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“Changing the Game”

Strategic Implications for an Enterprise Active on the Swedish Alcohol Market

Ulrica Malmqvist & Sorin Alexandru Niculae

Graduate Business School
School of Economics and Commercial Law
Göteborg University
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Abstract

The Swedish alcohol market has for a long time been characterized by strict legislations, developed in order to protect public health. Along with European integration, the trend of internationalization and globalization, and changes towards consumer-driven marketplaces, Sweden's alcohol policy has become fragmented and its existence directly threatened.

Enterprises active on the Swedish alcohol market are currently facing a dynamic business environment, since changes in the country's alcohol policy may have a great impact on the industry structure, as well as on the operations of single enterprises. The purpose of this thesis is therefore to examine future strategic implications for an enterprise active on the Swedish alcohol market as a result of changes in its external environment.

By describing and analyzing the macro environment and industry environment of an enterprise operating on the Swedish alcohol market, drivers of change have been identified, and future scenarios created. The strategy of an enterprise has been studied in order to identify the compatibility of its strengths and weaknesses with the opportunities and threats, arising in each scenario.

Key words: environmental analysis, scenario development, resource based strategy, the Swedish alcohol market, Allied Domecq

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Furthermore, we are grateful to our interviewees, who allowed us to get an insightful, clear and accurate view of the Swedish alcohol market. Encompassing a wide range of personalities including European Union Officials, Senior Researchers from Sweden and Finland, and key Managers in the Swedish alcohol industry among many others, they have devoted valuable time to meet us.

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Gothenburg, December 9th 2001

Ulrica Malmqvist Sorin Alexandru Niculae

TABLE OF CONTENTS

TABLES

FIGURES

1. Introduction

1.1 Background

A remarkable characteristic of the Swedish society in the twentieth century has been the exceptional role of the state in promoting the good modern life, as well as the grounds on which this has been possible. Central to the creation of the Swedish welfare state has been its particular alcohol policy. For centuries, Sweden was part of the "Vodka Belt", stretching from Russia to Norway, where hard drinking was part of everyday life. To cut the drinking Sweden adopted a very restrictive alcohol policy, using punitively high taxes and restriction on retail sales to force drinkers to cut back.[1] Outside the Nordic countries, such a restrictive alcohol policy cannot be found in any European country.

However, today, the Swedish society is changing, and so is the alcohol policy. In 1995, Sweden joined the European Union, and the country's high-minded attitude towards alcohol came under pressure. Two trends can be spotted arising from the European integration process:

- A distinct liberalization of Nordic alcohol policy, and
- A growing sensitisation from the rest of Europe to drinking problems, and the need for enhanced alcohol controls

European integration has not been the only factor driving Sweden towards a more liberal alcohol policy. Also, today's internationalization, consumer-driven marketplaces, overall deregulation of the economy, international cultural influences and life-style changes have contributed to this development. Step by step, Sweden is being pressured to take apart its anti-alcohol policies. The country's monopoly on production, import, exports and wholesale of alcohol have been abolished, and more changes are proposed.[2] At the same time as there is a strong movement towards liberalization. There is a big concern to serve the common interest of public health. Liberalization is seen as damaging public health.[3]

[1] Sulkunen, P., Sutton, C., Tigerstedt, C., and Warpenius K. (2000)
[2] Daley, S. (2001)
[3] Stanton, P. (2001)

Sweden's alcohol control system has become much more fragmented, and the four major tools, stated below, used by the country in its alcohol policy are challenged at present:[4]

- The ban on consumer advertising
- Other restrictive marketing practices
- The retail monopoly (Systembolaget)
- The relatively high price level by virtue of a severe tax on alcoholic beverages

Most likely, Sweden will not be able to maintain its restrictive alcohol policy as the pressure towards liberalization increases. Changes in the country's alcohol policy will affect the condititions under which enterprises are operating.

1.2 Problem Definition

To perform successfully, an enterprise has to be aware of the environment within which it is operating. Its strategy has to be developed in accordance with its external environment. The external environment however is not static, but it is constantly changing. Therefore it regularly has to be monitored in order to identify possible changes that might arise.

The Swedish alcohol market has for a long time been characterized by very restrictive regulations, set by the Swedish government in order to keep the consumption of alcohol at a low level. However, as the Swedish society is changing (globalization, European integration, liberalization, consumer driven markets etc.), the restrictions have appeared to be obsolete, and the policies that once were effective are today being questioned. Thus, the identification of factors and phenomena in the external environment and the assessment of their business impact represent a current issue for the enterprises active on the Swedish alcohol market. From all the above reasoning we formulated the following main problem:

Main Problem

What are the future strategic implications for an enterprise active on the Swedish alcohol market as a result of external environment influences?

[4] www.austrade.gov

To gather the information needed to answer our main problem and draw conclusions, we have developed three auxiliary research problems:

Research Problem 1

What does the current external environment of an enterprise active on the Swedish alcohol market look like?

A profound understanding of the current external environment of enterprises active on the Swedish alcohol market is required to answer our main problem. We will therefore investigate the external environment, comprising the macro environment and the industry environment. The macro environment is composed by economic, technological, demographic, social, governmental and other factors that through their change may influence positively or negatively the enterprise's decisions and performance. In order to identify the relevant possible changes that might occur and assess their impact, we will take a wide area of factors and influences from the macro environment into consideration, but focus on the most relevant and emerging ones. The industry environment is defined as the alcohol industry in which the enterprise operates. It mainly comprises suppliers, competitors, and customers, and will be investigated, as it is in direct relation to the enterprise's operations.

Research Problem 2

What is the future situation of the Swedish alcohol market?

After having obtained a profound understanding of the present external environment of enterprises operating within the Swedish alcohol market, we will explore the future of the Swedish alcohol industry. The second research problem aims at developing and analyzing different future scenarios of the alcohol industry.

Research Problem 3

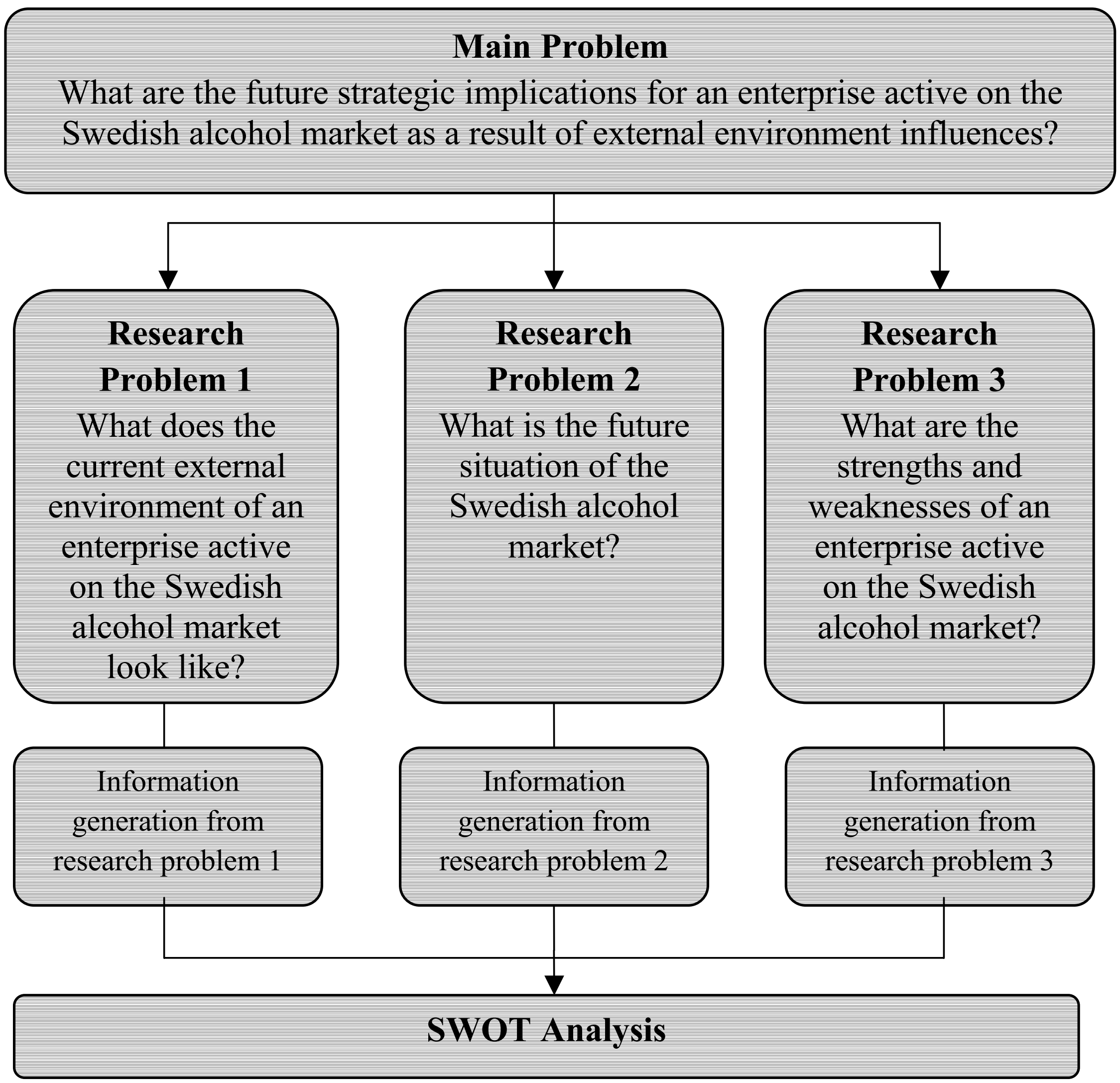
What are the strengths and weaknesses of an enterprise active on the Swedish alcohol market?

Before identifying the strategic implications arising from the external environment, influences for an enterprise active on the Swedish alcohol market, research problem three aims at analyzing the resource based strategy of one enterprise at present in the market, in terms of goals, values, resources and capabilities.

1.3 Research Model

We will answer the main problem of our study after having analyzing the data generated from the three sub-research problems. The model below represents the graphic interpretation of our problem analysis.

Figure 1.1: Own Research Model



Source: Own elaboration

1.4 Purpose

The purpose of our study is to determine the future strategic implications for an enterprise active on the Swedish alcohol market as a result of external environmental influences. By conducting an extensive investigation of the external environment of an enterprise operating in the Swedish alcohol market, we will be able to deduct drivers of change and create scenarios. Each scenario will constitute a number of opportunities and threats, and the compatibility of an enterprise's strategy in accordance with the identified opportunities and threats will be investigated in order to develop recommendations suitable to the situation.

1.5 Delimitations

- Our study is limited to one enterprise.

- Geographical delimitation: Our study is limited to the Swedish alcohol market. The operations of the enterprise in other countries will therefore only be considered when relevant for the operations on the Swedish market.

- Product segment delimitation: We will only study the spirits and wine segments of the Swedish alcohol market.

- Scenario delimitation: We have decided to limit the time frame when creating scenarios to the beginning of the year 2007, as a longer time frame will be less accurate.

1.6 The case study enterprise

Allied Domecq PLC is the second largest spirits and wine enterprise in the world, operating in over 50 markets worldwide, possessing 11 of the top 100 international premium spirits brands. The enterprise owns or controls distribution of approximately 89% of their sales volume, holding No.1 and No.2 positions in six leading spirits categories.[5] At present Allied Domecq PLC focuses on increasing sales and marketing effectiveness worldwide, by

[5] Allied Domecq – Snap Shots (2001)

supporting innovation, premium brands and core brands, aiming also to bridge central and market teams, and integrate long term brand and market strategies.[6]

Allied Domecq Spirits & Wine Sweden AB, a Sales and Marketing division located in Stockholm, represents the operations of Allied Domecq PLC on the Swedish alcohol market. The Swedish subsidiary employs about 25 people, and is part of the Nordic organization of Allied Domecq PLC, which also encompasses Denmark, Norway, Finland, Iceland, Estonia, Latvia, Lithuania, Russia and Ukraine.[7]

1.7 Definitions

Wholesale and import: Functions to carry alcoholic beverages from the production site to the location of retail sale or to purchase and arrange transport of alcoholic beverages produced and packaged in other countries to domestic retail sites.

Off-premise sales: The function of selling alcoholic beverages for consumption elsewhere, not on the site of sales.

On-premise sales: The function of selling alcoholic beverages for consumption at the site of sales, generally in licensed pubs, bars, cafés, or restaurants.

HoReCa: The on-premise trade, comprising Hotels, Restaurants, Cafés, Catering etc.

Recorded consumption: On-premise sales plus off-premise sales.

Unrecorded consumption: Legally or illegally privately manufactured, legally imported or smuggled by travelers, smuggled alcohol bought within the country, and denatured alcohol or alcohol for medical purposes consumed as an alcoholic beverage.

Tastings: Organized forms of tasting and learning about wine or spirits.

[6] www.allieddomecq.co.uk
[7] Nätt, H. (2001)

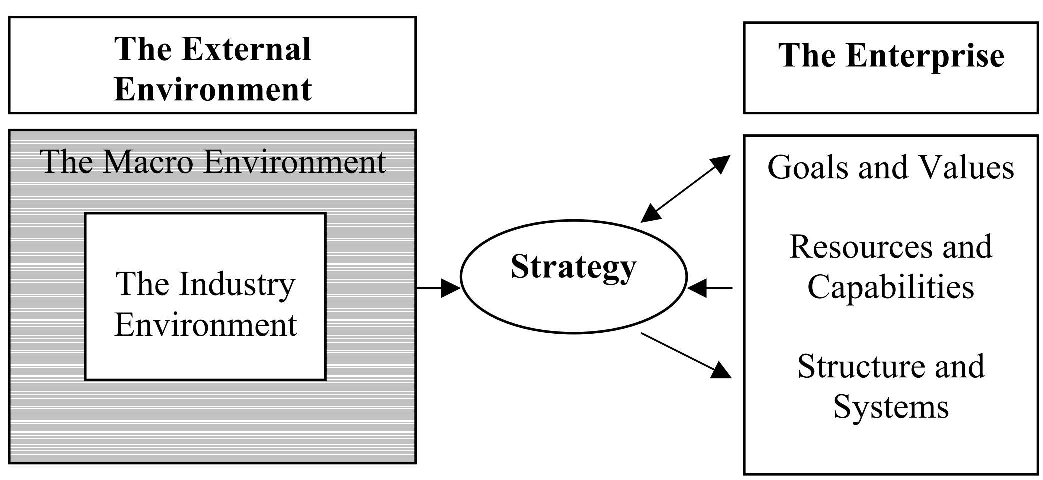
2. Theoretical framework

In this chapter we will present the theories selected for our study. They have consistently been used in both the empirical part of the thesis as well as in the analysis part. We will start by illustrating the underlying theory of our study, followed by a combination of theories selected for the external environment study. A division will be made here between macro environment and the industry environment. The SWOT analysis framework will be integrated between the external environment theories and the theory used for the enterprise's strategy evaluation. Therefore, the resource-based strategy theory will conclude our theoretical framework.

2.1 Strategic fit

Figure 2.1 represents the starting point of our thesis. The strategy is presented as the underlying link between the external environment and the enterprise. Hence, it is essential to analyze and understand the external environment in which the enterprise operates. This environment creates both opportunities for and threats to the enterprise's strategic development. Furthermore, analyzing the strategic capability of the enterprise in terms of appraising its resources and capabilities is clearly important, as they have to fit the external environment in which the enterprise operates, and the opportunities and threats that exist.[8]

Figure 2.1: The strategy as a link between the enterprise and its environment



Source: Grant, R. M. (1998), p. 12, modified

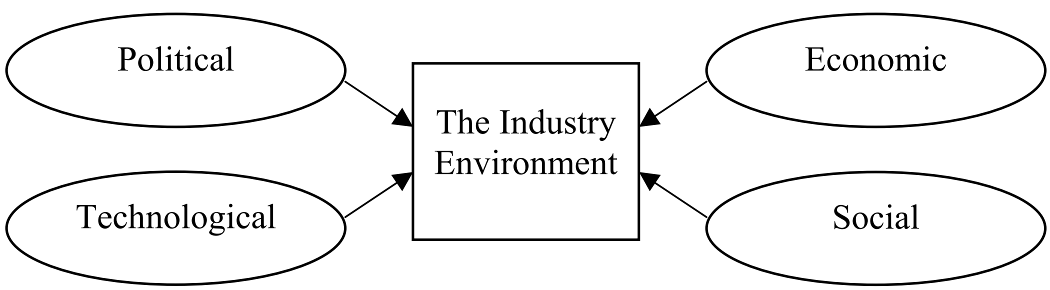
[8] Johnson, G., and Scholes, K. (1999)

2.2 The External Environment

In order to undertake operations successfully, a profound understanding of the environment in which the enterprise operates is necessary. The business environment of an enterprise consists of all the external factors that influence its decisions and performance, and is normally divided into two different parts: the macro environment and the industry environment.[9]

The number of external factors influencing an enterprise is huge, making it a real challenge to identify those of greatest importance. It is possible to list all conceivable environmental influences, but this will not be much use, as it does not present a good overall picture of the situation. Instead the complexity of the environment has to be simplified, making the information obtained selective, where the most relevant information has to be chosen. There is no possibility to operate in terms of 'perfect knowledge'.[10] As 'perfect information' is never available, the process of identifying relevant information is not easy. The prerequisite for effective environmental analysis is to distinguish factors that are vital from those that are merely important.[11] The core of the enterprise's business environment is the industry environment. However, the macro environment influences the industry environment. This is shown in Figure 2.2.

Figure 2.2: The Business Environment



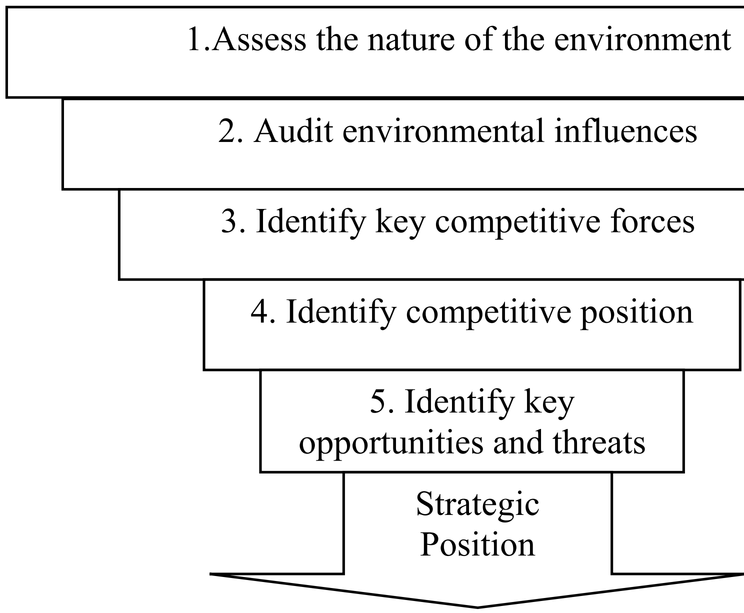
Source: Grant, R.M. (1998), p. 53, modified

In this thesis different theories of environmental analysis are combined into one single framework. The framework is designed to the specific case study, emphasizing factors of importance for the analysis of the Swedish alcohol

9 Grant, R. M. (1998)
10 Johnson, G., and Scholes, K. (1997)
11 Grant, R. M. (1998)

market and the problem formulation of this study. The overall framework of the environmental analysis is based on Figure 2.3.

Figure 2.3: Steps in Environmental Analysis



Source: Johnson, G., and Scholes, K. (1997) p. 90, modified

The steps of the environmental analysis framework are described more in detail below.

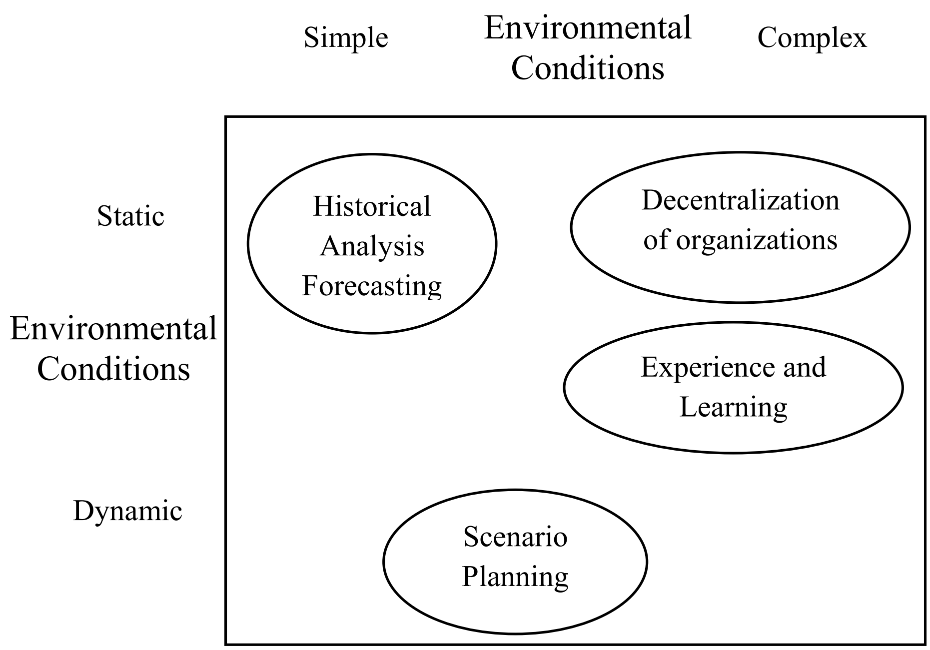
2.2.1 Assessing the Nature of the Environment

The first step in the environmental analysis is, according to Johnson and Scholes (1997), to assess the nature of the environment, since a big problem of strategic management is to cope with uncertainty.[12]

The degree of environment uncertainty depends on the nature of environmental conditions, which may be static, dynamic or complex, as represented in Figure 2.4.

[12] Johnson, G., and Scholes, K. (1997)

Figure 2.4: Approaches to making sense of the environment



Source: Johnson, G., and Scholes, K. (1997), p. 92

It is easy to understand an environment characterized by *static* conditions since there are no significant changes taking place, and even if changes occur they are predictable. In this case an extensive analysis of the environment can be done using historical data and the assumption that events are most likely to be repeated in the future. Forecasting possible future conditions will be the outcome of the analysis.

