to consider in Larry Gomez's case is the feasibility of applying for a Conquistador Beer distributorship in Southwestern Oregon. The beer is produced in Mexico and has been having rapid success as it expands into the states. Larry Gomez has access to \$15,000 for feasibility research and will soon have access to \$600,000, in July, when he reaches the age of 30. In July is also the time when the money will be needed to start the business. He reached out to Lawson and Associates for assistance with research and has received an extensive research proposal from them (Exhibit 1-2). Larry needs to decide which research projects to complete by September 2, 2020, to determine the market potential of the distributorship. His decision to apply for the distributorship is crucial for his career, as he believes that owning a small business is the best way to achieve success and personal satisfaction. Unfortunately for Larry, it would be advised to not invest, because you needed to be profitable in the first year and you net profited a loss of \$305,151.

Results

We used conceptual measurement models which is a term for how we broke down profit into constituent concepts (fixed costs, revenue, variable costs, investment capital). To calculate profit, you had to calculate the totals of each category: investment capital \$2,100,000, revenue: sales quantities \$435,210.6 and sales revenues \$2,075,374, variable costs \$1,666,525.55, and then fixed costs \$2,814,000. The profit equation should be as follows: investment capital \$2,100,000, plus revenue \$2,075,374, then subtracted from variable costs \$1,666,525.55, then subtract fixed costs \$2,814,000 to get a net loss of \$305,151. To break things down further we need to start with calculating revenue. We did it by adding the sales revenues from the bottle beer \$1,804,673 and kegged beer \$270,701 and it came out to a total revenue of \$2,075,374. We originally got the sales revenue numbers for each beer by determining price per unit and gallon and multiplying it to sales quantities per unit and gallon for each bottle's beer and kegged beer. An example of this was the bottled beer per unit price is \$3.11, and then that number multiplied by the sales quantities of a bottled beer in units is \$580,281. This is how we got the number for the sales revenue for bottled beer. Same process applies for the kegged beer except you replace bottled beer with kegged. To be able to use this information we originally got our numbers from Study I which included the retail and wholesale prices for selected beers in the market area (Exhibit 1-2). These allowed for us to compare wholesale 6-pack prices of competing brands with retail 6-pack prices to find an average premium. We found out average premium by taking the average of the wholesale 6-pack prices of Budweiser \$3.18, Hamm's \$3.04, Michelob \$3.18, and Olympia \$2.60 to get an average of \$3.11 which will be later used as a per unit price of bottled beer for Conquistador. We found the estimated price he can sell by averaging the comparable brands. We calculated investment capital by finding the sum of the inheritance \$600,000, bank loan \$1,000,000, and family loan \$500,000 that were already given to us from the case to total up to \$2,100,000. To find the total of variable costs we had to use Study F which was the Financial Statement Summary for 152 Wholesalers of Wine, Liquor, and Beer 2022 (Exhibit 1-2). We took advantage of what we had found from the study which is the cost of sales 80.3% as well as the price per unit in bottled beer \$3.11 and multiply together to get \$2.50 per

unit variable cost for bottled beer. Same method applies for kegged beer, and you come up with \$30.97 per unit. To find total variable costs for each bottled and kegged we multiplied unit variable cost per unit (bottled: \$2.50) and (kegged: \$30.97) with sales revenues per units (bottled: \$1,804,673) and (kegged: \$270,701) to come up with a product of \$1,449,152.65 for bottled and \$217,372.90 for kegged. To find total variable costs we just added the bottled and kegged totals together to get \$1,666,525.55. Lastly, to get the fixed costs, which is the last step of the equation to solve for profit, we need to use the information that was already provided to us from the case (Exhibit 1-2). We were given the Initial Investments which included inventory, cash and equivalents, and accounts and note receivables. Equipment which included delivery trucks, forklifts, recycling and miscellaneous equipment, office equipment, office equipment, warehouse, and land. The total investments summed up to be \$2,160,000. We also were given salaries and other fixed and semi fixed costs which included equipment depreciation, warehouse depreciation, utilities and telephone, insurance, personal property taxes, maintenance and janitorial, and miscellaneous. The total other fixed costs summed up to be \$204,000 and the total investment \$2,160,000. We used this specific data because we wanted to make as specific estimates as possible. For example, we included only over 21 in Study A which compared the annual beer consumption between the US and Oregon. We ignored the low price special in Study I because we found it unnecessary to our data. We found the beer drinking data from the back of the document that was collected by Lawson and Associates (Exhibit 1-2). We also used the average of the last three years because we believed it gave the most robust estimate. Determining the specific data to use was to ensure our quantities are supportive to our conclusion that Larry should not invest. It is supported by the data above and because our profit calculator totaled a net loss for Larry of \$305.151.