In order to analyze an environment characterized by *dynamic* conditions, structured ways that make sense of the future, such as scenario planning, have to be engaged. In this case, it is necessary to take both the past as well as the future environment into consideration.

An environment characterized by *complex* conditions is usually difficult to understand and therefore to analyze, since it is complicated to deal with complexity by relying predominantly on analysis. Furthermore, complex situations facing dynamic conditions lead to the greatest uncertainty. [13]

Environmental uncertainty increases the more complex and dynamic the environmental conditions are. As mentioned above, when the environmental

[13] Johnson, G., and Scholes, K. (1997)

conditions are dynamic, scenario planning is a structured way of making sense of the future. Since the Swedish alcohol market is characterized by a high degree of uncertainty, with dynamic environmental conditions, scenario analysis appears as a proper method of analyzing its future.

2.2.2 Auditing Macro Environmental Influences

The second step in Johnson and Scholes' model is to audit environmental influences on the enterprise. This stage audits the macro environment of an organization.[14]

In order to obtain a comprehensive view of the environment and to discover its influences on the enterprise, the theory behind and derived from The Institutional Analysis Model[15] offers a competitive analytical framework. Even though the Institutional Analysis Model was specifically designed for enterprises acting in emerging markets characterized by specific environments, its theories constitute a base for this case study. The Swedish alcohol market actually shares common characteristics with emerging markets in terms of heavy regulations and state ownership.

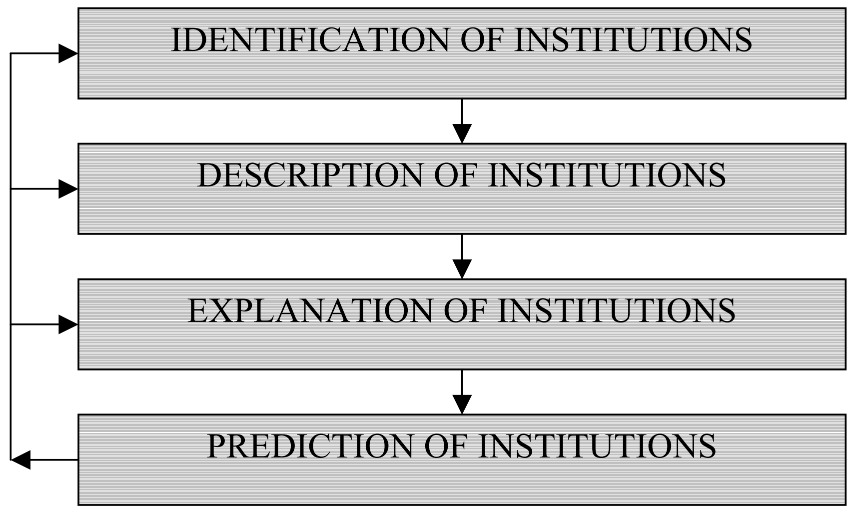
According to Hans Jansson (2000), the institutional approach to environmental analysis is divided into four stages:

1. *The identification stage* – the environment is scanned for institutions that have the greatest impact on the enterprise
2. *The descriptive stage* – the institutions identified in the first stage are described more in detail
3. *The explanation stage* – where the influence of the identified institutions is studied
4. *The prediction stage* – the reproduction of the institutions in the future is analyzed

The main advantage offered by this model lies in those four stages, as they constitute a coherent theoretical base for making environmental analysis by offering a deep and relevant insight into relevant environmental factors. Below the four stages of Institutional Analysis are presented graphically.[16]

[14] Johnson, G., and Scholes, K. (1997)
[15] Jansson, H. (2000)
[16] Jansson, H. (2000)

Figure 2.5: The Four Stages of Institutional Analysis



Source: Jansson, H., (2000), chap. 3, p. 2

The perspective from which the environmental analysis is done is also important. Mainly, there are two types of perspectives: outside-in perspective and inside-out perspective, where the two models may be combined depending on the circumstances.[17]

2.2.2.1 Identification of Institutions

In the identification stage, it is important to be aware of the fact that environmental forces, which are of importance for one organization, may not have any importance for another organization. As a starting point for mking an environmental analysis it is therefore very useful to consider environmental influences that have been particularly important in the past, and to what extent there are changes occurring which may make any of these more or less significant in the future for the organization. Two questions are useful to ask in order to inform and guide analysis:[18]

- What are the key influences and drivers of change?
- What are the differential impacts of key environmental influences?

By asking these questions and considering different influences, the factors of greatest importance for an enterprise can be identified. Further, when

[17] Jansson, H. (2000)
[18] Johnson, G., and Scholes, K. (1997)

conducting a macro environmental analysis it becomes crucial to divide the environmental influences in different ways in order to see things clearly and to get hold of the right information. A division of environmental influences will also limit the information required.[19]

A common model for dividing and identifying macro environmental influences is the **PEST**-analysis, which gives proposals for environmental factors that may qualify as relevant institutions.[20] The PEST model divides the environment into four major segments:[21]

1. *Political segment* – deals with political setting and regulatory environment
2. *Economic segment* – concentrates on the general set of economic factors and conditions that confront all industries in a society
3. *Social segment* – concerned with demographics, lifestyles and social values of a society
4. *Technological segment* – focuses on technological advancements taking place

2.2.2.2 Description of Institutions

The purpose of this phase is to describe the rules of potential institutions and relate them to the enterprise, by assessing the institutions' influences on the organization. There are mainly two ways of finding the relevant rules:[22]

- Identify and describe relevant formal rules - This can be done by studying formal rules written in documents and then comparing them to informal rules, by checking if they are relevant for the enterprise and the extent of use by the enterprise.
- Extend the analysis to other institutional dimensions - In this case the analysis is focusing more on informal rules.

2.2.2.3 Explanation of Institutions

After identifying and describing the relevant institutions, they will be analyzed in detail in order to identify the ones that are most relevant to the enterprise and the industry environment. This will give an overall picture of the market

[19] Frankelius, P., and Rosén, C-G (1993)
[20] Jansson, H. (2000)
[21] Johnson, G. and Scholes, K. (1997), and Jansson, H. (2000)
[22] Jansson, H. (2000)

environment. Also, at this stage, linkages between different institutions will be identified and explained.[23]

2.2.2.4 Prediction of Institutional Developments

Predictability helps in the environmental analysis by reducing uncertainty, taking into consideration that the typical behavioral institution regularities will be repeated in the future. However, future institutional developments are uncertain and there is a considerable risk that the future will not be as expected. Despite this the future development of the institutions have to be analyzed.[24]

2.2.3 Identifying key competitive forces: Industry environment

Successful enterprises recognize that their environment is constantly changing, and are therefore monitoring and adapting to these changes. The macro environment constitutes the wider influences on an enterprise, discussed above. The more direct influences come from the industry environment, which comprises suppliers, competitors and customers.[25]

The basic foundation of industry analysis is that the structure of the industry influences profitability and competitive behavior. The theory on industry structure has two reference points: theory of *monopoly* and theory of *perfect competition*. In an industry characterized by monopoly, one single enterprise operates. Barriers to entry protect this enterprise, which can appropriate in profit the full amount of the value it creates. In perfect competition on the other hand, there are many enterprises supplying an identical product and there are no restrictions on entry or exit. Here, the rate of profit falls to a level that just covers an enterprise's cost of capital. Most enterprises actually fall in-between these two extremes.[26]

Not only the structure of an industry influences its intensity of competition and level of profitability. There are several other factors of importance. To identify and analyze these factors, Porter's five forces model, presented in Figure 2.6, is useful.[27] The five forces employed in the analysis are presented below:

[23] Jansson, H. (2000)
[24] Jansson, H. (2000)
[25] Grant, R. M. (1998), Kotler, P (1997), and Johnson, G. and Scholes, K. (1997)
[26] Grant, R. M. (1998)
[27] Grant, R. M. (1998)

1. *The threat of entry* – will depend on the extent to which there are barriers of entry in the industry, which most typically refer to: economies of scale, capital entry requirements, access to distribution channels, legal restraints, cost advantages independent of size such as experience gained in the market by early entry, expected retaliation, or differentiation. Barriers of entry differ by industry, which makes a generalization of their importance impossible.

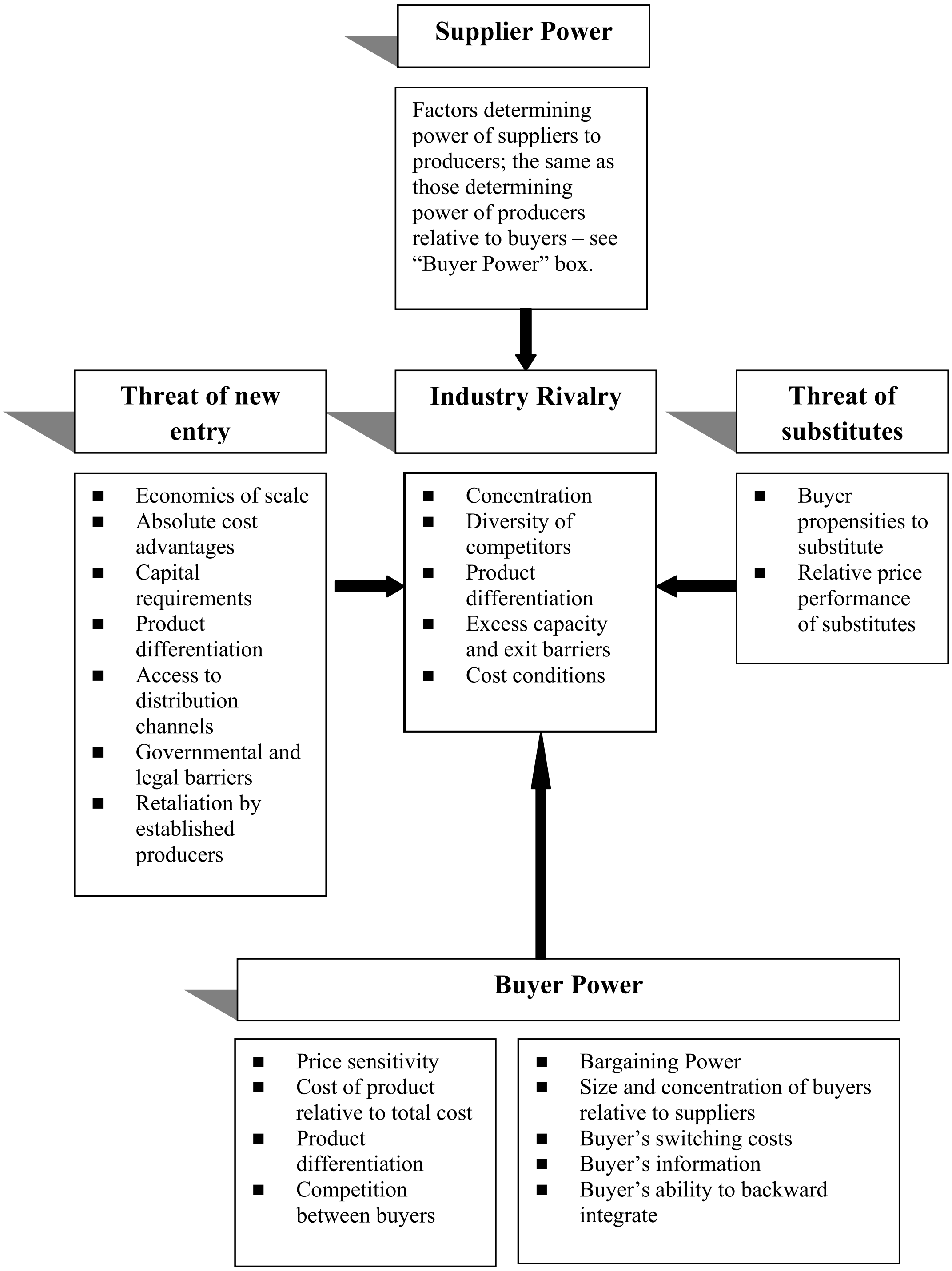
2. *The power of buyers* – is likely to be high when there is a concentration of buyers, particularly if their purchase volumes are high.

3. *The power of suppliers* **–** is likely to be high when there is a concentration of suppliers rather than a fragmented source of supply, the switching costs from one supplier to another are high, if the brand of the supplier is powerful, the supplier's customers are fragmented with low bargaining power.

4. *The threat of substitutes* – may take different forms. There could be product-for-product substitution, substitution of need by a new product or service rendering an existing product, generic substitution where products compete for need, or the so-called doing without substitute.

5. *Competitive rivalry* – the most competitive conditions will be those in which entry is likely, substitutes threaten and buyers or suppliers exercise control. However, there are also other forces that affect competitive rivalry including: the extent to which competitors are in balance by means of having roughly equal size, market growth rates and conditions in the market, the existence or development of global consumers, high fixed industry costs, differentiation, acquisition of weaker enterprises by stronger enterprises, or high exit barriers.

Figure 2.6: Porter's Five Forces



Source: Grant, R.M. (1998), p.58

In accordance with Porter, the analysis of the present industry structure as well as identification of all the uncertainties that might affect it, such as competitive forces, represent the starting point in construction of scenarios.[28]

By applying the Five Forces model, insight can be obtained about the forces at work in the industry environment of an organization. The industry forces are of great importance for an enterprise's strategy, as they directly influence the success of a strategy. To focus the analysis, and to ensure that a comprehensive insight into the industry is obtained, the following questions can be posed:[29]

- What are the key forces at work in the competitive environment?
- Are there underlying forces, which are driving competitive forces?
- Is it likely that the forces will change, and if so, how?

2.3 Scenario Analysis - *Identifying competitive position*

In this step, a deeper analysis of the findings should be carried out. With regard to this matter the theory on scenario-analysis has been identified as a useful tool for our case study. Scenario analysis is not a forecasting technique but a process of thinking and communicating about the future. Its principal value lies in combining interrelated impacts of a wide range of factors into a few distinct alternative stories about the future.[30]

"A scenario is an internally consistent view of what the future might turn out to be."[31]

As shown in 3.2.1 "Assess the Nature of the Environment", the scenario analysis is useful when a high level of uncertainty characterizes the environment. Furthermore, scenario planning is useful in situations where a long-term view of the strategy is undertaken, minimum five years. Scenarios try to build probable views of different possible futures, based on key environmental influences and drivers of change already identified.[32] By constructing multiple scenarios, an enterprise can explore the possible consequences of uncertainty for its choice of strategies in a systematic way.

[28] Porter, M.E. (1985)
[29] Johnson, G., and Scholes, K. (1997)
[30] Grant, R.M. (1998)
[31] Porter,M.E (1985) p. 446
[32] Johnson, G., and Scholes, K. (1997)

The scenario technique is therefore a powerful device for taking account of uncertainty in making strategic choices.[33]

A distinction can be made between scenarios developed for the macro environment and scenarios for the industry environment. Traditionally, scenarios have been developed for the macro environment. However, industry scenarios have proven to be more valuable for the enterprise since they allow the organization to translate uncertainty into its strategic implications for a particular industry. When scenarios for the industry environment are developed, macro environmental factors are not analyzed for their own sake, but for their implication on the industry environment. To be able to construct scenarios, the number of environmental uncertainties has to be low. The most critical factors of the future therefore have to be identified.[34]

2.4 SWOT Analysis - *Identifying key opportunities and threats*

A SWOT analysis summarizes the key issues from an analysis of the business environment and the strategic capability of an organization. The SWOT framework distinguishes between two features of the enterprise's external environment - opportunities and threats, and two features of its internal environment - strengths and weaknesses. Knowledge about these factors helps in identifying the extent to which the current strategy of an enterprise and its specific strengths and weaknesses, are relevant to, and capable of dealing with, the changes taking place in the business environment.[35]

From the scenario analysis different opportunities and threats can be identified, which will have an impact on the enterprise. By identifying key opportunities and threats for each scenario, the environmental analysis is summarized and an overall picture of the situation is presented.[36] The SWOT analysis will, by comprising the main factors of the business environment and the enterprise, identify gaps and show what the enterprise should focus on in the future.

2.5 Enterprise strategy - *Strategic position*

For a strategy to be successful, it must be consistent with the enterprise's internal as well as external environment. Lack of consistency is actually a

[33] Porter, M. E. (1985)
[34] Johnson, G., and Scholes, K. (1997), and Jansson, H. (2000)
[35] Johnson, G., and Scholes, K. (1997)
[36] Johnson, G., and Scholes, K. (1997)

common source of failure. The strategy is concerned with matching an enterprise's resources and capabilities to the opportunities that arise in the external environment.[37] The general principles of the "strategic fit" concept between the external environment and the resource base of an enterprise, may guide the enterprise when making its strategic choice.[38] Since the starting point in the formulation of an enterprise's strategy is the statement regarding its identity and purpose, an evaluation of the enterprise's goals and values is necessary. This is even more relevant in the case of a changing external environment, as they provide a basis for the enterprise to define its identity.[39]

2.5.1 Resource Based Strategy

Strategy is concerned with matching an enterprise's resources and capabilities to the opportunities that arise in the external environment. In general the greater the rate of change in an enterprise's external environment, the more likely resources and capabilities are to provide a secure foundation for long-term strategy.

The resource based view conceives of the enterprise as a unique bundle of heterogeneous resources and capabilities, on which competitive advantage is built, meaning that an enterprise should exploiting its differences compared to other enterprises. Each enterprise is a unique collection of highly differentiated resources and capabilities. Formulating and implementing a strategy that recognizes the unique features of the enterprise can achieve advantage. Valuable resources are the result of patterns, brands, distribution channels, experience, economies or other resource that only can be acquired slowly or at disproportionate expense.

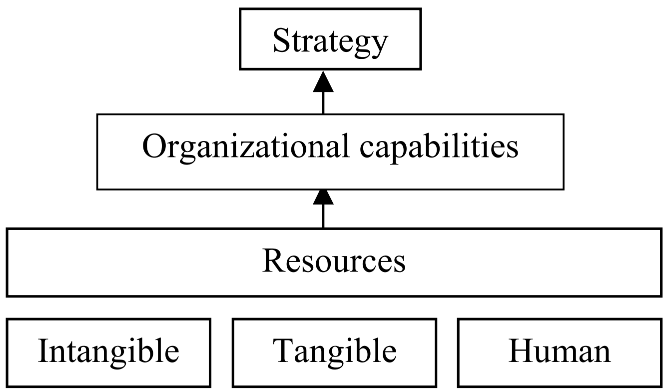
The essence of the resource-based approach is that the enterprise should seek self-knowledge in terms of a thorough and profound understanding of its resources and capabilities. Such a resource-based approach to strategy should comprise three key elements:

- Selecting a strategy that exploits an enterprise's principal resources and capabilities.

[37] Grant, R.M. (1998)
[38] Johnson, G., and Scholes, K. (1997)
[39] Grant, R.M. (1998)

- Ensuring that the enterprise's resources are fully employed and their profit potential is exploited to the limit.
- Building the enterprise's resource base, as resource analysis is concerned also with filling in resource gaps and building the enterprise's resource base for the future.

Figure 2.7: The relationship among resources, capabilities and strategy



Source: Grant, R.M. (1998), p.113, modified

2.5.1.1 Resources

The basic units of analysis are the individual resources of the enterprise: skills of individual employees, patents, brands, items of capital equipment, etc. Resources are usually divided into three different groups:[40]

- *Tangible Resources*: They are the easiest to identify and evaluate, including financial resources and physical resources.
- *Intangible Resources*: Over time intangible resources are very important in terms of their contribution to value added and as a basis for competitive advantage, including technology, reputation and culture
- *Human Resources*: which are the productive services human beings offer to the enterprise in terms of their skills, knowledge, and reasoning and decision-making abilities. Human resources are usually durable and created through investment in education and training.

2.5.1.2 Capabilities

The second level of analysis is to look at how resources work together to create capabilities. The performance of different enterprises in one industry is usually

[40] Grant, R.M. (1998)

not explained by differences in their resources, but in the way in which the resources work together to create capabilities. An enterprise needs to have several capabilities, though only some of them will be core ones in the competition with other enterprises. Core capabilities are hard to imitate, otherwise, they are not providing long-term advantage.[41]

To examine the capabilities of an enterprise, some classification of its activities is necessary. A common approach used is the functional classification, which identifies organizational capabilities in relation to each of the principal functional areas of the enterprise. Organizational capabilities refer to an enterprise's capacity to undertake a particular productive activity. Generally, capabilities tend to be organized hierarchically, some are highly specific relating to a narrowly defined task, and others involve the integration of a number of more specific capabilities. Before identifying an enterprise's core capabilities, the need is to identify what capabilities an enterprise poses.[42]

2.5.1.3 Developing the resource base of the enterprise

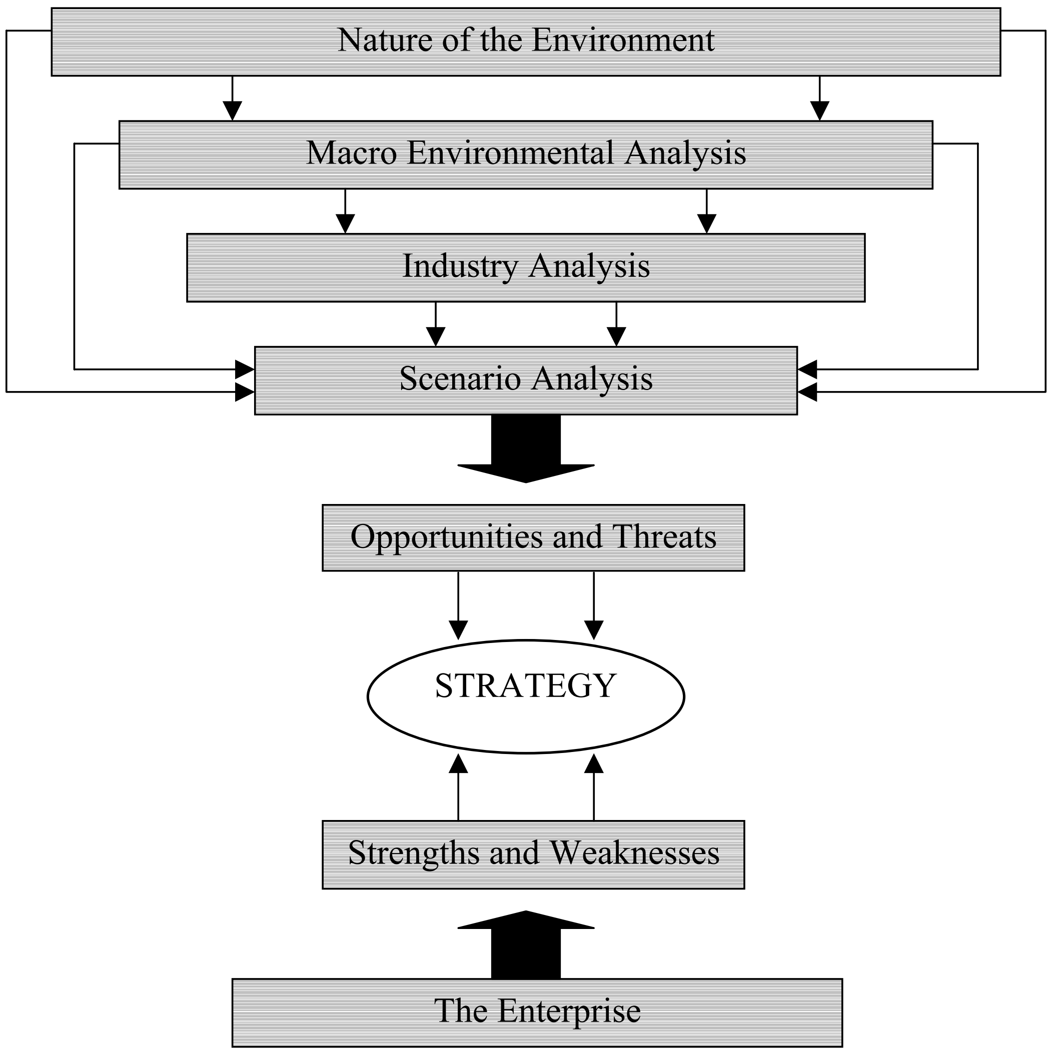
Strategy is also about building the enterprise's resource base to extend its competitive advantage in the future. The conventional approach to resource building has focused on gap analysis. Having evaluated an enterprise's resources and capabilities with regard to relative strengths and weaknesses, the enterprise formulates a strategy that most efficiently uses the enterprise's resource strengths against the key success factors in the enterprise's industry environment. Comparing the strategy against the enterprise's resources and capabilities may reveal certain resource gaps that need to be closed if the strategy is to be most effective in building competitive advantage

[41] Johnson, G., and Scholes, K. (1997)
[42] Grant, R.M. (1998)

2.6 Own Framework for the Case Study

In order to undertake this case study, we developed our own theoretical framework, presented below.

Figure 2.8: Case Study Framework



Source: Own Elaboration

3. Methodology

The purpose of this chapter is to explain and describe how the study has been undertaken. This section is meant to guide the reader through the thesis and empower him with the right understanding concerning our proceedings. Therefore, we describe the research strategy and design, the scientific approach of our study, how the data was collected, and finally we discuss the quality of our research in terms of validity and reliability.

3.1 Research Strategy

Within the field of social sciences, there are five major research strategies: experiments, surveys, archival analysis, histories, and case studies. Which strategy is chosen depends on the nature of the study and on the questions asked. The nature of a study can be *exploratory*, *descriptive*, and/or *explanatory*. The questions can be formulated as ”how”, ”why”, ”what”, or ”where”.[43]

Our main research question was formulated as a ”what” - question: ”What are the future strategic implications for an enterprise active on the Swedish alcohol market as a result of external environment influences?” Our main research question asks how the external environment influences the strategic choice of an enterprise. The nature of our study is therefore explanatory, explaining cause-and-effect relationships between the macro environment, the industry environment and the enterprise central to our case study.

3.1.1 Case Study

Since our main research problem is of explanatory nature, and we study a contemporary event within a real-life context where we cannot manipulate the relevant behavior, the choice made was to undertake a case study.

The single most defining characteristic of case study research lies in the delimitation of the object of study. If the phenomenon of study is not intrinsically bound, it is not a case study.[44] The boundaries between the phenomenon and the context in a case study are, however, usually not clearly evident. Boundaries in our case study were stated in the research problem delimitation part, and included: the limitation to the wine and spirits segments

[43] Yin, R.K. (1994)
[44] Merriam, S.B. (1998)

of the alcohol market, the limitation to one geographical area of investigation - Sweden, and the limitation of strategy research of only one enterprise active on the Swedish market. The beer segment of the alcohol market was not considered, neither the alcohol industry outside Sweden or the strategies of other enterprises present in the market.

The case study research strategy enabled us to obtain a holistic view, and a deep penetration into the complex situation of the Swedish alcohol market. The results of our study could be directly applied effectively since it was undertaken in a real-life situation. Though, the case study strategy has its critics. The greatest concern is usually that there is a lack of rigor of case research, as researchers' biased views may influence the direction of the findings and conclusions. In order to avoid this, we have worked hard on reporting the entire evidence fairly, and explaining the research design and data collection process. Another common concern about case studies is that they provide little basis for scientific generalization. Case studies are not statistically generalizable, however they are analytically generalizable and allow the expansion and generalization of theories. Finally, case studies have often been accused of taking too long, costing too much, and resulting in massive, unreadable documents. In the past this has very often been the case, but today, it is possible to conduct case studies within a shorter period of time, without a huge budget, and avoiding the traditional, lengthy narrative document.

3.1.2 Qualitative research

A case study strategy can be qualitative or quantitative. In a quantitative study, a phenomenon is taken apart in order to investigate parts separately.[45] The aim of our study was not to investigate separate components, but the whole entity, and therefore a qualitative research method was chosen. By conducting qualitative research, we could reveal how all the parts worked together to form an entity. From the qualitative case study we identified influences from the macro environmental analysis on the competition in the industry, and future industry scenarios could be developed in accordance with changes in the macro environmental setting. Furthermore, we analyzed the compatibility of an enterprise's strategy within the scenarios created.

[45] Merriam, S.B. (1998)

3.1.3 The Enterprise

We have chosen Allied Domecq as the enterprise central to our case study, since it is active in both the wine and spirits segments of the Swedish alcohol market, and has a wide portfolio of brands, which are very big worldwide. The enterprise is actually one of the major actors in the global alcohol industry.

At the moment Allied Domecq is undergoing quite big changes in its global marketing structure and marketing strategies, at the same time as the future of the Swedish alcohol market is unstable. The external environmental analysis and scenario creation are therefore important in order to determine the future strategy of Allied Domecq in the Swedish market.

3.2 Research Design

There are four basic types of design for case studies. Distinction is made between single and multiple-case designs, and between holistic (single unit of analysis) and embedded (multiple units of analysis) designs.

3.2.1 Single-case study

Prior to any data collection the researcher has to decide on whether a single-case study or multiple cases are going to be used to address the research questions. We made the choice of undertaking a single-case study in order to get an in-depth understanding of the phenomenon. The Swedish alcohol market constitutes a unique case, the specific conditions of the Swedish alcohol market are similar, but not identical to any other case, making the situation of enterprises active in this industry unique, implying that a single case study design is suitable. Therefore, the Swedish alcohol industry represents our single-case study.

3.2.2 Embedded Design

When the decision has been made whether to use a single-case study or multiple cases, the number of units for analysis has to be settled. As mentioned above, it is possible to use a single unit of analysis (holistic design) or multiple units of analysis (embedded design). Since several sub-units were to be analyzed in our study, we have chosen an embedded design. Our study consists of the sub-units macro environment, industry environment and enterprise strategy. These units are first investigated separately, and then combined in a final analysis.

3.3 Scientific Approach

3.3.1 Nature of the Case Study

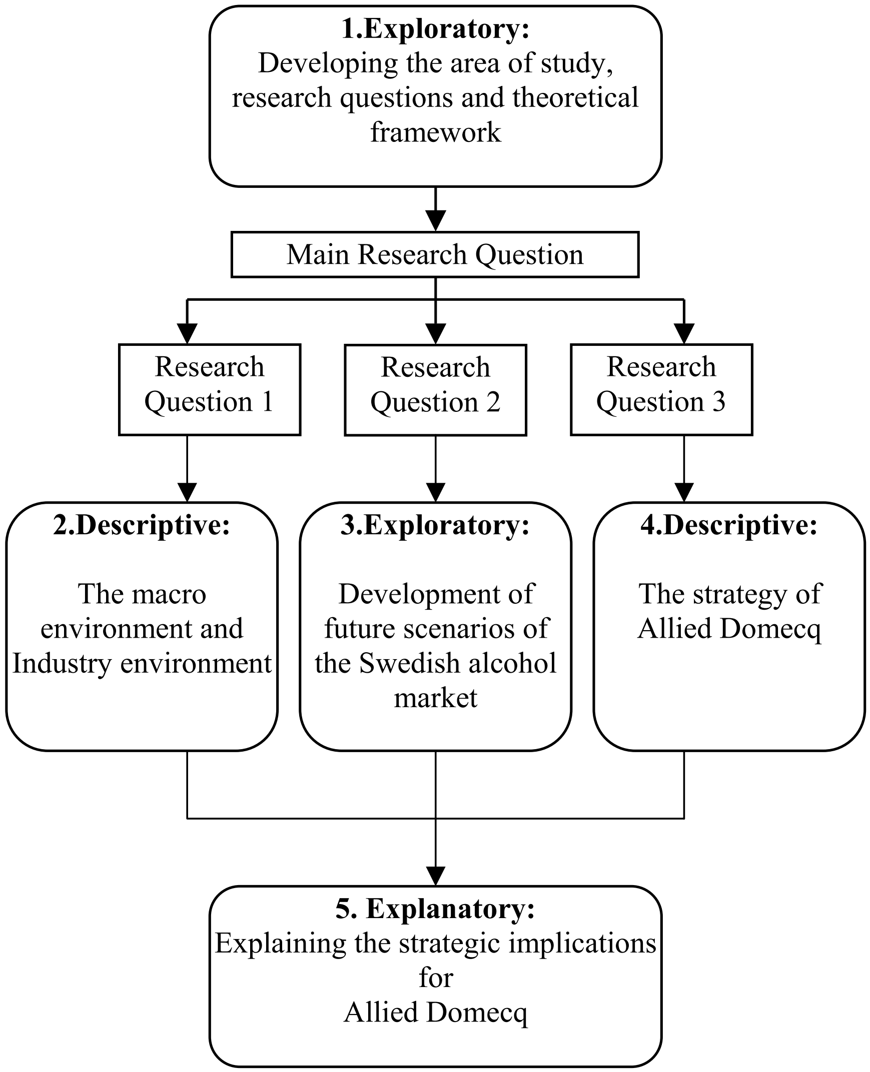
A case study can be inductive, deductive or abductive. An inductive case study aims at developing new theory for a specific topic, where any previous theories are lacking.[46] When the aim of a case study is to verify already existing theory, the study is of deductive nature. We have used a combination of the inductive and deductive approach. We are not developing new theory, nor are we testing one existing theory. Instead we combine previous theoretical concepts in accordance with our empirical study. Within the field of business environmental analyses, industry analyses, scenario development and enterprise strategies there are a number of different theories. In order to identify a theoretical framework of relevance to our case study, existing theories were combined and developed into one single framework. Existing theories were mixed in order to suit our specific case. The nature of our case study is therefore abductive.

3.3.2 Research Approach

As stated at the beginning of this chapter, a study can be exploratory, descriptive or explanatory. An *explanatory* approach was undertaken in order to answer the main problem statement of our study. However in order to explain the cause-and-effect relationships, different approaches were required for different sub-units of our study. The different approaches of our study in relation to our research problems are shown in Figure 3.1.

[46] Merriam, S.B. (1994)

Figure 3.1: Our Research Approach



Source: Own elaboration

At the beginning of our case study an *exploratory* approach was undertaken in order to identify, define and structure the research problem. Literature was reviewed, and discussions were carried out with Mrs. Hanna Nätt, our contact with the enterprise. Since Allied Domecq at the moment was going through significant strategic changes, we decided to focus on the business environment to get a profound understanding of the enterprise's situation in the Swedish alcohol market. By studying different theories and the particular situation of our case study enterprise, a theoretical framework was developed. During our study, as we gained knowledge and understanding of the phenomenon under study, the theoretical framework was on occasions modified to suit our specific problem.

To answer our sub-research questions a *descriptive* approach was undertaken, illustrating the complexity of the situation, and the influences of several factors and institutions. Since a part of our purpose was to get in-depth understanding of the Swedish alcohol market, a lot of time and space was devoted to describing the situation. Attention was concentrated on the external environment of the enterprise, however, its internal environment was also studied in form of goals, values, resources and capabilities in order to identify strengths and weaknesses, in relation to sub-research-question three. The approach of both sub-question one and three was therefore *descriptive*.

In the process of learning about the future of the Swedish alcohol market, related to our second sub-question, an *exploratory* approach was suitable. Different possible developments were explored and developed into future scenarios. We concluded the thesis by a SWOT analysis, to illuminate the reader's understanding of the phenomenon under study, and develop implications and recommendations from the cause-and-effect relationships between different factors, answering our main research problem, being of *explanatory* nature.

3.4 Data Collection

In qualitative case studies different data collection strategies, including interviewing, observing and analyzing documents, are often used. Furthermore, only by using multiple sources of information, a reliable and comprehensive understanding may be achieved. Hence, even though the three techniques mentioned above are not equally used, their combination by means of using different data sources provides the possibility to validate and cross check findings. With regard to data sources used for data collection, a distinction between primary and secondary sources has to be made, as they will generate two different types of data: primary data and secondary data.[47]

3.4.1 Primary Data

Primary data is new data that has not been used before, collected in order to solve a specific problem. It may consist of interviews and observations. While observations offer a firsthand explanation of the circumstances of interest, the main purpose of interviews is to obtain a special kind of information. Therefore, our main technique of collecting primary data has been represented

[47] Merriam, S.B. (1998), and Yin, R.K. (1994)

by interviews, which were complemented by direct observations made on relevant occasions. The observational evidence has provided additional evidence on the subject studied. We tried to increase the reliability of the observational evidence by participating always together in the observation process. The collection of primary data has been entirely effectuated in Sweden.

With regard to the structure of the interviews conducted, which included personal and telephone interviews, we have combined unstructured interviews with semi-structured interviews. In fact, we have carried out only one unstructured interview in the beginning of the research, which made use of flexible, exploratory questions, followed by a series of semi structured interviews that used a mix of more or less structured questions. In some cases the interview questions were sent to the interviewees in advance, when they explicitly have been requested or when specific figures were needed. But in general we avoided this technique as we strove to catch an accurate and spontaneous glance of their opinions regarding the matters discussed during the interviews. A full list of our interview questions is presented in Appendix1.

We have carried out the personal interviews in the following three cities: Stockholm, Gothenburg and Västerås. The telephone interviews have been conducted with EU authorities located in Brussels, Belgium. All interviews, personal and telephone, have been conducted in English. The interview data in both cases has been recorded by tape-recording the interviews. We have used tape recorders with the permission of the interviewees in order to provide accurate versions of the interviews. This has also allowed us to accomplish our goal of focusing more on the person's individual reactions during the interviews. However, we have taken notes additionally in personal interviews, while the data recorded during the direct observations has taken the form of field notes.

As previously mentioned, our first interview was of unstructured nature. It was conducted at Handelshögskolan in Gothenburg at the end of October, with the aim to achieve a better understanding of the research problem. In order to attain an overall picture of the Swedish alcohol industry and its external environment, Mr. Gabriel Romanus, former director of the Swedish alcohol retail monopoly Systembolaget and former Social Minister in Sweden, today the chairman of NordAN - a network of different forces and organization for restrictive alcohol policies in the Nordic and Baltic states, was interviewed. We based our selection on Mr. Romanus long experience and particular opinions concerning different matters in the alcohol related field found in different newspapers and books.

During the same week in Gothenburg, at Svenska Mässan, a trade fair took place where a particular Wine and Spirits exposition was organized. The "Wine and Spirits Expo" comprised the majority of actors active in the Swedish alcohol industry, including our case study enterprise, Allied Domecq. The purpose of our participation in this fair was gathering observational data concerning the present alcohol market. We acquired an accurate insider view since participation in the fair was allowed only for representatives of the licensed wine and spirits enterprises present in the market, and not for the general public. We recorded our observations by taking field notes. During the entire period of the study, both in Gothenburg and in Stockholm, we have made regular visits with observational character in Systembolaget's stores, in order to evaluate the changes that Systembolaget is currently undergoing and their impact on the market.

The interviews that followed took place during the first half of November, and comprised a wide spectrum of specialists in the alcohol area. All interviews were of semi-structured nature. Mrs. Margareta Nyström, Communications Vice President at Vin & Sprit AB was the second person that we interviewed during the study. The reason for undertaking this interview was to get a view of the Swedish alcohol industry from one of longest and most powerful players on the market – Vin & Sprit.

During the next interview we shifted the focus from the industry to the macro environment overview. Numerous professors and researchers in the alcohol research area, because of his vast experience in the alcohol field encompassing Europe and the USA, warmly recommended the person selected for this interview, Dr. Robin Room. Previously working in Canada, Dr. Room is at present Director of SoRAD - Center for Social Research on Alcohol and Drugs, located at Stockholm's University, where we conducted the interview.

After collecting primary data of more general character, we shifted the spotlight during the next two interviews to our case study enterprise, Allied Domecq. The purpose of the two interviews carried out with the enterprise, at their headquarters in Stockholm, was to gather data concerning the enterprise and its activities, on a global level as well as on the local level, and the present alcohol industry situation in Sweden. Mrs. Hanna Nätt, Marketing Executive at Allied Domecq AB, recommended the persons interviewed with regard to these matters in accordance with their actual and previous experience within the enterprise and the alcohol industry. Mr. Mike Pettersson, Key Account Manager and Mrs. Pia Jääskeläinen, Marketing Manager for the Nordic & CIS area offered a valuable insight into the enterprise and of the Nordic market with emphasis on Sweden. We attained in this way not only an overview of the specific Swedish market but also a wider Nordic approach.

Mr. Lennart Agén – Corporate Communication Manager Director at Systembolaget was the subject of our sixth interview. Since the retail monopoly is currently undergoing substantial changes, the interview focused both on present and future issues of interest. Carried out at Systembolaget's headquarters, the interview brought us valuable information concerning the present situation of the alcohol industry and the monopoly's new orientation.

In order to gather accurate information about the black market and personal imports of alcohol in Sweden, and their possible future development, we conducted a second interview at SoRAD. The Center for Social Research on Alcohol and Drugs is the only institution that undertakes research in this area being sponsored by the government. This time the researcher interviewed was Mr. Håkan Leifman.

Mr. Bertil Swartz, the Director General of the Swedish Spirits & Wine Suppliers – SVL, provided a useful and realistic insight of the alcohol industry. The interview with Mr. Swartz was carried out in Västerås. Our last personal interview was conducted with Mr. Esa Österberg, Senior Researcher at STAKES, the Alcohol and Drug Research Group in Finland. The aim of the interview was to attain an external opinion of the Swedish alcohol industry embedded in the Nordic approach, and was held in Gothenburg.

We concluded the collection of primary data with telephone interviews carried out with EU officials. Mr. Freddy De-Buysscher from EU Taxation and Customs DG was the person who made the first recommendations when selecting the appropriate persons for the interviews. Two Directorate Generals have been identified here as having primary importance: the Taxation and

Customs DG and the Internal Market DG. The officials interviewed were: Mr. Erik Degerbeck from Internal Market DG responsible for monopoly related issues, Mr. Jan Vangheluwe from Taxation DG in charge of indirect taxation matters, Mr. Erik Bertil Vagnhammar from Internal Market DG accountable for marketing and advertising, and Mr. Micke Hermas from Competition DG responsible for competition aspects.

3.4.2 Secondary Data

Secondary data is data that already exists, being previously collected for another purpose. Examples of secondary data include: books, articles, journals, previous studies and statistics. In the present research we have made use of a large and at the same time broad amount of secondary data. In order to find and select the appropriate theories for the present research, and also to get a good understanding about existing theories, an extensive amount of literature concerning environmental analysis, scenario analysis, and competitive strategies has been examined. At this point, the Gothenburg University Library represented our main source of literature.

Furthermore, in order to get a correct understanding of the Swedish alcohol market, we gathered a large amount of secondary data from a multitude of sources. The data selection process was done in accordance with the theories previously mentioned. In order to get hold of the right and most recent material, we conducted e-mail correspondence with several professors, authors and researchers in the studied field including: Mr. Harold Holder (Prevention Research Center), Mr. David Chamowitz (ICAP) and Mrs. Mary Fry (Pennsylvania Liquor Control Board) in the USA, Dr. Caroline Sutton (The National Institute for Alcohol and Drug Research) in Norway, Mr. Timo Kortteinen (STAKES), Mr. Pekka Sulkunen (STAKES), Mr. Christoffer Tigerstedt (STAKES), Mrs. Lea Hällström (NAT) in Finland, Mr. Eckart Kühlhorn (SoRAD), Mrs. Maria Renström and Mr. Gert Knutsson (The Swedish Social Department), Mrs. Harriet Nyman and Mr. Robert Gidehag (Handelns Utredningsinstitut) in Sweden. In addition, e-mail correspondence with Mr. Freddy De-Buysscher and Mr. Geert Roosens from EU Taxation and Customs DG has been undertaken, as well as with Mrs. Viviane Andersson from the Swedish National Tax Board and Mr. Christopher Jarnvall from Alcohol Update, a Swedish newsletter.

The material was collected from several University libraries in Sweden, the Internet, business magazines and newspapers, scientific conferences held on alcohol related matters, and other publications. Furthermore, the enterprise, Allied Domecq AB, provided us with specific material concerning its strategy and activities in the alcohol industry, beside the access to the enterprise's extranet.

3.4.3. Triangulation

The accuracy level of any finding or conclusion in a case study increases, if based on several different sources of information. Thus, a major strength of the case study data collection is the opportunity to use many sources of evidence. The process of combining findings from different sources in order to reach a conclusion is called triangulation.[48]

We have used triangulation of data sources, data triangulation, to ensure a high level of accuracy of our findings and conclusions. The sources of evidence used, including primary and secondary sources, and their convergence are aimed to increase the validity of the study and deal with possible problems that may appear here. Therefore, the information was collected from multiple sources from different regions, including the European Nordic area and the USA, aimed at supporting the same fact or phenomenon. We use data triangulation by combining findings from a huge amount of different sources to analyze and reach a conclusion.