Conclusion

Overall, we combined data to form the conclusion that Larry should not invest. To calculate our profit loss, we added Investment capital to Revenue and then subtracted from the variable from the fixed costs. There were limitations in this data to note because nothing is perfect, and we are working with estimates. There could have been flaws in the data given for example in the market size calculation, the market share estimate, and in the cost of goods sold. Assumptions could include the price of Conquistador and prices of comparable brands. Larry may have to sell at a lower price because the grocery store may not have any room for his beers on the shelf. Another assumption would be he could charge a higher price by the profit calculator we provided, and he could add his own information that maybe we did not have to work with which may have the capability to result in a different conclusion. The decision rule is that Larry needs to be profitable within the first year but there is also a reason to believe that he could pull more money out of the bank or gain more money in a different way that would allow Larry to invest and financially support himself and his family. A question that I had for Larry that may affect the conclusion is that the research that Lawson and Associates did mainly consist of mail surveying. I believe it is a fact that online surveys are the most efficient ways to get information in 2022. My question is if they were short on time why didn't they use online surveys and the probability of people responding and sending back the mail is less likely than online. My point is that the data given from the surveys may have flaws and may have reached a lesser audience than intended.

EXHIBIT 1-2

Lawson and Associates Research Proposal

June 15, 2020

Mr. Larry Gomez
1198 West Lamar
Portland, Oregon

Dear Larry,

It was a pleasure meeting you last week and discussing your business and research interests in Conquistador wholesaling. From further thought and discussion with my colleagues, the Conquistador opportunity appears even more attractive than when we met.

Appearances can be deceiving, as you know, and I fully agree that some formal research is needed before you make an application. Research that we recommend would proceed in two distinct stages and is described below:

Stage One: Research Based on Secondary Data

Study A: National and Oregon per capita Beer Consumption for 2018, 2019, and 2020

Description: Per capita annual consumption (in gallons) of beer for the total population and population age 21 and over is provided.

Source: Various publications

Cost: \$600

Study B: Population Estimates for 2020 to 2025 for Five Oregon Counties in Market Area

Description: Annual estimates of total population and population age 21 and over is provided for the period 2020 to 2025.

Source: U.S. Bureau of Census and Sales Management Annual Survey of Buying Power

Cost: \$900

Study C: Conquistador Market Share Estimates for 2020-2025

Description: Conquistador market share based on total gallons consumed in the five-county market area is estimated for each year in the period 2020 to 2025. These data will be projected from Conquistador's experience in California, Texas, New Mexico, and Arizona.

Source: Various publications

Cost: \$1200

Study D: Estimated Liquor and Beer Licenses for the Market Area 2020-2025

Description: Projection of the number of on-premise sale operations and off-premise sale operations is provided.

Source: Oregon Department of Revenue, Liquor Division

Cost: \$600

Study E: Beer Taxes Paid by Oregon Distributors for 2018 and 2019 in the Market Area

Description: Beer taxes paid by each of the five currently operating competing beer distributors is provided. This can be converted to gallons sold by applying the state gallonage tax rate of \$0.21 / gallon.

Source: Oregon Department of Revenue, Liquor Division

Cost: \$2400

(continued)

Study F: Financial Statement Summary of Wine, Liquor, and Beer Distributors for 2019

Description: Composite balance sheets, income statements, and relevant measures of performance provided for 152 similar wholesaling operations are provided.

Source: Robert Morris Associates annual statement studies

Cost: \$100

Stage Two: Research Based on Primary Data

Study G: Consumer Study

Description: Study G involves focus-group interviews and a questionnaire to determine consumer past experience, acceptance, and intention to buy Conquistador beer. Three interviews would be conducted in three counties in the market area. From these data, a mail questionnaire would be developed and sent to 1000 adult residents in the market area utilizing direct questions and a semantic differential scale to measure attitudes towards Conquistador beer, competing beers, and an ideal beer.

Source: Lawson and Associates

Cost: \$6600

Study H: Retailer Study

Description: Focus-group interviews would be conducted with six potential retailers of Conquistador in one county in the market area to determine their past beer sales and experience and their intention to stock and sell Conquistador. From these data, a mail questionnaire would be developed and sent to all appropriate retailers in the market area to determine similar data.

Source: Lawson and Associates

Cost: \$3600

Study I: Surveyor Retail and Distributor Beer Prices

Description: Study I involves in-store interviews with a sample of fifteen retailers in the market area to determine retail and distributor prices for Budweiser, Hamm's, Michelob, Olympia, and a low-price beer.

Source: Lawson and Associates

Cost: \$3600

Examples of the form of final report tables are shown in Exhibit 1-3. This should give you a better idea of the data you will receive.

As you can see, the research is extensive and, I might add, not cheap. However, the research as outlined will supply you with sufficient information to make an estimate of the feasibility of a Conquistador distributorship, the investment in which is substantial.

I have scheduled 9:00 AM next Friday to meet with you to discuss the proposal in detail. Time is short, but we firmly feel the study can be completed by October 2, 2020. If you need more information in the meantime, please feel free to call.

Sincerely,

John Rome

Senior Research Analyst