Due to the vast amount of different sources used, we have, in cases where the sources claim the same thing, chosen not to state them when presenting the results from our case study. However specific information is backed up by its particular source.

3.4.4 Data Analysis

Data analysis is a complex process of making sense out of the collected data, and comprises the understandings and meanings achieved into the findings of the study. In a qualitative study data collection and data analysis should be a simultaneous process,[49] which has been the case in our research, as the entire data has been constantly analyzed while it was collected. Since the goal of data analysis is to communicate understanding derived from various sources of data

[48] Yin, R.K. (1994)
[49] Merriam, S.B. (1998)

collected, data management plays an important role here. As our collected data was derived from multiple sources, including interviews, field observations and documents, we paid special attention to the data management procedure. Due to its considerable amount, all the material collected has been carefully organized in order to be easily retrievable in a formal case study database. This increased our case study reliability. We have analyzed the entire data collected in accordance with, and following the theories presented in the theoretical chapter of the thesis. Thereafter, based on our analysis we have drawn conclusions, which have been comprised in future scenarios. We concluded the data analysis by giving practical recommendations for the enterprise in juncture with the scenarios created.

3.5 Quality of the Research

In order to guarantee high quality of a case study, it is important to ensure validity and reliability in the research, which implies conducting the study in a right way.[50]

3.5.1 Validity

When appraising the validity of a research project, three distinctions can be made, between internal, construct and external validity concepts.

The meaning of reality represents the pivot of internal validity, which measures how well the research findings match reality, and if the researchers have really measured what they thought they have measured.[51] We believe that the *internal validity* of the present study has been successfully enhanced, as we made use in this sense of four basic strategies: triangulation, researcher's biases, member checks, and repeated observation. While triangulation has been previously discussed, the researcher's biases strategy aims at clarifying researcher's assumptions, world-view and theoretical orientation at the study outset.[52] The bias refers mainly to the subjectivity of the researcher when interpreting the material collected. As we are two researchers whose assumptions and world-view differ to a great extent due to our nationalities and dissimilar cultural backgrounds, the subjectivity bias in the interpretations made has been almost totally avoided. In addition, we have recorded differences with regard to our theoretical orientation.

[50] Merriam, S.B. (1998), and Yin, R.K. (1994)
[51] Merriam, S.B. (1998)
[52] Merriam, S.B. (1998)

Concerning the member checks strategy practiced, the data collected from interviews and the cautious interpretations that we have made upon it, were sent back to the persons interviewed for confirmation. By carrying out this practice continuously during the research we tried to avoid any type of misunderstandings. The comprehensive answers that we got back, confirmed the efficiency of this strategy. Furthermore, we have gathered certain analysis data over the entire research period of time, making repeated observations of the same phenomenon on different occasions, integrating in this way the repeated observation strategy. In conclusion, all the factors confirmed above assure the internal validity of our thesis.

To meet the *construct validity* the researcher has to ensure that he used the correct operational measures and objective judgments when collecting data.[53] In our thesis we make use of three specific strategies meant to increase construct validity. Firstly, the triangulation process, as a relevant tactic in data collection has guaranteed the use of multiple sources of evidence. Secondly, our thesis supervisors have reviewed the study draft. Thirdly, we developed a formal database, making the data easily retrievable, maintaining at the same time a chain of evidence throughout the study to allow tracing the source of evidence from initial research questions to conclusions. Furthermore, we used a theoretical model when collecting secondary data, and we based and derived from theories the interview questions employed when gathering primary data. The people that we have interviewed have been carefully selected, based on certain criteria in advance established, such as actual and previous occupation, level of influence, etc. We believe that we have managed to interview the most appropriate people, also because in our selection process we have taken into consideration the recommendations made by acknowledgeable researchers in the alcohol field.

External validity is concerned with the problem of identifying if the study's findings can be generalized beyond the immediate case study, and also the extent to which they are generalizable.[54] We believe that our research findings can be generalized to other enterprises active on the Swedish alcohol industry that are similar in nature and scope to the enterprise central to our case study. Evidently, the future scenarios presented as a result of the environmental analysis conducted and their opportunities and threats are generalizable for all

[53] Yin, R.K. (1994)
[54] Yin, R.K. (1994)

the enterprises present in the Swedish market. To a great extent the particularistic characteristics of the Swedish alcohol market play here a major role. Although, the recommendations provided may be not generalized to the same extent since they are more enterprise specific.

3.5.2 Reliability

The reliability of the research findings is a measure of the extent to which they can be replicated if another researcher follows the same procedures as the ones used in the present study.[55] In qualitative research the issue is whether the results are consistent with the collected data.[56]

Since the biases of the present study as well as the possible errors that could arise have been generally avoided by the use of different techniques, we believe that our research has a high degree of reliability. A later researcher undertaking the same case study, following the same procedures and using the same documentation as we did, will most certainly arrive at the same findings and conclusions. Thus, we have carefully stored, categorized, and in detail presented the entire documentation. The period in which we have conducted the research is important due to the fact that the majority of the external factors and influences in the alcohol industry environment were on a possible changing path. We also provided a complete list of references for the data collected, along the list of questions used in our interviews. We believe this has increased the reliability of our study. Furthermore, the reliability is sustained by the consistency of our findings and conclusions with the data collected, and by the detailed description that we have given on how the study was conducted.

[55] Yin, R.K. (1994)
[56] Merriam, S.B. (1998)

4. Empirical Study

In this chapter we present the evidence from our study of the Swedish alcohol market and Allied Domecq. Findings in the macro environment are presented first, followed by a presentation of the alcohol market and finally ending with the enterprise for our study. The focus is on the business environment of Allied Domecq, representing a bigger part than the actual enterprise study.

4.1 Macro Environment

When studying the macro environment, we have classified it into four major segments: political, economic, social and technological. The political segment constitutes a major part of the macro environmental influences on the Swedish alcohol market, while the technological influences are less significant. When conducting our empirical study of the macro environment, we followed the four stages of the institutional approach to environmental analysis, described in the theoretical framework. The stages contain identification, description, explanation and prediction of the institutions.

4.1.1 Political

In this segment we deal with the political setting and regulatory framework of the Swedish alcohol market.

4.1.1.1 World Trade Organization

Since Sweden is a World Trade Organization member that has a public health focused alcohol policy, an influential factor arises from the incompatibility between the public health focused alcohol regulation and the WTO's services treaty - GATS.

The *General Agreement on Trade in Services (GATS)* is a multilateral framework agreement that contains legally enforceable restrictions related to services, on the government actions of all World Trade Organization members. In the international alcohol sector services include: the production and transportation of grain, alcohol production, bottling and distribution, marketing and advertising of alcohol, alcohol products serving, and also the research on the public health impacts of alcohol consumption. GATS was adopted in 1994, being re-negotiated by member states last time in February 2001. The re-negotiation process aims at broadening the number and type of services covered by the agreement and place greater restrictions on the scope of government's regulatory ability, including the services related directly or indirectly to alcohol. If adopted, these negotiations are expected to affect alcohol policies considered to be effective in protecting public health to a great extent. The European Commission supports GATS expansion, and the liberalization of countries' alcohol distribution systems.

GATS is very broad and complex, covering most public services and all governmental measures that affect the supply of services with some international component. The agreement prohibits governments from treating preferentially domestic services and suppliers. It has three important provisions of general application relevant to the alcohol sector, and other additional conditional obligations applicable in sectors where a member state has undertaken specific commitments.

The impact of international trade treaties on governmental alcohol monopolies and taxation regimes has proven to be significant over time. Therefore, GATS could play a more important role in this aspect since it extends beyond international trade measures, applying explicitly to non-discriminatory domestic regulation of alcohol at all government levels. The general features and specific aspects of the treaty are expected to increase alcohol market liberalization. Therefore, the issues of central importance discussed during current re-negotiations will be presented below.

Some of the activities of *alcohol monopolies*, sustained by a public health strategy intended to minimize the harmful effects of alcohol consumption, may contravene GATS rules (Article VIII). Also, member countries' specific commitments on distribution services, which include the alcohol distribution, are here of importance as the alcohol monopoly may become subject to the GATS national treatment and market access obligations in franchising, wholesale or retail sales (Article XVI, XVII). Since member countries can exclude alcohol from any specific commitments they make on distribution services, Sweden has excluded alcohol at the retail level (WTO, 1994c). This exemption contrasts with the European Union's initial specific commitments, and therefore could be undermined by the European Commission's current GATS negotiation proposals targeted at reducing trade barriers in alcohol distribution services.

Furthermore, the prohibitions or *restrictions on alcohol advertising* as means of reducing alcohol related harm, appear to be contrary to GATS rules since they may contravene with member countries' commitments on national treatment and market access (Article XVI, XVII). Under these circumstances, it represents a tough test for Sweden to maintain its alcohol-advertising ban.

Sweden made extensive specific commitments on advertising services in the GATS in 1994. While Sweden has excluded alcohol at the retail level in the distribution services sector, the country has not excluded alcohol advertising from its specific commitments in advertising services. As a result, GATS market access and national treatment rules are now applying to advertising services. Moreover, under the current re-negotiations in a dispute arising over the public health or other GATS exemptions, it may become compulsory for a member country not only to prove that the advertising restriction is necessary, but also that it represents the least restrictive trade measure available. Noticeable is the fact that the European Court of Justice has already attacked the Swedish alcohol ban on similar grounds, the final decision being left with the national court. This issue will be discussed in a later part of the thesis.

Government's control over the access to alcohol, by means of restrictions on alcohol access and availability might also be attacked under GATS regulations, where member countries make unlimited specific commitments in the distribution services sector. This is especially true in cases where such measures have the effect of modifying the competition conditions, and favor domestic services or suppliers.

Many of the international health based alcohol initiatives taking the form of public policy measures that are most effective in protecting public health came in conflict with the existing GATS rules. The conflict may become even greater if more liberal proposals are adopted in current negotiations regarding GATS rules. This is due to the fact that the health based alcohol policy has become unsolvable linked to trade policy, and sometimes they are in direct conflict.

Due to all the reasons mentioned above, defending national and local alcohol control measures from further GATS erosion will be a difficult task.

4.1.1.2 World Health Organization

The World Health Organization (WHO) is in contradiction to the WTO promoting restriction in the field of alcohol protection. In the beginning of the 1980s, the WHO-plan on Health for year 2000 was accepted by its members. This plan showed the importance of the alcohol question, and in the European version the goal was set to lower alcohol consumption by 25%.

In 1992, the European region of the WHO accepted the first alcohol-political plan: *The European Alcohol Action Plan*. All European Union member states supported the plan, and it has therefore become an important document both in the Swedish alcohol-political debate and in the dialogue between Sweden and the EU. Sweden has been able to refer to the plan in support of its restrictive alcohol policies. However, one of the weaknesses of the decisions made at the WHO is that they are not binding on its members like the EU-Treaties. Therefore, on occasions, governments, which have supported a WHO decision, can have a completely different opinion in EU Minister Councils. Health and social ministers attend WHO conferences, while the ministers in the EU Minister Council are from the tax departments, which many times explains shifting point of views. The fact is that health issues often are neglected when decisions within the EU are taken. Despite this limitation, the WHO-plan is of great importance, as it supports the idea that countries with more ambitious alcohol policies should be able to keep them.

In 1995, the first European Minister Conference on alcohol was held, which accepted a declaration: *The European Charter on Alcohol*. It is based on the same principles as the European Alcohol Action Plan. In the autumn of 1999 it was time for plan number two, which was accepted at a WHO-meeting in Florida for the period 2000-2005. In the new plan it is pointed out that the reduction of alcohol taxes, as a part of the European harmonization, has increased the risk of alcohol damage, and the importance of high alcohol taxes is therefore emphasized. Member states are recommended to develop tax policies that ensure high real prices on alcohol, to limit the availability of alcohol by controlling the number of sales places, to introduce age limitations (at least 18 years), and to combat smuggling. WHO also promotes restrictive advertising and marketing practices in order to protect public health.

The influence of WHO may increase in the future, as there are signs of more energetic moves. However, such a development will take time.

4.1.1.3 Industry Associations

Producers and distributors of wine and spirits have always been active in networking and lobbying towards decision-making and legislative bodies. Traditionally, these activities have been undertaken in the same way as for other consumer products. However, today, the producers and distributors have started to lobby also for the alcohol. This means that lobbying activities are undertaken towards export limitations, taxes and other trade policies as well as within areas like public health, and safety in traffic. Due to this, the alcohol industry is viewed as more aggressive.

The commercial interests are well organized, and they carry out extensive lobbying activities. Industrial representatives have great influence, and they have become an important factor in the formation of national alcohol policies in Sweden. Communications, consultation, and public relations are growing industries in Sweden, achieving influence by lobbying and presenting specific types of information. The fact is also that the commercial actors within the field have far more resources than national governments and health organizations.[57]

In Sweden, Sprit & Vinleverantörsföreningen (SVL) has been in constant opposition to the restrictive alcohol policy of the country, developing campaigns against Systembolaget and putting substantial pressure on the Swedish Government to reduce alcohol taxes. SVL has today 28 members, and it is a member of Oberoende Alkohol Samarbete (OAS), together with Folkhälsoinstitutet, the Social Department, and the Police among others. Since OAS has developed campaigns against the illegal alcohol consumption through a number of big media campaigns, SVL has bought itself a better position, taking its responsibility, but without risking its own production, which is legal.

At the European level, the Amsterdam Group, which was founded in 1990, is a very important industry association. The Amsterdam Group is an informal organization of multinational enterprises and it acts against misuse of alcohol through information and different projects. Concepts such as ”moderate consumption” and ”healthy lifestyle” are central. The Group has developed a network of contacts within the European Union, with for example the Directorate General V, which works with social and health issues, and the Directorate General VII, which among other things handles security in traffic.

[57] Holder, H.D. et al (1998)

A couple of years ago, the alco-pop-drinks were introduced. Since the alco-pops were designing and marketed especially for children, they demonstrated a great lack of responsibility from the enterprises active on the market, causing strong reactions from the European Parliament and also from member governments. It harmed the industry enormously, though it still has a great influence on the development of alcohol policies, which will continue.

4.1.1.4 The European Union

Europe plays an important role in the world production and consumption of alcohol. In EU, regulations on alcoholic beverages are not formalized nor centralized, and in the majority of EU countries, national alcohol control policies having specific public health or social policy objectives cannot be found. Retail alcohol monopolies have not existed in any EU country until the Swedish and Finnish membership. Moreover, in conflicts between trade and health policies within the EU, motivated by alcohol related problems, trade considerations have usually won.

Formalized or centralized measures controlling alcohol as a commercial product, or certain alcohol related problems, are found in some member states taking the form of formalized policies against drunk driving, alcoholism treatment, age limits, regulations on advertising, licensing and business hours for alcohol retail sales. A common factor with regard to alcoholic beverages is taxation, as spirits are taxed in all EU countries.

The majority of EU countries do not have any official alcohol policy, although some have organizations that deal with alcohol related matters. The alcohol policy in many EU countries falls in the sphere of agricultural or industrial policy, where alcohol is viewed as any other commercial product. Within this respect, wine, is nominated as an agricultural product. As a part of agricultural policy, the EU wine policy aims at increasing productivity, stabilizing the market, guaranteeing a fair standard of living for producers and reasonable prices for consumers, often providing subsidies for the wine sector.

In 1986 the European Council passed a resolution pointing out the need for a balanced alcohol policy, as a result of increased alcohol consumption in the EU member states, alcohol abuse representing a serious threat to public health and social welfare. Though, there has not been much progress in developing a EU policy that will protect consumers against the health and safety risks of alcohol.

Instead EU has adopted a liberal attitude towards alcoholic beverages, illustrated by the omission of alcohol from the Council's social action program and a tolerant attitude towards alcohol regulations.

Public Health Policy in Europe

Until 1993, when the Maastricht Treaty came into force, the community health aspect was neglected. Alcohol-related injuries are major social problems throughout Europe, and the social costs of alcohol are considerable. Sweden has highly centralized and formalized ”alcohol control policies”, but in many other EU countries this concept does not exist at all.

In the Amsterdam Treaty it is stated that there should be a pro-active role of public health in the EU structure. However, no such policy has yet been developed regarding alcohol consumption. Today, there are more talks than before concerning alcohol related health problems, and discussions are carried out with regard to common regulations at the EU level. These regulations do not refer to taxes nor monopolies, but information and issues such as drinking and driving, which most countries perhaps could agree upon.

Under the public health aspect, the Swedish presidency (January-June 2001) has succeeded in strengthening EU's view regarding health issues and alcohol, by adopting two important decisions. The first was the recommendation concerning alcohol consumption by children and young people, which includes regulations governing health promotion, educational activities and the use of advertising and marketing methods in the distribution of alcohol information. The second one was a Community strategy to reduce the damaging effects of alcohol. Furthermore, the Health Council proposed a future common strategy on alcohol. Thus, a shift has been recorded in the EU's approach to alcohol policy, as the member states have agreed that the alcohol related issues should not be viewed only as a single market or agricultural concern, but also as a public health issue. Now, the Commission has the task to come up with a strategy on alcohol policy. Even though the Commission has begun to slowly take the alcohol problem seriously, relevant signs that will make a big difference are lacking.

Eurocare has emerged as an important actor in the field of alcohol policies in Europe. Eurocare is a network of European organizations, which is working with alcohol prevention. It is mainly trying to influence the European Union, being a forum where alcohol political knowledge and experiences are shared between people engaged from different European countries.

Taxation and Tax Harmonization in EU

Taxation is central to national sovereignty, representing an instrument of economic regulation which can be used in influencing consumption or encourage saving. Thus, within the EU responsibility for the tax policies lies with each member state. EU plays only a subsidiary role on taxes, aiming to ensure that in the single market, member states' tax measures do not obstruct the free movement of goods, services and capital or distort competition. As one country's actions may have an impact also on the neighboring countries, member states have to work together and not strike out in different directions on tax policy. Harmonization of indirect taxes within the EU countries, including value added taxes and excise duties, has been proposed in order to sustain the well functioning of the internal market. Though, progress has been fairly slow. As a form of indirect taxes, excise duties are special taxes charged on particular consumer products, including alcoholic drinks. The rate of excise duties varies from one member state to another, the Community rulings only covering:

- harmonized tax structure (definition of products, units of measurement, exemptions)
- tax rates (common minimum tax rates)
- movement of excisable products between member states

The common system of excise duties was introduced on January 1, 1993 when the single market came into being. The legal basis is sustained by the Article 93 of the EC Treaty, which calls for harmonization of excise duties. The first attempt of harmonization was signaled in 1972, followed by more detailed plans of harmonization in late 1980's. After two unsuccessful proposals in 1987 and 1989, the Commission's third proposal on harmonization of excise taxes was accepted in 1992. According to this directive, a minimum rate was settled on distilled spirits of ECU 550 per hectoliter of pure alcohol, and zero minimum rates for wine, which had to be applied by every member state. The minimum rates have not changed since 1992.

The strategy for tax harmonization changed its path somehow in 1989, as the Commission instead of trying to implement uniform duties began to encourage neighboring countries to negotiate bilaterally, and to emphasis the travelers' right to import duty-free goods across borders. The goal was to let the market forces manage harmonization where the Commission was unable to do so, by eliminating the restriction concerning the import of duty-free goods for travelers. Tax-free sales were abolished within the Community in June 1999.

In May 2001, the Commission stated its intention to focus more on direct taxation**,** which concern tax problems faced by individuals and businesses operating within the internal market, and to become more pro active in taking legal actions where member states national tax rules or practices do not comply with the EC Treaty. With regard to this aspect reports concerning alcohol taxation will be present, as different taxes applied in the member states are an obstacle for consumers to enjoy the single market benefits. Currently, after conducting consultations with the member states, interest groups, producers, etc., the Commission is preparing its second report since 1992. The report, together with a proposal for the Directorate General to change the existing provisions, will be presented for adoption in the beginning of year 2002. The outcome remains to be seen, as the report and the proposal will become official only after obtaining the Commission's acceptance. The fact is that the prices on alcohol beverages differ a lot within the EU due to different tax levels, shown in Table 4.1.

Table 4.1: Taxes on alcoholic beverages in EU – 2001
(In SEK/liter, exchange rate: 1 Euro = 8:90 SEK)

Country	Spirits (40%)	Distilled Wine	Wine
Sweden	200.56	45.17	27.20
Denmark	131.32	12.59	7.69
Germany	46.42	13.64	0
Austria	35.70	6.47	0
Belgium	59.13	8.82	4.19
Finland	170.63	62.86	20.96
France	51.62	18.99	0.39
Greece	32.57	4.03	0
Ireland	98.32	35.26	24.30
Italy	22.96	4.40	0
Luxemburg	37.05	5.96	0
Holland	53.54	7.55	4.21
Portugal	29.76	4.34	0
Spain	24.38	4.08	0
Great Britain	116.23	30.58	22.92
EU Average	**74.61**	**17.64**	**7.46**

Source: CEPS, Brussels

As previously mentioned, the Commission is working with the "Minimum Rates Review" on the functioning of alcohol taxation, most likely proposing changes in the current regime. One of the proposals concerns the wine tax, as the Commission wants to replace the current zero rate with a positive minimum rate. Also, since there was no modification in the minimum rates over time, they have become less relevant due to inflation. As a result the Commission reached the conclusion that the minimum rate policy is generally ineffective without being updated to inflation. Therefore, another proposal comes under this aspect suggesting that minimum rates should originally be indexed by the inflation rate, which again will be very hard since the wine tax is zero. Sweden supports the increase of the minimum rates at least in line with inflation. The Commission is also reviewing the distance selling issue, concluding that current practices hinder people from enjoying the free movement of goods, as they have to bring the products personally across the border. The intention is to introduce a new regime that enables people to effect purchases by mail order.

The harmonization of excise duties is supported to a varied extent by EU member states. Wanting to maintain flexibility and sovereignty in fixing the level of taxation, some member states oppose the adoption of maximum excise duties rates. A previous attempt to set maximum levels for excise duties was made more than ten years ago, but the member states were not prepared to follow. Even though maximum levels are considered again for proposal it seems that the situation has not changed to a great extent with regard to the support. In general many member states agree that there has to be increased tax harmonization, but there is not necessarily an agreement on how to achieve this. While the five high tax countries favor tax harmonization in the direction of their level of taxes, the other members support downwards tax harmonization. Therefore, it will be very difficult to reach an agreement. It will take a long time and it has to be a gradual process.[58]

The reports made by the Commission on alcohol taxation take four elements into consideration: internal market functioning, competition between different types of alcoholic beverages, the real value of the minimum rates, and the wider objectives of the treaty, which include the health issue. Sweden is using high taxation as a policy aimed at reducing alcohol abuse, with regard to health issues. EU's Taxation Commissioner Bolkestein, however, has clearly stated that other measures should be used to combat alcohol abuse rather than taxation. In fact a policy of high prices is not only inefficient, but punishes all the citizens including the moderate consumers. The alcohol abuse is a problem for a minority and will exist anyhow despite high taxation. It is also not a general concern within the EU, as other countries such as France or Belgium do not have links between taxation and alcohol policies based on health issues. Instead they use alternative measures such as drinking and driving. Therefore, the Commission's position is that other means than taxation have to be used to combat alcohol abuse, because it represents a minority problem in a society where the majority are moderate consumers. However, if alcohol taxation is a means to find the additional costs for the society caused by alcohol abuse, the link between taxation and health issues has another meaning.[59]

[58] Vangheluwe, J. (2001)
[59] Vangheluwe, J. (2001)

EU and The Swedish Retail Monopoly

In order to ensure the continued existence of the off-premise retail monopoly system, Sweden had to demonstrate within the EU that the reasons behind this system was to protect the citizens' health, and not to protect national products against international competition. In June 1995, the question of the Swedish retail monopoly's compatibility with the EC's law was brought before the European Court of Justice. The famous so-called *Franzén case*, based on the supposition that the Swedish Alcohol Act contravenes the EC Treaty, asked the European Court of Justice for a preliminary ruling on whether the monopoly on off-premise retail sale of alcoholic beverages was compatible with EC law or not.

The EC Treaty does not require a retail monopoly abolishment, as long as it does not involve discriminatory rules according to the origin of the products, or according to the nationality of traders. The ruling of the European Court of Justice, dated October 1997, decided that the Swedish retail monopoly was compatible with the EC Treaty, since it selects products based on criteria which are independent of their origin and does not discriminate against imported products. The monopoly, as it is structured, does not compromise the obtaining of supplies of national or imported alcoholic beverages by consumers, and the mode of promotion used applies independently of origin. This decision has been of importance for all the other Nordic alcohol monopolies, guaranteeing their existence on the European level and increasing the citizen's level of acceptance of the Nordic alcohol system.

Advertising and Marketing in the European Union

The legislation on advertising of alcoholic beverages is very different between EU member states. In the Nordic countries (except in Denmark) and in France, alcohol advertising and sponsorship are regulated by strict legislation. In the rest of Europe voluntarily obligations are more common. The European Union's regulations on marketing activities of alcoholic beverages are much less developed than for comparable products, like tobacco. Within the European Union, tobacco and alcohol are viewed quite differently, mainly since there are proven positive effects of drinking alcohol. However, the EU is getting a bit more restrictive around the alcohol and the political awareness of the issue is high, indicating that more regulations may be introduced. In March 2001, the Council of Ministers actually adopted recommendations on alcohol advertising aimed at children and adolescents, restricting the possibilities to conduct marketing activities that are specially designed towards young people. However, recommendations are not binding on the member states.

The main rule within the EU is that European legislation comes before national legislation, which has had an effect on Sweden's marketing and advertising regulations. As an outcome of a judgment in the European Court of Justice in July 1997, Swedish TV channels, which are broadcasting from a country where alcohol advertisements are allowed, may show commercials for alcoholic beverages. The judgment implies that the regulations in the country, from which a channel is broadcasted, apply to that channel. This judgment affects TV 3 and Channel 5 in Sweden, which both broadcast from Great Britain. However, both channels have for various reasons chosen not to show commercials for alcoholic beverages.

Sweden's ban on alcohol advertisements has been accused of being too far-reaching and not compatible with the EU legislation. These accusations started when the magazine Gourmet published alcohol advertisements not only in the subscribed version of the magazine, but also in single copies, and the Consumer Ombudsman sued the magazine for infringement of the marketing law. Stockholm's District Court was not sure about how to interpret articles 28 and 30 (freedom of movements of goods), article 46 (protection of public security and health), and article 49 (freedom of supplying services) of the Treaty Establishing the European Community. Hence, they turned to the European Court of Justice, in order to get clarification in this issue.

In the negotiations with the European Court of Justice, in October 2000, the Swedish government defended the ban on alcohol advertisements by referring to public health protection. Gourmet responded that moderate advertising guides the consumers to choose quality and not quantity. The magazine did also refer to the state owned enterprise Vin & Sprit, which is undertaking extensive marketing activities through traditional advertising. The EU Commissioner and surprisingly France supported Gourmet.

The interpretation from the European Court of Justice on the case between the Consumer Ombudsman and the magazine Gourmet came in March 2001, stating that the ban on advertisements should not stop foreign countries getting access to the Swedish market, but that the ban can be motivated if it protects public health, and public health cannot be protected in any other way. The pronouncement is quite surprising, since both the Director-General of the Court, and the EU Commissioner earlier found the Swedish alcohol ban too far-reaching. The final decision does, however, now rest with the Stockholm District Court, which is facing a very tough test in ensuring that the ban is proportionate to the objective and that it does not constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States. The decision of Stockholm's District Court will be made before Christmas 2001. If the court does not make a legal assessment of proportionality, there will most likely be new complaints to the European Union, which will force such an assessment. For the moment, however, Gourmet is stopped from offering advertising space to advertisers established in other member states.

Even though, the European case on Sweden's restrictive regulations in the field of alcohol advertising ultimately resulted in a favorable public health ruling, the matter will most likely not rest here. New threats have arisen, as France has been brought to the European Court of Justice, due to its ban on alcohol. In the case against France, it is mainly the Code of Conduct (implementing measures), which is being attacked. France might therefore change its code of conduct under negotiations with the Commission, to drop the case. If however the ruling in the end goes against France, the decision can become a warning signal to Sweden, not to impose Swedish law on incoming services, unless the law is proportionate.

4.1.1.5 The Government

From the 1960s to the 1990s, there has been a big shift in the ideology underlying Swedish public administration, and many public enterprises have been privatized. Due to the moral aspect of the alcohol control measures, the state has however managed to maintain ownership of Vin & Sprit and Systembolaget. The alcohol policy is highly connected with the public good, which gives the Swedish state a legitimacy of its own.

The motives for strict regulations within the alcohol market are human, rather than economic, and the division between the economic and social aspects of alcohol control policy is significant, illustrated by the shared responsibility of the Financial Department and the Social Department. It is not only the division between the economic and social aspect that is of great importance for the alcohol question in Sweden, but it is also a highly political issue. Arrayed against the liberalization trend and a relaxation of Sweden's alcohol policy, is a surprisingly strong coalition, including the ruling Social Democratic Party and health authorities. The political right is more inclined to prefer free-market solutions and harmonization with the rest of Europe.

The strategy adopted by the Swedish government has been to reduce total consumption by limiting availability of alcohol beverages and demand. The bases of the country's alcohol policy is to address it to the entire population, and then in addition use supplementary measures addressed to special risk groups like juveniles, children of alcohol abusers and different groups consuming high amounts of alcohol. The main tools of the alcohol policy used by the government today are:

- Import Restrictions
- High alcohol taxes
- Retail monopoly
- Restrictive marketing and advertising regulations

Import Restrictions

In 1995, the Swedish Government succeeded in negotiating a five-year exemption to the import rules of the EU. During the autumn of 1999 and the spring of 2000, discussions between the Swedish government and the EU were carried out regarding Sweden's further exemption, and the European Commission stated that Sweden have only until the end of 2003 to lift its restriction. A step-by-step increase in the amount of alcohol that Swedish citizens can import has been designed to gradually reach the same level as the rest of the EU. It is presented in Table 4.2 below.

Table 4.2: Future import restrictions on alcohol beverages

	Spirits	**Fortified Wine**	**Wine**
January 2001	1 liter	3 liters	26 liters
January 2002	2 liters	3 liters	26 liters
January 2003	5 liters	3 liters	52 liters
January 2004	10 liters	20 liters	90 liters

Sources: Faktablad, Finansdepartementet, Nov. 2000 Införselregler för alkohol

Quotas for private imports from countries outside the EU are set at 1 liter of spirits or 2 liters of fortified wine, and 2 liters of wine.

When Sweden obtained the derogation it was stated very clearly by the Commission that it was the last extension permitted, since travelers' allowances restrictions have proven to be inefficient for the internal market. The Commission will not propose a new extension, and without a proposal from the Commission, Sweden cannot do anything regarding this matter.[60]

Alcohol Taxation

The National Tax Board (Riksskatteverket) is the institution responsible for excise duties in Sweden. Ludvika Special Tax Office (Särskilda Skattekontoret) administrates excise duties. The selective taxation imposed on alcohol is very important in order to keep the consumption at a low level. From 1977 to 1980, the Swedish government has increased the alcohol taxes by 15 %. The effect has been a clear decline in consumption. Therefore, several researchers claim that this is the most effective instrument to control alcohol consumption and alcohol related harm.

Excise duties have been highly influenced by Sweden's accession to the EU. In accordance with EU membership, Sweden had to adapt to EU's regulations, passing new legislation on the country's alcohol taxes. The main change, effective from January 1995, was that the taxation scales ceased to be progressive with respect to the alcohol content in the beverage. A consequence of the new taxation system was that the tax for spirits containing less than 40% alcohol by volume increased, while taxes for spirits containing more than 40% alcohol by volume were lowered. Under this aspect, Sweden retained the right to decide the tax level.

The EU is only setting a lower limit, which Sweden does not have any problem to fulfill, being one of the countries with highest taxes in the EU. The Swedish taxes on alcohol are almost nine times the lowest rate in the EU. It is more than four times the German tax and approximately twice the Danish tax. The Swedish taxation rates from 1995 are shown in Table 4.3.

[60] Vangheluwe, J. (2001)

Table 4.3: Swedish Excise Duties on Alcoholic Beverages 1995-2001
(Tax rate/ liter expressed in SEK)

	1995	1996	1997	1998-2000	Dec 2001
Wine					
min 1,2 % - max 2,25%	0	0	0	0	0
min 2,25% - max 4,5%	9	9,21	9,2	9,34	7,58
min 4,5% - max 7%	13,3	13,61	13,6	13,8	11,2
min 7% - max 8,5%	18,3	18,73	18,7	18,98	15,41
min 8,5% - max 15%	26,2	26,81	26,8	27,2	22,08
min 15% - max 18%	43,5	44,51	44,5	45,17	45,17
Intermediate Products					
min 1,2% - max 15%	26,2	26,81	26,8	27,2	27,2
min 15% - max 22%	43,5	44,51	44,5	45,17	45,17
Pure alcohol					
over 1,2%	474	485,04	494	501,41	501,41

Source: Correspondence with the Swedish Tax Authority for Excise Duties (2001)

From January 2004, all EU countries will have the same regulations on import of alcoholic beverages, implying an increased trade between low-tax countries (like Germany), and high-tax countries (like Sweden). There is therefore a growing concern in Sweden that the important control instrument of high alcohol taxes will not be effective after 2004.

The EU has little means to directly pressure high tax countries to lower their taxes. For Sweden, the increase in travelers' allowance levels and the investigation of the monopoly scope and efficiency in combating the alcohol abuse, represent two elements of pressure from the Commission.[61] According to the EU Commissioner of the Internal Market, Mr. Fritz Bolkestein, high alcohol taxes distort the internal market of the EU, claiming that the Swedish wine taxes are distorting competition.

Due to the pressure from the EU, the Swedish government decided to lower the taxes for wine with alcohol content lower than 15 % per liter by 18.8 %, from December 2001. A number of sources are claiming that the EU Commission is not satisfied with the present tax reduction. Supported by the European Court of Justice, a bigger tax reduction could therefore become necessary. If the

[61] Vangheluwen, J. (2001)

Commission manages to introduce an upper limit for alcohol taxes, which it is aiming at, Sweden would have to lower its taxes on spirits by 60%.

The Swedish alcohol taxes are not discussed to a great extent in the budget for year 2002. Though, it is of interest to study the calculations made by the government on future state incomes derived from alcohol taxes, shown in Table 4.4.

Table 4.4: Swedish Government Calculations on Future Tax Incomes
(in Billion SEK)

Year	Spirits	Wine
2001	4.7	3.6
2002	3.9	3.1
2003	3.3	3.1
2004	2.7	3.0

Source: Regeringens Proposition 2001

Most noticeable is the development of the income from taxes on spirits, as the government is forecasting a decrease of 42 % between 2001 and 2004. A decline in taxes can be the outcome of two factors: either a lower tax level set by the government or decreasing sales of the product. In the absence of a significant tax reduction, the government seems to be expecting that the Swedish people will turn to alternative ways of procuring spirits than through Systembolaget or HoReCa. The tax income from wine is also decreasing. The government is forecasting a decrease in income of 17 % from 2001 to 2004, explained by the resent tax reduction on wine.

Despite the Financial Department's claims that there are no plans for further tax reductions, the government might have its own plans regarding this matter that are not yet revealed, as it would be politically incorrect to do so. If this is the case, the forecasted tax income of 2004 corresponds very well with a study made by Handelns Utredningsinstitut during the spring of 2001 regarding the development of taxes and the total consumption level in the country. According to the study, Systembolaget will only sell 20 % of the consumed alcohol if the current tax levels are retained. If taxes are reduced by 50 %, the government will receive more control, and the income from alcohol taxes will have the same result as calculated by the government in the Budget of 2002.[62]

[62] Eckerdal, C., and Gidehag, R. (2000)

Despite the pressure from the opposition, the alcohol industry, the EU, and also the future increase in import of alcoholic beverages, the Swedish government has, so far, not made any big changes in the alcohol prices. There actually is a possibility for the government to retain high taxes also in the future when the import restrictions are lifted. Within the European Union, the United Kingdom, for example, has managed to keep much higher taxes than its neighbor France. The government's proposed solution contains its own moral dilemma. By cutting taxes to meet the competition, the state-owned liquor stores will invariably be selling more alcohol. Still, it maintains control over consumption, screening out underage drinkers and those with alcohol problems.

Alcohol Monopoly

As a result of negotiations conducted with the EU, Sweden managed to maintain its retail trade monopoly when the country became a member of the EU. At present, the Swedish Competition Authority (Konkurrensverket) has the task to ensure that the retail trade monopoly follows the Community regulations concerning possible discrimination against foreign producers, reporting its conclusions to the European Commission. Furthermore, The Alcoholic Beverages Product Range Board (Alkoholsortimentsnämnden) makes impartial reviews of the decisions made by Systembolaget with regard to what products are included in its assortment. The board examines if the Community's regulations are fulfilled.

One of the Swedish alcohol policy corner stones, the use of prices to regulate consumption via high rates of alcohol excise duty, is weakening due to the gradual harmonization with EU's rules on personal imports. This increases the efforts towards preserving the other corner stone, the retail sales monopoly, and Systembolaget is now facing one of the biggest challenges since its establishment and certain changes and adaptations have already started to take place.

At present, Systembolaget follows a new strategic plan, covering the period until 2004, setting out a more commercial approach in order to meet future challenges, including the harmonization of travelers' allowances with the EU. However, Systembolaget remains totally focused on maintaining the system. Changes that will occur during the next few years include: increasing the number of retail stores, converting the majority of existing stores into self-service stores by 2005, building new profile stores that emphasize the products, developing stores that offer a more specialized product range, and focusing on providing better customer service. As regards Saturday's opening, currently tested on a trial basis, there will be further extension and coordination of the opening hours.

Systembolaget is also developing Internet based ordering and payment facilities, modality currently tested in the Stockholm region. The product range will be revised in order to reflect the customers' demand. The objective is to keep a broad product range, based on limited stocks in stores and ordering via Internet and other channels. A decrease in the present product assortment is planned though. A significant decrease in the product assortment might represent an issue to be investigated in the future by the EU Internal Market DG, in order to assure that it will not restrict the market access of foreign producers. Private imports is another matter to be examined, since private persons have very limited possibilities to acquire alcoholic beverages from producers in other countries due to the significant price increase when going through Systembolaget.[63]

By promoting a healthy drinking culture, Systembolaget will strive to provide good service and good advice for the customer, assuring at the same time equal treatment for all products and avoiding bringing new products to the customer's attention.

Marketing and advertising

The marketing and advertising legislation on alcoholic beverages in Sweden is very restrictive, making the marketing of wine and spirits rather tricky. The marketing rules of today are to be found in a number of regulations, laws, practice, guidelines, publications from different authorities, and also voluntary obligations made by enterprises within the industry.

The fundamental piece of legislation in the marketing field in Sweden is the comprehensive Marketing Practices Act. In 1996, the current Act came into force, which builds to a large extent on its predecessor from 1971, and the 25 years of case law between, developed by the Market Court. The Act of 1996 is generally formulated, applicable to all kinds of marketing activity in Sweden,

[63] Degerbeck, E. (2001)

and it contains the two general clauses on good marketing practice and consumer information.

The Alcohol Act contains regulations and definitions that are of great interest for the marketer of alcoholic beverages. From January 1st 2000, the laws on advertising and marketing of alcoholic beverages were included in the Alcohol Act, which before anything else is legislation for social protection. The legislation is very far reaching in order to limit the possibilities of enterprises to increase consumer demand for alcoholic beverages.

Within the field of marketing and advertising, there are also a number of self-regulatory bodies. The central self-regulatory body is called Marknads Etiska Rådet (MER) (Council on Marketing Ethics). Mainly, the Council produces presidential statements on the basis of individual cases as to what is or should be considered to be ‘good business practice’. When a complaint is upheld, the decisions of MER are circulated widely to the press and television. MER is a member of the European Advertising Standards Alliance (EASA), which is a co-ordination point for the views of national advertising self-regulatory bodies across Europe. Moreover, Sweden has a number of industry self-regulatory bodies controlling marketing practices, which set more informal, ethical rules, supported by the consumers. They are of great importance and should not be violated.

4.1.2 Economic

In this segment, we concentrate on the general set of economic conditions and factors that confront the Swedish alcohol market.

4.1.2.1 Prices of alcoholic beverages

Even though the comparison of alcohol prices among different countries encounters many problems, including exchange rates, there are substantial price differences between Sweden and its neighboring countries. Alcoholic beverages as commercial products are subject to the same economic principles as other products, as the price increases, demand decreases, and vice-versa.

The price changes in alcoholic beverages will determine a certain consumer reaction, measured by the product’s price elasticity. With regard to this matter if the product’s price decreases, the demand for it will in the majority of cases increase, and so will sales. As a result the correlation has a negative value for most products, where zero price elasticity highlights that the demand is unresponsive to price changes. If the price increases by one percent and the demand decreases by the same amount then the price elasticity will be minus one. However, price elasticity is able to describe only consumer reactions to small price changes, counting not much than a few percent.

In general, EU membership has increased the availability of cheaper alcoholic beverages in the southern part of the country, since the geographical location of consumers decides on the consumers' possibility to obtain cheap alcohol. Therefore, in one of the regions, Helsingborg, the price elasticity was actually higher for all alcoholic beverages due to the short distance to retail sale outlets situated in Denmark where there are significant price differentials. Since the relative price of alcoholic beverages is determined by three different factors including: the Danish alcohol prices, the Swedish alcohol prices and the exchange rate between the two countries, changes in the Danish - Swedish exchange rate also play a significant role.

However, the price sensitivity seems to be related to the amount of alcohol the beverage contains, the higher the alcohol content, the higher the price sensitivity. Results shows that spirits are more price sensitive than wine. The price elasticity of spirits shows that if the price increases, the consumer demand will decrease by almost the same amount in percent. The price elasticity of wines shows that the wine consumption is relatively stable, and not influenced by price to a great extent. This supports earlier studies, claiming that wine is an ”indispensable commodity”, relatively insensitive to price changes.

Econometric studies (time series studies) have emphasized the importance of prices. In Sweden, prices have decreased in real terms during the last ten years, as they have not been adjusted to the inflation. There have not been registered dramatic changes in alcohol prices as it was expected after the EU membership. The lowering effects of alcohol prices as a result of European integration were triggered back within on-trade systems due to the existence of counter factors such as increases in costs for serving alcoholic beverages. As to off-premise prices the effects are evidently not felt because Sweden is still able to restrict the amount of alcoholic beverages that travelers are allowed to bring in the country without paying taxes. The future level of excise taxes on alcoholic beverages will determine the level of prices, but it is evident that if the country wants to reduce the level of travelers' alcohol imports and smuggling a decrease is necessary.

Another economic aspect that has to be taken into consideration is the fact that Sweden, as well as Denmark, has chosen to remain outside the currency union. However, the introduction of the Euro in the other EU member countries, beginning in 2002, will most probably affect Sweden, as enterprises will have to adapt to the Euro, especially the ones with imports and exports. Sweden is most probably to have a referendum on this matter during next year.

4.1.3 Social

This segment is concerned with demographics, lifestyles and social values of the Swedish society in relation to the alcohol market.

4.1.3.1 Temperance Movement

For more than a century, Sweden was a temperance culture, in which the temperance movement had a great impact on the formation of the country's alcohol control policy. Due to the strong ideology of the temperance movement, the alcohol problem had high priority on the political agenda, and many Swedes shared the opinion that alcohol was a big problem in the society.

From the post-war period the temperance movement has been weekend substantially and lost much of its power. After several setbacks, it is more active in the debate again, but it is far from as influential as in the beginning of the 20th century. A big problem for the temperance movement is to get young members. The main temperance movement in Sweden is IOGT-NTO. At the Nordic level, NordAN is active in its work for restrictive alcohol policies. NordAN is a network of different forces and organizations working for restrictive alcohol policies in the Nordic and Baltic states.

4.1.3.2 Attitudes and Values

Sweden has been a country of the ”Vodka belt”, where heavy drinking was the norm. Due to globalization and homogenization, country cultural influences are no longer as important as they used to be. Uniformed life-styles can today be identified across countries, and trends spread worldwide. The modern society creates and offers several options regarding goods and services, lifestyles, world-views etc. As several new options emerge, traditions lose their binding meanings, and choices become much more individual.

Modern life places high quality requirements on citizens. Every citizen has today a collective right to self-government, meaning that every person stands alone more than ever. No longer do people have an intimate, loyal social circle to rely on, like the family, the village or church. The society is very much consumer oriented, where the state's interference with consumption and life-style choices is seen as obsolete paternalism. Important values are instead self-responsibility and individual freedom of choice, on the basis of the free market.

In Sweden, there is a huge interest from the general public about alcohol, and it is increasing, both in the spirits and wine segments of the market. As the awareness increases, the consumers are becoming much more advanced, they go from blended whiskies to single malt whiskies, from light Spanish red wine to advanced French wine for example. The population has become interested in having a good wine to the right food, and knowing which wine goes with which food is today seen as a status symbol. A couple of 100 years ago, everybody was drinking vodka or punch. This is not the case today. During a dinner, for example several different alcoholic beverages are served. Typically for Swedes is to drink alcohol mostly during the weekends. Further on, the Swedish market is trendy, and since Swedes travel a lot, the market is sensitive to world trends. Sometimes, the country is actually setting world trends, and is therefore seen as a very qualified alcohol market.

4.1.3.3 Population

The average age of the population has risen during recent years, fewer children and increased longevity have affected the population structure. The age is closely related to individual patterns of drinking. Older generations tend to maintain traditional drinking patterns, while the younger generations normally are affected by new trends to a much larger extent. Though, the age structure seems to have little direct effect on per capita alcohol consumed. Only, 10 % of the Swedish population are abstainers, and do not drink alcohol at all. The proportion of daily drinkers is around 4 %.[64]

4.1.3.4 Public Opinion

During the last decades the public opinion has had a substantial impact on policies, since the developed policies have to have legitimacy based on the attitudes of the populations at large. It does not necessarily mean that

[64] Simpura, J., and Karlsson, T. (2001)

politicians have to give way to public opinion, though, it is more difficult to uphold a policy without public consent.

A common view is that public opinions on alcohol policy issues have become more liberal over time in Sweden. However, two different groups should be considered regarding this issue. The first one is the media people, which are very skeptical to restrictive alcohol policies. The other one is the general population, which is much more supportive of such policies.[65] The fact is that the Swedish population is, to a great extent, in favor of state regulations in the alcohol market. 74.8 % agree with the statement that the government has the responsibility to keep down how much people drink, whereas only 25.2 % disagree.[66]

Surveys of popular attitudes concerning various alcohol policy issues have been conducted for several years in Sweden. A common question has been about the sales system for the various types of alcoholic beverages. From 1967 to 1992, the attitudes to sales of alcoholic beverages in grocery stores have been fairly stable. In 1993-94 attitudes changed, as the support for the sales of spirits and wine in grocery stores rose sharply. The increase can be seen as the result of two factors: the Swedish retail monopoly's struggle for legitimacy in the eyes of its customers, and tensions related to the European integration process in the beginning of the 1990s. The legitimacy problem appeared due to increased criticism towards Systembolaget's service, at the same time as a new context was provided by the European integration, coupled with the new rhetoric on individual freedom. Especially a new populist party, New Democracy (Ny Demokrati), challenged the traditional ways of debating alcohol control. The alcohol question received, during these years, a lot of media attention and campaigns from pressure groups were carried out, influencing public opinion.

After Sweden joined the EU, the positive attitudes towards sales of alcoholic beverages in grocery stores started to decline, at the same time, as the gap between beverages grew bigger. In 1997, sales of table wine in grocery stores was still supported by 55 %, while sales of spirits only was supported by 20%.[67] These figures indicate a reformulation of the traditional definition of

[65] Room, R. (2001)
[66] Hemström, Ö (2001)
[67] Holder, H.D, (2000)

alcohol problems, whereby ‘non-problematic’ beverages such as wine began to be disconnected from sprits. Public support of wine sales in grocery stores is increasing, now being supported by 65 % of the population.[68]

In 1993 - 1994 there were great geographical differences with regard to attitudes towards sales of alcoholic beverages in grocery stores. The most liberal attitudes were found in the south of Sweden, and the most restrictive in the north. In 1997, there were still differences, though much smaller ones. In a recent survey of the public opinion on Systembolaget, 42 % wanted to remove the retail monopoly structure, while 41 % wanted to keep Systembolaget.[69]

Regarding public support of high alcohol taxes, the result depends on the kind of questions asked. Often, the questions are not very deep or do not give any alternatives. However, in general, Swedes want to become more like other EU countries when it comes to taxes, the same is true with regard to travelers’ allowances.[70]

4.1.4 Technological

The technological segment focuses on technological advancements taking place in the environmental settings.

Internet is the most important technological factor that might have a certain impact on Sweden’s alcohol sector. Recently, the digital television concept has been heavily circulated. The Internet importance has increased over time, especially in Scandinavia, where statistics show that there are more Internet users per capita than anywhere else in the world. Low telecommunication costs, a high GNP per capita, and a favorable social policy drive Sweden's technological success. At present, the country is wiring each home with a broadband connection. The Swedish people have embraced technology, Sweden having the highest concentration of PC’s in the world.

4.2 The Swedish Alcohol Market

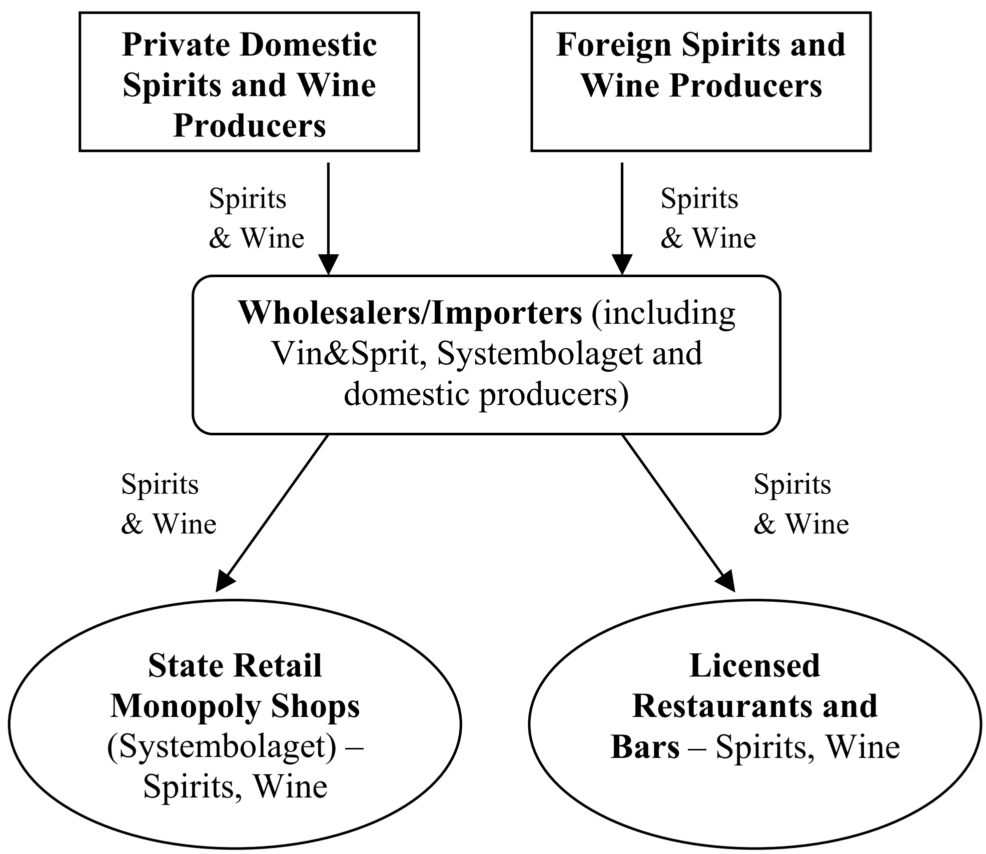
This part of the empirical study focuses on the Swedish alcohol market. First an overview will be presented, followed by a description of more particular aspects.

[68] Leifman, H., (2001)
[69] www.drugnews.nu
[70] Leifman, H., (2001)

4.2.1 Overall Swedish Alcohol System

As a result of the European Economic Area Treaty, and Sweden's membership in the EU, previously discussed in the thesis, the structure of the Swedish alcohol system has changed. In order to get the right understanding concerning the present competitive situation in the alcohol industry, a general overview of the new Swedish alcohol system, effective from January 1, 1995 will be presented below.

Figure 4.1: Swedish Alcohol System after January 1, 1995



Source: Holder, H. (2000), p.48, modified

Domestic Production

The Government removed the production monopoly in 1995, and the entire domestic production is now opened to licensed private producers. Previously, spirits were only produced by Vin & Sprit AB, while wine was produced by both Vin & Sprit AB and licensed private producers. Even if Sweden is not by tradition a wine producing country, since the climate is not considered to be optimal for vine growing, there are a couple of very small farmers that have started to grow vines for wine making as a test crop, along with other producers who are working with imported grape must. Furthermore, the Swedish Government through the former Vin & Sprit AB monopoly owns a vineyard in southern France. Some of the wines produced there are sold on the Swedish market as "Swedish" wines. The number of producers of alcoholic beverages has increased considerably during the 1995-1998 period. Manufacturers of spirits have increased from four in 1995 to eleven in 1998, while the number of wine manufacturers has increased from ten in 1995 to twenty-three in 1998.[71] Vin & Sprit AB remains the largest producer of spirits and wine in Sweden.

Wholesale
The wholesale function refers to the capability to distribute alcohol from a domestic producer or to import beverages from foreign producers to a Swedish retail source. While previously the wholesale distribution of spirits and wine was retained by only two actors, Vin & Sprit AB and Systembolaget, at present, both domestic producers and private licensed wholesalers can distribute spirits and wine. Systembolaget continues to be a wholesale distributor to licensed restaurants.

Transport
Since 1995, any transport enterprise is allowed to distribute alcoholic beverages from one place to another in Sweden. Suppliers can choose now freely how their products are delivered.

Import and Export
Before 1995, Vin & Sprit AB was the only importer for all foreign produced spirits and wine. The situation has changed since, at present, any licensed private enterprise that has registered with the Special Tax Office in Ludvika, can import and sell alcoholic beverages to Systembolaget or licensed restaurants. Thus, hotels, restaurants and caterers have now the right to import directly. However, the Swedish retail monopoly cannot import any alcoholic beverages directly, with one exception, when private individuals make individual orders. The export monopoly was also abolished in 1995, until when the same enterprise, Vin & Sprit AB, represented the only exporter for spirits and foreign produced wine. Only a licensed producer could export domestically produced wine. Now, private enterprises can directly export spirits and wine from any licensed producer or wholesaler in Sweden.

[71] National Tax Alcohol Board (2001)

Retail Sale – Off premise

Since no changes occurred here, the sales of spirits and wine continues in the state alcohol monopoly stores, Systembolaget. In May 2001 there were 413 retail outlets and 578 local agents in Sweden.[72] Local agents are retail shops licensed to accept orders for alcoholic beverages from persons that are located too far from a Systembolaget shop.

Definition of Systembolaget

Systembolaget AB is according to the Swedish law an enterprise wholly owned by the State and has the exclusive right to the retail trade of spirits and wine. As it controls entirely the offer of certain products, it is a monopoly. Systembolaget's monopoly is a perfect one since it has 100 % control of the market and there are no close similar legal products on the market to which buyers can turn. Being set up by the State in conformity with the national law, and having exclusive rights based on national law, Systembolaget is a state monopoly.

Restaurants and Bars – On premise

Restaurants and bars, could only receive wholesale wine and spirits via Systembolaget prior to 1995. At present they may receive alcoholic beverages from any licensed wholesale source. The number of wholesale agents marketing alcoholic beverages to restaurants in Sweden has increased considerably after 1995.

Alcohol Retail Prices

Retail prices represent a significant purchasing decision factor in Sweden. With regard to prices of alcoholic beverages, a distinction is made between off-premise retail prices and on-premise retail prices. Off-premise prices are set by Systembolaget, and are uniform for the whole country. Since the taxation rates are based on the alcohol content, they favor table wines over hard liquor. Therefore, table wines' prices have demonstrated stability over time. Restaurants and bars are free to set their own prices, on-premise prices, which usually reflect the wholesale price paid and the markup of the establishment itself. Since 1995, the average price for all beverages, except the cheapest wine table, has decreased. This could be partly explained by increased competition between wholesale traders.

[72] Systembolaget In Progress (2001)

Alcohol Content of Alcoholic Beverages

A change occurred with regard to the upper limit of alcohol content of spirits (60 percent by volume), which was abolished and removed based on EU regulations from 1995. The alcohol content in wine has decreased over time, due to cider increase on the Swedish market, a beverage with lower alcohol content.

Consumption

A constant increase in wine consumption has been recorded during the past years, from 14.7 liters per capita in 1997 to 15.8 liters per capita in 1999. On the other hand, hard liquor consumption has decreased from year to year, measuring 2.8 liters per capita in 1999, estimations based on Systembolaget's sales figures. However, the real figure of hard liquor total consumption is much higher taking in consideration personal imports, illicit home distilling and smuggling.

Trade

According to Systembolaget's sales of wines statistics, the wine imports over the 1997-2000 period are dominated by the following exporting countries: Spain, Italy, France, Germany, Chile, Australia and USA. Even though EU suppliers dominate the Swedish market, an increase in wine deliveries from competitors outside Europe has been recorded, which are constantly improving production techniques, managing to maintain low prices at the same time. At present South African wines are very competitive on the market.

Policy

The Swedish alcohol policy is restrictive for social and historical reasons. Within this regard, Swedish authorities make use of different tools including a ban on consumer advertising and other restrictive marketing practices, a retail monopoly to restrict access, and a high price level due to severe taxes on alcoholic beverages. Ever since EU membership there is an ongoing debate on whether the retail monopoly should be abolished or not. Systembolaget, the Government monopoly handles all over-the-counter sales of spirits and wine through its own shops. Some changes in retail monopoly stores occurred in the latter, as self service shopping has been introduced and shopping hours extended, permitting also Saturday's opening for a trial period.

Marketing

Direct advertising of alcoholic beverages to the general public is not permitted in Sweden. Therefore, wine writers' weekly or bi-weekly newspaper and magazine articles have become increasingly popular, which include Systembolaget's tests on new products. Systembolaget has its own monthly news magazine, and additionally is listing new wines on the shelves with detailed information about the wine, region, or area of origin. This information is stored in a database available for all wines listed in the official price list.

With regard to promotional activities, there are several active wine societies in Sweden promoting wines among their members, arranging wine courses, tasting, and working for better drinking habits. Additionally, there are a number of small, private wine clubs. Competitor activities include participation in wine exhibits. All major wine exporting countries hold an annual one-day exhibit in Stockholm. Furthermore, there are a number of whisky clubs in Sweden, and whisky tastings are carried out regularly. In conclusion, the Swedish alcohol market has become much more open and competitive, even though the retail monopoly and the advertising prohibition restrains the development of retail sales.

4.2.2 Market Growth

The wine segment of the market has been growing for the last 45 years. One of the reasons for this is the good quality of wine in Sweden. Another reason is that Sweden has, since 10-15 years ago, had good results concerning the association between food and wine tasting. The spirits segment on the other hand is declining steadily. In 1980, Systembolaget sold almost 58 million liters of spirits, in year 2000 sales were down to 23.5 million liters.[73] However, the decline seems to have ceased a little bit, and an increase of 0.7 % was actually reported for year 2000.[74] This year, tax-free was abolished within the EU. Business people, who travel a lot, can no longer buy spirits duty free, but they can afford to go to the monopoly in Sweden. Spiced aquavit, cognac, and whisky are alcoholic beverages that have become more popular.

The main sales channel for the enterprises operating in the market is Systembolaget. Only 15 % of total registered wine consumption and 7 % of

[73] Systembolagets Försäljningsstatistik (2000)

[74] Vin & Sprit Annual Report (2000)

total registered spirits consumption are sold through on-premise channels.[75] In 2000, the total market size of the sales going to Systembolaget was 5.9 billion SEK, excluding taxes.[76]

4.2.3 Actors in the Swedish alcohol market

Before Sweden's membership in the EU, 1995, Vin & Sprit (V&S) had the monopoly on the sales to Systembolaget. When the market opened up, the number of enterprises increased, and today between 250 and 300 enterprises are active on the Swedish wine and spirits market. Enterprises entering the Swedish alcohol market have to ask for registration at the tax authority as an excise taxpayer. There are no fees in the registration process, though, enterprises have to have guarantees that they can pay the taxes, and they have to show that they are reliable.

Enterprise size differs a lot, as there are both big global enterprises and small local importers active on the Swedish alcohol market. Though, a division is emerging between global and regional enterprises, where national enterprises are finding it increasingly difficult to make an impression. A few big players and many small ones characterize the Swedish alcohol market. SVL (Sprit och Vin Leverantörerna) has 28 members, which account for 75 % of the wine market and 97 % of the spirits market.[77] At the moment, there are actually more enterprises active on the market than required. When SVL started it had 30 members, now the organization only has 28, due to mergers. V&S is the biggest enterprise in the Swedish alcohol market today, having 20 % of the wine market and 55 % of the spirits market.[78] Looking at the big brands, V&S owns the top three ones.

Enterprises operating in the Swedish alcohol market tend not to push very much, being quite laid back in their promotion. There are not many ways in which enterprises can achieve advantages, since they are not allowed to influence the purchase decisions of Systembolaget, nor undertake marketing and advertising activities towards consumers to a great extent. However, enterprises try to find ways of influencing wine writers and Systembolaget's store managers to achieve competitive advantage.

[75] Swartz, B. (2001)
[76] Systembolagets Försäljningsstatistik (2000)
[77] Swartz, B. (2001)
[78] Nyström, M. (2001)

Most enterprises active on the Swedish alcohol market sell both spirits and wines. There are a few enterprises that concentrate on either of the categories. The number of products offered by enterprises differs. Some enterprises only have one product, others offer a small range of products, between 20 and 25, and others have a portfolio of more than 100 brands. The portfolios of the big enterprises are quite similar.

4.2.4 Customers

At present, there are three categories of customers for an enterprise active on the Swedish alcohol market: the state retail alcohol monopoly Systembolaget, HoReCa, and the wholesalers. There are two channels for enterprises and their products to penetrate the Swedish alcohol market: Systembolaget, the retail monopoly, and HoReCa, which is a free market.

4.2.4.1 Systembolaget

Systembolaget offers about 2500 brands from around 40 countries, introducing every year between 700 and 980 new ones. When deciding its product range the retail monopoly analyzes past and present sales figures, holds wine tasting, studies new trends both in Sweden and abroad, and interviews customers as they are basically deciding what stores will feature on the shelves. One prerequisite for the existence of the retail monopoly is to be non-discriminatory. It must not promote Swedish products in preference to imported ones, and the product range selection process has to be neutral and impartial in terms of brands, producers and suppliers. Therefore, every producer within the EU should be given the same opportunities to sell its products on the Swedish market. Systembolaget's product range is divided into five groups:

1. *the regular range* consists of standard products available all year round, mostly in the low and medium price brackets.
2. *the temporary range* comprises candidates from the regular range, brands of limited availability, and other products that meet customers' special requirements.
3. *the test range* includes products not included in the regular selection, but tested by the consumers.
4. *the special order range* is open to all licensed suppliers, presented in a separate list, that can be ordered by the customers.
5. *the import service* offers private individuals and restaurants the opportunity to order products, special orders, other than the regularly inventory.

When selecting its product range Systembolaget employs a plan, covering a 15-month-period, which represents the basis of new products' future purchases. The plan is updated every quarter and contains descriptions on types of products in different price brackets, without any brand specification. The types of products are assessed on the basis of anticipated customer demand, price, sensory quality assessment, available volume, and customer acceptance. Thereafter, Systembolaget asks the importers/producers present on the market to supply offers and samples of alcoholic beverages in accordance with the types comprised in the plan. A preliminary selection is made on the basis of economic or commercial criteria. Systembolaget's personnel make the final choice of brands by executing a blind tasting. The samples are rated and placed in ranking order, the final product selection being based only on the assessment of product quality. The selected products are included in the regular range or the temporary range. As a rule, beverages are kept in the regular range only if their sales reach predetermined quantities and market shares.

Systembolaget can refuse the introduction of a product in its regular range if the product does not comply with the requirements stated in an inquiry, or if the group of testers rejects the product. From the producer/importer point of view, bureaucracy represents another problem that might lead to product refusal. If the documents, which have to be filled in when informing Systembolaget about a product, are not correctly completed, then the product will not even participate in the testing phase. Products not selected may, at the request of the supplier, be put in the test range after the selection on the basis of a new tasting test carried out by a group of consumers. Another alternative for the producer/importer is to introduce the product in the special order range. Therefore, from Systembolaget's point of view there is actually no refusal, since they offer these alternatives.

It is forbidden for suppliers to try to influence Systembolaget's purchasing decisions. There are strict regulations concerning this matter. However, Systembolaget organizes every year a big event where all the producers and importers are able to participate along with the store managers. Here the producers have the opportunity to present their products, organize tasting, and have an open dialogue with the store managers. Systembolaget's headquarters has a special department designed for ensuring its participation in different fairs around the world. In Sweden mainly consumer activities are carried out, while abroad producer activities prevail. The suppliers are allowed to gather several

Systembolaget store managers and organize wine tasting, if they receive the headquarters' acceptance in advance. Any other form of contact with the stores is prohibited. On the other hand, producer/importer's opinion is that different personal relations might be useful in influencing Systembolaget's purchasing decisions.

In general, price and quality represent the most important factors when a producer/importer active on the Swedish market is trying to sell to Systembolaget. However, there are also different other factors that influence Systembolaget's purchases of alcoholic beverages specific to the wine segment or to the spirit segment.

With regard to the wine segment, trends in Sweden as well as trends abroad are very important, particularly due to the fact that lately Swedes travel overseas much more than they did in the past. Thereafter comes the quality of the wines and their price. Due to increased popularity, the bag-in-box wines and tetra-pack wines, accounted for 29 % of the sales in 2000. In the wine segment, since price is one of the main targets, Systembolaget settles special price classes in advance. Therefore, the requests are made in accordance not only with special characteristics (vineyard, grape type, production year etc.) but also with price classes settled in advance (max 40 SEK, 41-50 SEK, 51-60 SEK, 61-70 SEK, 71-80 SEK, 81-90 SEK, 90-100 SEK, and min 100 SEK). In case of equal quality and small price differentials within a price segment between producers/importers, Systembolaget will select the cheapest one.

Trends and brands influence also Systembolaget's purchases of spirits. In the spirits segment price classes are not fragmented, being much wider. Quality differentials are hard to assess, especially in the case of white spirits.

Systembolaget's sales in 2000 increased 6.2 % comparing to 1999. Wine sales increased only by 3.7 %. Red wines accounted for 56.0 %, and white wines for 32.5 % of total wine sales. The remaining 11.5 % consisted of champagne, sparkling, rosé wine and mulled, cider and wine coolers. Furthermore, in accordance with the different price class segmentation, the following price ranges dominated the white wine sales in 2000: 41-50 SEK (36.3 %), 51-60 SEK (34.8 %), and 61-70 SEK (20.4 %). The situation for red wines was a little bit different: 51-60 SEK (37.4 %), 61-70 SEK (29.7 %), and 71-80 SEK (10.7 %). There were no substantial differences with regard to spirit sales from 1999 to 2000, they increased by only 0.6 %. Spirits sales were dominated by non-spiced vodka 37.9 % and whisky 33.2 %. Scotch malt whisky and Irish whisky sales continued to increase. Liqueurs showed an increase too. [79]

4.2.4.2 HoReCa

Hotels, restaurants, and cafés or bars comprise the HoReCa business. This new market opened up in 1995, when Systembolaget's wholesaling trade monopoly of wine and spirits to restaurants was abolished. The restaurants business, clubs or other public establishments have expanded quite rapidly in Sweden, especially since the beginning of the 80s, and the number of restaurants licensed to sell alcohol will most probably increase in the future.

Statistics show that the amount of alcohol bought by restaurants from other wholesalers, besides Systembolaget, has continuously increased. Also, an increase in discounts, promotion articles, offers of restaurant fairs, test samples and study tours from wholesalers to restaurants has been seen, especially for the large ones. The proportion of alcohol sold at restaurants has increased. The on-premise consumption of wine accounts for 15 % of the total consumption, while for spirits the rate is about 7%. Both segments are increasing.

In accordance with the trends, a producer/importer can decide to introduce initially a new product on the market, a new wine or/and a new spirit, through a popular restaurant, café or bar. It represents a much simpler and rapid option to get to the consumer in comparison with Systembolaget's procedure. Later, if the interest of the customer has been captured he/she will ask for the product in Systembolaget's stores. Several customer demands may assure easier access in the monopoly's assortment. Since Swedish people have started to go out more often, this is especially relevant for the wine segment because they may try wines in restaurants and then purchase them from Systembolaget's stores. For a producer/importer HoReCa represents a favorable solution in case of product rejection from Systembolaget's assortment. However, selling to different restaurants, cafés or bars implies high costs.

In contrast with the monopoly, a producer/importer can influence HoReCa's purchasing decisions via conventional practices used in a free market. Generally, different services are offered, ranging from providing various

[79] Systembolaget Försäljningsstatistik (2000)

facilities to building up complete bars. The latter is particularly proper for spirits producers. Since HoReCa buys mainly from wholesalers, enterprises can influence their purchases by pursuing various campaigns through wholesalers.

To develop a long-lasting relationship with restaurants and pubs, the first step is to get the brands listed. This means that the restaurant is taking the product into its assortment, having it on the shelf, which the enterprise sometimes has to pay for, depending on the popularity of a restaurant. The next phase in the relationship with restaurants is to get a pouring contract. This means that if a consumer orders a drink, without demanding a special brand, the brands of the enterprise with a pouring contract will be chosen. In order to get a pouring contract the enterprise has to pay, since it is bringing sales volume for the enterprise. To become listed and then to get a pouring contract are the basic building blocks in the relationship with HoReCa. The next step is to help the restaurants sell as much as they can, through campaigns, education of their staff, POS (branded T-shirts, glasses, etc.) or different events.

4.2.4.3 Wholesalers

The number of new licenses issued for wholesale distribution of spirits increased in Sweden by 38 % during 1996, and 20 % during 1998. For wine wholesale distribution licenses, an increase of 35 % was recorded in 1996, and 31 % in 1998.[80] The number of wholesale enterprises selling wine and spirits to Systembolaget and restaurants has increased considerably during the 1995 – 1998 period. In 1998 about 300 enterprises held a wholesale license, but actually not all of them were active on the market. There are significant differences between the wholesale enterprises active on the market. Many of them are specialized in certain types of beverages or in certain producer countries, while others market all types of alcoholic beverages and represent several bigger producers from different supply countries. On the market there are about 15 big operators which account for 90 % of the total sales of alcoholic beverages. Wholesaler's importance as a distribution channel towards small restaurants and bars has grown significantly, since the producers/importers present in the Swedish market usually do not work with them directly. Therefore, increased future cooperation is expected between wholesalers and the producers and importers, especially in supplying the HoReCa segment.

[80] National Tax Alcohol Board (2001)

4.2.5 Suppliers

There is a diversity of suppliers for the producers/importers present in the Swedish alcohol industry, not only in accordance with the segment that they supply - wine or spirits, but also with their geographical location. Vin & Sprit AB, which is the largest producer in Sweden, operates a vineyard in France – V&S Domaine Rabiega, and production of wine and spirits is carried out in different countries including: Sweden, Denmark, France, Great Britain, Germany and the Czech Republic. Other smaller producers usually import grape must for wine production from different countries.

The importers, who are producing their wine and spirits brands abroad, generally possess production sites situated in different geographical locations around the world. Specific to the alcohol industry are the appointed denominations, recognized throughout the world, that some sorts of alcohol can only be produced in special areas or countries. Tequila and Cognac are two examples, since tequila can only be produced in designated areas of Mexico and Cognac only in a defined area of France.

The suppliers' size and number differ to a great extent according to the type of alcoholic beverage being produced. As an example, for champagne, several suppliers are needed to assure the variety of grapes that have to be used in the production process. The same requirement goes for the production of blended whisky where in order to assure the required mix of single malt whiskies different suppliers are used.

4.2.6 Consumers and Consumption

Consumers and consumption differ between the wine segment and the spirits segment of the market and they are therefore discussed separately.

4.2.6.1 Wine Segment

Most wine consumers are very price sensitive, 80 % of the wine sold in Sweden costs less than 70 SEK. An expression of the price sensitivity is the move from glass bottles to bag-in-boxes and tetra packaging, which are cheaper. There is a small group of 10 or 15 % asking for top of the line products.[81] Within different segments, the price is important to most people. For example, it matters if a wine costs 50 or 55 SEK. There are some kinds of magical price limits. For

[81] Swartz, B. (2001)

every ten Swedish Crowns, there is a certain limit that the enterprise has to stay just below. At the moment the consumers can get quite good quality wine for quite a low price.

Consumers in the wine segment of the Swedish alcohol market tend to try new products all the time, and they are very sensitive to trends. Sometimes Spanish wines are popular and other times wines from other parts of the world. Wines from the New World (Australia, South Africa, Latin America, California among others) have increased in popularity in recent years. Some wines are popular for several years, but there are also new wines, which everyone is buying for two or three months, then it stops. The number of wines available at Systembolaget is huge, and the consumers cannot know about them all in terms of quality, grapes and so on. When buying wine, consumers therefore buy the brands they are aware of and of which they have a high quality perception. The design of the bottle is also of importance for the consumers. Today, many wine bottles are very innovative, and when consumers lack product information the design of the wine bottle becomes important for the purchase decision. The cheaper the wine is, the more important the design of the bottle.

Consumers are not influenced by any commercial messages from the wine producers or importers. This has made them very sensitive to written editorials and television programs where different wines are tasted and evaluated. The Swedish consumers are actually searching for product information, and have an interest in the product to a much greater extent than consumers in other countries, where enterprises advertise and market wine. Thus, the wine journalists have a tremendous impact on wine consumption. Some of the wine journalists are highly objective in their evaluations, however there are also more subjective reviews. The fact is that the journalist always expresses his or her own opinion, and they sometimes have interests of their own in the wine industry. In Sweden there are also several wine clubs, which travel to different wine regions and arrange tastings.

The wine consumers are becoming more and more advanced, and also trendier. The on-premise sales (HoReCa) are still very small (15 % of the total registered consumption). Though, people are going out for a glass of wine to a greater extent today than a couple of years ago. This has enforced the development of more wine bars, selling wine per glass and not per bottle so that consumers can taste different wines.

4.2.6.2 Spirits Segment

In the spirits segment of the Swedish alcohol market, consumers are not as keen on testing new products as in the wine segment, and therefore they buy the products they know. People tend to drink pretty much the same products their whole lives. However, like in the wine segment there are also trends in the spirits segment. For a couple of years, single malt whiskies have been very popular. The awareness and interest of alcohol generally in Sweden is increasing, and the consumers are getting more and more advanced and trendier. Fashion influences are especially to be found in the on-premise sales (HoReCa).

Consumers are not as price sensitive in Sweden as in other countries. Though, they can be divided into two different groups. There is a group of consumers that are very price sensitive, but they have already chosen another market, buying abroad, duty free or from the black market to escape the high alcohol taxes. Then there are people that are quite well off, being willing to pay a little bit extra. The consumers using the monopoly are very brand oriented, and not very price sensitive. However, the price is always there, as an underlying assumption in all categories. Quality and packaging are elements that are important for the spirits consumers using Systembolaget's stores. Many enterprises have focused on innovation in the packaging to differentiate their image.

The consumers' demands differ depending on what spirits category they are buying. In the white spirits category (vodka for example) different brands have almost the same taste, it is hard to notice any big difference in taste. Gin is a similar category. It is not important for people what kind of gin it is in their gin and tonic drink. The whisky segment is different, as consumers usually want a certain type of whisky. In Sweden, whisky consumers are not very price-sensitive overall. Whisky and cognac, and also to some extent gin, are categories of which people do not tend to buy several bottles a year. People buy whisky and cognac more seldom, and they want good quality. However, it is hard to generalize, because each case is individual. If there are several similar whiskies for example, the price might be very important. Whisky tastings are popular in Sweden, and there are several whisky clubs in the country.

4.2.7 The Black Market and Cross Border Trade

The Swedish alcohol policy may have additional effects that usually do not appear in the official alcohol sales statistics, including: illegal home production, legal tourist import in accordance with existing rules and quota regulations, and illegal import in the form of smuggling. The cross border trade of alcoholic beverages between Sweden and its neighboring countries arises from the interaction and interplay between priorities and policies on the national, the Nordic, and the European level. Cross border trade has been stimulated by the liberalization of regulations concerning travelers' imports, where price differences are a very important incentive for individuals to engage in this type of activity.

Cross border activity in form of cross border shopping and cross border smuggling is found across land or sea boundaries where there are significant differentials in prices. If prices and rates are aligned, this phenomenon will be found where there are significant rate differences. The ability of consumers to buy drinks at lower duty rates in neighboring countries provokes important distortion in trade and causes losses to state revenues. Sweden has land boundaries with Finland and Norway, and sea boundaries with Denmark, Germany and the Baltic states. With regard to wine and spirits the greatest differentials are found in Sweden to Germany. Cross border activity is dominated by spirits, statistics showing that in Sweden about one quarter of the spirits consumed are bought outside its territory, having not only a negative impact in terms of market share but also causing an important state revenue loss. Cross border activity takes place to a greater extent in the Southern part of Sweden, in comparison with the central or the Northern part of the country.

Comparing duty rates in Sweden, Denmark and Germany, travelers can make substantial duty savings on wine and spirits by shopping in Denmark, and even bigger savings by shopping in Germany. The greatest cross border activity takes place between Sweden and Denmark. Swedes travel to Denmark to buy mostly spirits, but also wine. As presented in the previous part of this thesis, Sweden will continue to apply, on a sliding scale, travelers' allowances settled by EU, until 2004 when they will be abolished in favor of the minimum indicative levels. Though, the customs already use the minimum indicative levels in cases where there is commercial activity with individuals crossing the border many times a day, to decide if their imports are of private or commercial nature. This is mainly because they import up to the travelers allowance limits without payment of duties.

Regarding the differences in alcohol taxation between countries, the future development of Swedish duties on alcoholic beverages is influenced by the duties applied by neighboring countries. For example, a Danish government decision to reduce spirit taxation up to 50 % in 2002 in order to cut the cross border trade between Denmark and Germany, which has lower taxes, would have encouraged tremendously the cross border trade between Sweden and Denmark, the Swedish tax becoming in this case four times higher than the Danish one. However, for the moment it has been decided that there will be no tax reduction in 2002, since discussions on this matter have not been concluded yet.

On the other side, if Sweden decides to lower its taxes, it is believed that a reduction towards the Danish level will not initiate cross border purchases from Finland, since Baltic States rates are still lower than in Denmark. What is accepted is that lower duty rates will lead to lower prices, which most probably will be reflected in increased internal demand. Under the same circumstances, researchers from the Center for Social Research and Alcohol and Drugs at Stockholm University, SoRAD, pointed out that maybe the cross border trade in the Southern part of the country will be considerably diminished, people switching from private imports to domestic purchases, but there will always exist some kind of private imports.

As observed by Vin & Sprit AB, the 2000 increase in travelers' allowances has not implied significant changes in the sale pattern of the top spirits brands. Even though for the moment the situation remains stable, changes in the sales pattern will most likely occur after the 2002 and 2003 spirits allowance increase. The opinion of the researchers at SoRAD on the same matter, is that increased travelers' allowances, will lead to an increase of private imports not only in the Southern part of Sweden but in the entire country.

The Center for Social Research and Alcohol and Drugs at Stockholm University, indicates in its 2000 report on unregistered consumption in Sweden, a 16 % decrease in the travelers' spirits imports during 1998-2000 period, while wine imports continued to increase at a lower rate. The reduction in the spirits imports was most probably a result of the abolition of tax free trade within the

EU in 1999. The Swedish Spirits and Wine Suppliers observed the same phenomenon. Then again, as a result of increased travelers' allowances and the Öresund Bridge traffic opening, an increase in imports was expected beginning with the second half of 2000. For a clearer picture, the evolution of personal imports as a share of the total consumption in Sweden between 1990-2000 is presented in the Table 4.5, below.

Table 4.5: Personal imports as share of total consumption in Sweden

Year	Total Consumption		Personal Imports		PI share of TC	
	Spirit	Wine	Spirit	Wine	Spirit	Wine
1990	2,9	2	0,5	0,1	17,20%	5,00%
1993	2,9	1,9	0,5	0,1	17,20%	5,30%
1994	2,7	2	0,4	0,1	14,80%	5,00%
1995	2,7	2	0,5	0,2	18,50%	10,00%
1996	2,7	2	0,5	0,2	18,50%	10,00%
1997	2,6	2,3	0,7	0,3	26,90%	13,00%
1998	2,6	2,7	0,74	0,31	28,50%	11,50%
2000	2,3	3	0,62	0,35	27,00%	11,70%

Source: Kühlhorn et al. (1999), and Leifman, H. et al. (2000)

Spirits are also leading with regard to cross border smuggling. Researchers indicate that the young people and the alcohol abusers mainly buy illicit spirits, while private imports concern normal citizens. Assuming that alcohol abusers do not travel that much abroad, a problem that arises here is the existence of a black market consisting of private imports, meaning legal private imports that are sold illegally, which are hard to be verified. Lately, Sweden has managed to lower the consumption of illicit spirits to a great extent, using several different public campaigns, which emphasized the danger of those kinds of spirits. A shift has also been registered in the young people's drinking patterns, from illicit spirits towards strong beer or spirits bought at Systembolaget.

The rate of estimated spirit smuggling as a share of total consumption showed reduction signs after 1996. In addition, the results of the report show that consumption of illicit spirits, including home distilled spirits and smuggled spirits, has decreased by about 30-50 % during the 1996-2000 period. The share of illicit spirits in the total consumption in 2000 decreased to 15 % from 20 % in 1998. If the spirits that are brought in the country by travelers outside the maximum allowance are added, illicit spirits accounted for 25 % of the total consumption in 2000, compared with 33 % in 1998. However, the most burning issue during last year has been the unrecorded consumption from private imports due to its 20 % share in the total consumption.[82]

The majority of Swedes do not buy spirits at Systembolaget. About 50 % of the spirits come from other sources. Both the black market and the traveler's allowances level have a certain impact on Systembolaget's sales. Therefore, the retail monopoly is continuously trying to conquer them in order to survive, using different agendas, since one is illegal and the other one legal. Gaining market share from the black market and private imports is vital, especially in the spirits segment. If the share of the spirits sold at Systembolaget decreases much under 50 % of the overall consumption, the existence of the monopoly will be seriously threatened, becoming unjustified.

According to the Swedish Institute of Public Health, the future increased availability represented by free import of alcoholic beverages, will considerably raise the alcohol consumption from the black market spirits. It is also interesting to present the Swedish Ministry of Finance opinion about what might happen when travelers' allowances are increased and the excise duties reduced with regard to substitution, since their evaluation is made from the revenue loss point of view. The production of home made wine will not be affected by price changes of registered wine, as home wine making is regarded more as a hobby rather than a supply of cheap wine. Concerning spirits a distinction is made between individuals, since an individual is assumed to substitute between domestically registered and personally imported spirits, and between domestically registered and illegal spirits (illicitly distilled or smuggled). Hence, illegal spirits and imported spirits are not regarded as substitutes, since there are big differences between an individual consuming illegal spirits (demanded by large consumers) and an individual consuming imported spirits (demanded by low consumers).

4.3 Allied Domecq Wine & Spirits Sweden AB

Allied Domecq PLC is a dynamic marketing-led brand enterprise, which operates globally in the business of Spirits & Wine and Quick Service Restaurants. This study only focuses on the Spirits & Wine business. Allied

[82] Leifman, H. (2001)

Domecq PLC is the second largest spirits and wine enterprise in the world. The total turnover of Allied Domecq PLC in year 2001 amounts £2,879 million, where £330 million were invested in the marketing of Spirits & Wine. 26 % of the enterprise's trading profit comes from the European area. Only one business area is bigger, North America, counting for 34 % of trading profit. Allied Domecq PLC is traditionally a spirits enterprise. However, its recent acquisitions of different wine brands have transformed its business, and the future wine volumes will increase to represent 20 % of the Spirits & Wine business. Due to the acquisitions made in the wine segment, Allied Domecq PLC is now the world's fourth-largest wine enterprise.[83]

In Sweden, the operations of Allied Domecq PLC are represented by Allied Domecq Spirits & Wine Sweden AB, which is a Sales and Marketing division located in Stockholm. The Swedish subsidiary employs about 25 people, and is part of the Nordic organization of Allied Domecq PLC, which coordinates the support functions: marketing, finance, logistics, IT, and human resources. The Nordic Vision statement is:[84]

"To become the 3rd biggest profit contributor in Europe, by increasing profits 15% per year, and be fully prepared for an open market by 2004"

This vision consist of the more specific goals of becoming the number one distributor of premium spirits and wines, and building brands that are the preferred brands of the enterprise's target consumers. Allied Domecq's main customers in Sweden can be divided into two categories, on-premise customers (HoReCa) and off-premise customers (wholesalers and Systembolaget). The majority, 96%, of the enterprise's sales goes to Systembolaget.[85] Allied Domecq Sweden AB is the fifth biggest spirits supplier to Systembolaget, having a market share of 4.1 %. None of Allied Domecq's spirits brands are among the top ten best selling brands. Within the wine segment, Allied Domecq is not among the top ten suppliers to Systembolaget, however the enterprise's brand, Black Tower, is among the top ten best selling white wines.[86]

[83] AD "A year of achievement" Annual Report and Accounts (2001)
[84] Jääskeläinen, P. (2001)
[85] Nätt, H. (2001)
[86] Systembolagets Försäljningsstatisktik (2000)

At the moment, Allied Domecq PLC is going through quite big changes in its global marketing structure and the new marketing strategies have not yet been announced. The autumn of 2001 is therefore a holding time, where investments are minimized in order to save up financial resources that will make a bigger impact in the spring of 2002.

4.3.1 Goals

Allied Domecq PLC focuses on increasing sales and marketing effectiveness worldwide, by supporting innovation, premium brands and core brands, aiming also to bridge central and market teams, and integrate long term brand and market strategies.[87]

The main focus in the Swedish alcohol market is distribution, both off-premise and on-premise, and customer relations. Another focus is consumer strategy and targeted consumer communication, in a strategy project called ”Consumer 2005”. Furthermore, specific goals have been set up for different product categories and brands in the Swedish market:[88]

Wine segment: To get a wide portfolio of different wines. Recently, Allied Domecq PLC acquired wine businesses in Argentina, California, France, New Zealand and an offer has been made for Spain’s leading winemaker, Bodegas y Bebidas. Brands that command strong margins, good domestic scale and real international potential have been acquired. At the moment the goal is to transfer the distribution from the wine houses to Allied Domecq. When the distribution situation is determined, specific goals for each single brand will be set in order to position them in the consumers’ minds with regard to awareness, preference and penetration.

Whisky segment: Allied Domecq has several whisky brands in the Swedish market. The goals are to focus more on Ballantine’s (one of the enterprise’s core brands), and to improve the position of single malt whiskies.

Other spirits segments: Focus on Beefeater (gin) and Kahlúa (liqueur) in order to position them in the Swedish market.

[87] www.allieddomecq.co.uk
[88] Jääskeläinen, P. (2001)

4.3.2 Values

Allied Domecq has three key values: focus, speed and openness. The enterprise has a wide portfolio of brands and it is operating in many different markets. The focus is therefore important in order not to waste resources, but to work with the right brands in the right markets to really find potentials. Speed refers to the decision-making process, the ability to see changes in the environment and react to them. Finally, openness is key in the overall communication, important especially in the Nordic region. The aim is to spread information to employees.

Allied Domecq views its operations as processes that are continuous, and everything is integrated into one strategy project. It is necessary to make assumptions regularly since the market changes very quickly. Therefore, strategies are adapted and evolve with projects. In that sense, the enterprise's structure is loose.

4.3.3 Resources

The resources of the enterprise at the global level can be divided into three major categories: tangible, intangible and human resources. They are presented below.

4.3.3.1 Tangible Resources

Tangible resources are the easiest to identify, and consist of financial resources and physical assets of an enterprise.

Allied Domecq PLC is a big global organization, operating through over 50 businesses worldwide, employing more than 10,000 people. The enterprise produces the majority of its brands, with production sites and vineyards located in several parts of the world (Scotland, Mexico, the USA, Great Britain, France, Spain among others). This is an important resource, since there are denominations, recognized throughout the world, that some spirits can only be produced in special areas or countries. By its spread operations, Allied Domecq has access to production facilities for several types of spirits and wine, determining a wide set of production possibilities.

Net debt increased in 2001 from £1,252 million to £1,854 million. The main outflows were for acquisitions, which were funded by increased debt. Though, cash generation from operations is healthy, and the enterprise remains in a strong financial position. The acquisitions have delivered strong results, with an increase in underlying earnings per share of 13 %, trading profit increased at 11 % and comparable profit before tax is up 12 %. Return on investment has increased to 9.6 % compared with 9.3 % last year and 8.3 % in 1999, and the net cash inflow from operating activities were in August 2001 £423 million.[89]

Further, Allied Domecq has leading-edge customer management tools which are among the best available for top fast moving consumer goods. The good base of sales tools and evaluation tools are saving time since they make activities very efficient.

4.3.3.2 Intangible Resources

In comparison with the tangible resources, the intangible resources remain largely invisible. Technological resources, reputation and human resources are examples of intangible resources.

Allied Domecq has, through its diversified production sites, a broad base of production knowledge and technological expertise. Efficiency is constantly improved, and the enterprise is committed to product innovation. For 2001, though, only £1 million was invested in R&D, which is quite a low investment, for a total turnover of £2,879 million. Though, full costs of new product development has not been included in the investment of £1 million, and Allied Domecq is actually at the moment re-focusing its approach on innovation. Focus is on ready-to-drink formats, low alcohol high margin products and trademark extensions.

A major resource of Allied Domecq is its brands. Allied Domecq has a very good portfolio of brands that are famous worldwide, comprising several spirits categories and also wines. Eleven of the brands are actually among the top 100 international premium spirits brands. Ballantine's, Beefeater, Kahlúa and Sauza are global priority brands, followed by another 21 brands that have strong positions in selected markets. In Sweden the enterprise markets 31 spirits brands, three sherry brands, and eight wine brands. The spirits brands comprise 14 whisky brands, one bourbon brand, two gin brands, three tequila brands, one vodka brand, four cognac brands, one brandy brand, and four liqueur brands. In

[89] AD "A year of achievement" Annual Report and Accounts (2001)

Appendix 2, a detailed list of Allied Domecq's brands on the Swedish market is presented.

During the last 18 months Allied Domecq has made several acquisitions, which have strengthened its brand portfolio significantly. The acquired wine businesses in Argentina, California, France, and New Zealand together with the acquisition of two world-class Champagne brands, G.H. Mumm & Cle and Perrier-Jouët, have strengthened the position of the enterprise. The acquired brands command superior margins, have good domestic scale and international potential.

The brands are important assets in terms of reputation, as they instill confidence for customers, and drive profitable growth and strong consistent cash flows for the enterprise.

4.3.3.3 Human Resources

The human resources of an enterprise, consists of the productive services human beings offer the enterprise in terms of skills, knowledge, and reasoning and decision-making abilities. Allied Domecq has created a vibrant 'people agenda' and strong human resource infrastructure, aiming at engaging, providing opportunities, rewarding good performance and recognizing achievement. Consistent externally benchmarked assessment process, detailed development programs and succession planning are provided to get the right people in the right places. Rewards and opportunities for advancement are explicitly performance-driven. The human resource community of the enterprise is very dynamic, teams across all parts of the enterprise are committed to raising standards continually, to learn from internal and external best practice and to measure progress. Considerable emphasis is placed on communications with employees, and in May 2001 a global Intranet portal was launched to enhance communication and provide simple access to a wide variety of enterprise data. In Europe, Allied Domecq has a European Council, acting as a forum for Pan-European consultation and discussion.

The people working in the Nordic region are professionals in different areas, and they have different personalities and backgrounds. This makes the skills and knowledge base of the Nordic region wide, and the team very balanced. Linked to this is high motivation. The employees in the Nordic region are very well aware of what is happening in the enterprise, and they feel quite comfortable with change. The adaptability of the employees is high. This is further enhanced by the enterprise culture of Allied Domecq, which is very innovative, focused, and efficient, combining softer and harder values.

4.3.4 Capabilities

Allied Domecq's core capabilities will be presented next in relation to the enterprise's activities in the Nordic region including: human resources, IT, marketing and sales, logistics and finance.

4.3.4.1 Human resources management

Teams across all parts of the enterprise are committed, and driven by a common goal, which makes the cooperation effective. Benchmarking processes are regularly used in order to learn from best practices, and to get the right people in the right places. Furthermore, as already stated one of the enterprise's goals is to bridge central and market teams to be able to integrate long term brand and market strategies. Openness is the central feature of the communication process that will assure a clear and objective information transmission to the employees. In the Nordic organization the flexibility of the employees with different backgrounds and skills, and the high motivation, allows the enterprise to adapt easily to changes that may appear in the external environment. The people employed by Allied Domecq are skilled and knowledgeable, the enterprise aiming at employing people with diverse backgrounds and personalities that in the end will lead to balanced teams.

4.3.4.2 Technology development

The technological capability of Allied Domeq is quite impressive, being continuously improved. Investments have been made to enhance key information technology systems and standardize them on an SAP platform globally. The improved availability and consistency of data will contribute significantly to enterprise's ability to drive the performance of the business once the project is complete. Since considerable emphasis is placed on communications with the employees, the global Intranet, launched in 2001, aims at enhancing communication and providing simple access to a wide variety of enterprise data. Best practices can be shared among the employees globally through the enterprise's Intranet or discussion forums.

4.3.4.3 Marketing and sales

The brands of Allied Domecq are global, and coherent strategies are developed through a series of workshops. Clear policies and targets are set centrally, but local operations are free to achieve the agile and sensitive response to customers, which brand development requires, making the enterprise capable of responding to changes in local markets. Since brand strategies are developed globally, Allied Domecq achieves economies of scale in its marketing activities. Global marketing campaigns support local markets through satellite television and Internet. Many of the worldwide trends and campaigns reach Sweden, making the enterprise able to market its products and position its brands in the mind of consumers. The wide portfolio and global operations of Allied Domecq makes its operations less volatile to new trends. When one brand is selling badly, another one might be very trendy and sell really well, making it possible for the enterprise to survive in the long run.

Moreover, due to its size, Allied Domecq is able to push more for its products than a smaller actor on the Swedish market. In order to communicate with the consumers, the infrastructure of the global organization supports the local activities. Allied Domecq has the resources to work towards HoReCa and get the products out to many places, and thereby increase consumer awareness and perception of different brands. The dynamic structures of the enterprise and motivated employees allow the creation of innovative marketing activities. The enterprise’s sales and marketing team together with the wide portfolio of brands enables long lasting relationships with customers.

Allied Domecq is one of the world’s biggest enterprises active on the spirits and wine market, selling important amounts of products, the enterprise therefore benefits from economies of scale not only in its marketing and advertising activities, but also in the production activities. The profit margins of Allied Domecq are slightly higher than for a small producer, making it possible to have special offers to preferred restaurants and also to carry out campaigns in cooperation with wholesalers. By cooperating with the wholesalers Allied Domecq is able to target HoReCa in two ways, with the enterprise’s sales promotion team and through wholesalers. Allied Domecq can arrange tastings for the Systembolaget’s stores managers in order to inform about its products, in addition to tastings for private wine and whisky clubs. Here the enterprise has an advantage due to its size.

4.3.4.4 Logistics

With regard to logistics activities, Allied Domecq continued to concentrate on its global supply chain strategy, delivering underlying improvements particularly in the area of inventory management. In Sweden, the enterprise's products are distributed by ASG, a transportation enterprise. Through ASG, Allied Domecq has a warehouse in the Swedish market.

4.3.4.5 Finance

For the European region profit grew by 14 % in 2001, which represents a fifth successive year of double digit growth. Strong performances were delivered in the Nordic region.[90]

[90] AD "A year of achievement" Annual Report and Accounts (2001)

5. Analysis

This chapter starts with the macro environmental analysis and industry analysis, which describes and analyzes the Swedish alcohol market today. The environmental and industry analysis answers our first research problem. After follows the development of scenarios where the future of the Swedish alcohol market is discussed and analyzed at industry level, fulfilling research question two. Finally the strength and weaknesses of Allied Domecq, our case study enterprise, are analyzed, providing answers to research question three.

5.1 PEST Analysis

The PEST analysis was identified as an appropriate tool to use in the analysis of the macro environment of the Swedish alcohol market. The PEST analysis comprises the four segments political, economic, social and technological. The main segment of our study is political, due to the specific situation of the Swedish alcohol market with strict regulations.

Each of the segments was analyzed in accordance with the institutional approach to environmental analysis described in our theoretical framework. First the environment was scanned to identify the institutions that have the greatest impact on the enterprise's operations. Second, the identified institutions were described more in detail. Third, the influence of the institutions was studied. Finally, the future of each institution was predicted.

5.1.1 Political

The political segment represents an important influence on the Swedish alcohol market, and constitutes several institutions: WTO, WHO, Industry Associations, the EU, and the Swedish Government. The EU and the Swedish Government are the two institutions with the greatest influence.

5.1.1.1 WTO

The regulations settled by GATS envisage mostly the governmental level of the WTO member countries. This matter differs significantly from the EU regulations, which are enforceable to a greater extent. Also, it is necessary to point out that GATS' regulations are mostly unknown for the public in comparison with EU regulations, despite their importance. World Trade Organization' s services treaty, GATS, as a complex and broad international agreement has a certain power over its member states' alcohol regulations, the agreement containing legally enforceable restrictions related to alcohol services on WTO members' governments.

At present changes are proposed for the services relating directly or indirectly to alcohol, which if adopted will certainly place more restrictions on the different government's regulatory ability in the sphere of alcohol related services. The treaty changes aim to increase alcohol market liberalization. The increased liberalization of the alcohol distribution systems proposed by GATS benefits also from the European Commission support. GATS measures apply explicitly to non-discriminatory domestic regulations at all government's levels.

Sweden's alcohol policy based on health related matters, is generally affected by international trade treaties on governmental alcohol monopolies and taxation regimes important from a public health point of view, and GATS makes no exception here. GATS' main influence comes under the aspect of the restrictions on alcohol advertising, since even if Sweden has made extensive specific commitments on advertising services in the GATS in 1994, it has not excluded alcohol advertising from them. Therefore GATS' rules now apply to advertising services. However, Sweden has excluded alcohol at the retail level from its commitments made on distribution services. But even here the situation may change as the current GATS re-negotiations target to reduce to a greater extent the trade barriers in alcohol related services. Government restrictions on alcohol access and availability might also be attacked.

Most important to be considered therefore is the link between the EU and WTO, who seem to become more and more connected. Issues that might not come under the attack of EU regulations might and most probably will after several rounds of re-negotiations, come under the attack of GATS regulations. What remains a problem is their enforcement, as in the WTO one government has to take action against another on a certain matter, and that is very seldom happening. However, GATS rules and regulations should not be underestimated despite their enforcement extent, as the powers of the alcohol monopolies worldwide defended during the European integration process will face new pressures during GATS re-negotiations rounds.

5.1.1.2 World Health Organization

The World Health Organization (WHO) is aiming at lowering alcohol consumption and reducing alcohol related harm. WHO has developed several alcohol-political plans, supporting restrictive regulations like tax policies that ensure high real price on alcohol, the limitation of availability by controlling the number of sales places, the introduction of age limitations, and restrictions on advertising and marketing. The plans developed by WHO have been supported by all its member states, including the states of the EU.

However, the plans developed by WHO are not binding, nor do they have any legal power. Member States do therefore not have to fulfill the goals set up. The plans are important for Sweden in the alcohol-political debate. As the awareness of alcohol related problems increases within Europe, there are signs that WHO will make more energetic moves in the future, though, such a development will take time.

5.1.1.3 Industry Associations

Producers and distributors of alcoholic beverages are today well organized into industry association, being active in networking and lobbying towards decision-making and legislative bodies. Within the alcohol market, these associations are undertaking lobbying activities towards export limitations, taxes, other trade policies, as well as public health. The Amsterdam Group is an industry organization working at the European level, having great influence on policy formulations, having an extensive network of contacts. In Sweden, SVL (Sprit & Vinleverantörerna) is an important industry organization for the formation of Swedish national alcohol policies. SVL is for example putting a lot of pressure on the Swedish government to lower taxes.

A big advantage of the industry associations is the fact that they have much more resources than national governments and health organizations, increasing their influence in policy formulations. As markets are liberalized and opened up for competition, the power of industry associations increases. At European level and in Sweden, they will therefore continue to be very influential in the field of policy formulation.

5.1.1.4 The European Union

Alcohol is viewed in the EU as any other commercial product, and the majority of EU countries do not have centralized or formalized measures of alcohol control, nor do they have official alcohol policies. Some member states have only certain measures of control of alcohol as a commercial product or concerning specific alcohol related problems. Therefore their support for these kinds of regulations is very low. Out of 15 member states only Sweden and Finland have retail alcohol monopolies. This does not mean that the other 13 member states are against this type of monopoly, but neither are they supporting it, of course as long as it does not hinder them in any aspects. In conclusion, inside the EU, trade considerations come in the first place and usually win in conflicts between trade and health policies motivated by alcohol related problems. This has been the case until now, and there are no signs of change.

Taxation and tax harmonization

The only common factor with regard to alcoholic beverages for all member states is taxation, which is the responsibility of each state. EU has and continues to support tax harmonization. Again this is a delicate problem due to the diversity of the member states taxation systems and also because each state want to keep taxation central to its power. Member states support tax harmonization within certain limits, in accordance with their own particular interests, which makes this process very slow and also difficult in reaching consensus. Until now, the EU has devoted special attention to the harmonization of indirect excise duties, in form of VAT and excise duties, setting in 1992 minimum levels for excise duties for all member countries.

Tax harmonization is supported by the EU in order to assure the proper functioning of the internal market, in the form of not obstructing the free movement of goods, services, and capital or distort competition. Member states support this idea, but are unable to reach consensus of the harmonization direction. High tax countries support harmonization towards their level of taxes, while the other countries favor downwards harmonization. This situation is unlikely to change as high tax countries do not want to lower their level of taxes, and low tax countries have actually no reasons to increase their taxes. Realizing this matter and being unable to reach significant results in tax harmonization by means of regulations, the Commission changed its strategy, letting the market forces achieve further progress.

At present, the Commission is reviewing the levels of minimum excise duties levels that haven’t been changed for nine years, supporting their update in accordance with the inflation rate. Analyzing the effects of different alcohol tax rates applied by different member states and their negative effect for the customers, the Commission will present, at the beginning of 2002, a proposal to change the existing requirements. The outcome remains to be seen, but it is somehow obvious that the level of minimum rates will be increased or at least maintained at the current value. A reduction is out of question. In any of the cases previously mentioned Sweden will not be affected, as the country has already too high taxes, so there will be no problems to comply with the minimum levels. The Commission supports also the adoption of an upper tax limit for alcoholic beverages, or maximum excise duties levels. Here again the opinions among member states vary, and the support is very low. They will be proposed again in 2002, but without any real chance of being adopted. Within the future framework of increased levels of minimum taxes and no maximum levels, Sweden will be able to maintain the flexibility of today. Therefore the decision of the taxes level will remain at the national level, a problem for the government.

It is also very clear that under no circumstances will the Commission support a high taxation policy based on health related matters, recommending other means to combat alcohol abuse. The situation will not change here, as there are no other countries in the EU in a similar position, so there is actually no support. The link between taxation and health issues has to take another form, in order to be accepted.

EU and The Swedish Retail Monopoly

Sweden was allowed to maintain its retail alcohol monopoly system, as a result of the 1997 ECJ ruling in the Franzén case. The decision has been of importance for all the Nordic monopolies ensuring their legitimacy at the European level. The prerequisite for the monopoly existence is to be non-discriminatory. It has to remain guided by this principle, as any fluctuations or changes in their practices are closely examined by the Commission, and might undermine its existence. The monopoly does not face any direct pressures from the Commission, other means being used such as taxation, levels of travelers' imports, etc.

Public Health Policy in Europe

The public health aspect has been stressed quite late in the EU, and presently there is not a public health policy with regard to alcohol consumption.

Gradually the awareness of the alcohol health related problems has increased in the EU, being emphasized especially during the last presidency, but with almost no influence on important matters such as alcohol taxation for example. It was also very hard to agree on a matter as such, again because the majority of EU members were not interested in adopting a common position under this aspect. The extent to which agreement might be reached is on regulations that represent a concern for everybody, such as drinking and driving, young people and alcohol, etc.

At the moment, the Health Council proposed a future common strategy on alcohol, the member states agreeing that alcohol related matters should be viewed also as a public health issue. It's the Commission's task to come up with the strategy proposal. Therefore, EU is changing a little bit regarding health policies, as the Commission is beginning to slowly take the alcohol problem seriously. So far, though, it has mainly been talk about the public health factors without any relevant signs that they will make a difference. However, it might take a long time for them to become a strong argument.

Advertising and Marketing in the European Union

Advertising of alcoholic beverages regulations differ to a great extent between the EU member states, with majority of Scandinavian countries and France having stricter legislation in comparison with the other member states. At present, EU's regulations on marketing activities of alcoholic beverages are less developed than the tobacco ones, for example. Although, there is a trend towards the introduction of more restrictive regulations in the future. With regard to this matter, several recommendations were already adopted on alcohol advertising during this year, concerning marketing and advertising targeting children and young people. Even though the EU recommendations are not binding on member states, this proves that EU has directed its attention to these matters. It will be difficult to reach agreement on specific legislation concerning advertising and marketing of alcoholic beverages due to a variety of opinions and interests of the member states. Therefore, even if proposals on these matters do exist, the adoption of legislation might represent a slow process.

There are two ECJ rulings of importance for Sweden with regard to marketing and advertising. First, the 1997 ruling on alcohol advertising on TV channels, that allows alcoholic beverage advertising in accordance with the TV channel broadcasting country regulations. Next, the March 2001 ruling on Sweden's ban on alcohol advertising, sustained by the Swedish government on public health protection considerations. Here, ECJ found the ban compatible with EU legislation as long as it doesn't obstruct foreign market access, stating also that the ban can be motivated by public health considerations only if public health cannot be protected in any other way. The case rests now with Stockholm's District Court.

This law proportionality issue is very delicate, and even if for the moment Sweden has obtained favorable public health rulings, future ECJ rulings on similar matters in other member states cases will undermine the current positive decision. Stockholm's District Court ability to make a legal assessment of proportionality, as well as the ECJ ruling in the French alcohol ban case, are just near future possible threats. Potential other attempts of imposing Swedish law on incoming services represent the long term threat.

5.1.1.5 The Swedish Government

The Swedish government has set very restrictive regulations within the field of alcohol policy. The regulations have been based on human aspects and the protection of public health. Today, there is a division between economic and social aspects of alcohol control policy being of importance in the alcohol question. The ruling Social Democratic party is, in a strong coalition, supporting strict alcohol legislation, being against liberalization, while the political right desires liberalization of alcoholic policies and harmonization with the rest of Europe.

Fundamental in Sweden's alcohol policy is the close interaction between preventive measures, control policy and treatment of alcohol abusers, and the main control policies are import restrictions, high alcohol taxes, retail monopoly, and restrictive marketing and advertising regulations. The import restrictions are to be harmonized with the EU gradually by 2004.

Taxation

High alcohol taxes represent a very important tool in Sweden's alcohol policy in order to keep consumption at a low level. Several researchers actually claim that this is the most effective instrument to control alcohol consumption and alcohol related harm. The means of EU to pressure Sweden to lower its taxes are limited, thus the taxation policy is to a great extent up to the Swedish government to decide, as long as the tax levels are above the minimum tax level of the EU. This is no problem for Sweden, since the country has one of the highest alcohol taxes within the Union. However, due to incompatibility with EU's regulations on competition, Sweden has been forced to lower the taxes on wine. In December 2001, Sweden lowered wine taxes by 18.8 %, but the EU Commissioner is not satisfied with the low tax reduction, and might bring Sweden to the European Court of Justice in order to enforce further tax reduction.

The majority of parties in the Swedish parliament are supporting a high-tax-policy. Though, since travelers' allowances are to be increased, it puts a lot of pressure on lowering the alcohol taxes. This represents a growing concern, since the important control instrument of high taxes may not be effective after 2004 due to increased trade between high-tax countries and low-tax countries. So far, the Swedish government has stated that the high alcohol taxes will remain also when the import restrictions are lifted. From this point of view, it is very interesting to look at the calculations made by the government on future state incomes derived from alcohol taxes. The estimations show that the government is expecting a substantial decrease in income from alcohol taxes, which can be the outcome of either a lower tax level or decreasing sales of the product. The Finance Minister states that alcohol taxes will not be lowered, and that the estimations represent reductions in registered sales. Though, the government might have its own plans, which are not yet revealed, since that would be politically incorrect. If the taxes are lowered by about 50 %, the government's calculations of tax income correlate very well with studies made at Handelns Utredningsinstitut.

However, Sweden may maintain its high taxes after 2004. Within the European Union, the United Kingdom has for example managed to keep much higher taxes than its neighbor France.

Alcohol Monopoly

Systembolaget is the only retail outlet selling alcoholic beverages, being a governmental instrument to limit availability, and thereby reduce consumption and alcohol related harm. The Swedish Competition Authority (Konkurrensverket), which reports to the European Commission, and the Alcoholic Beverages Product Range Board (Alkoholsortimentsnämnden) monitor the operations of Systembolaget in order to ensure compatibility with the Community's regulations.

At the moment there are no issues threatening the survival of Systembolaget, rather great efforts on preserving Systembolaget are being made since other corner stones of Sweden's alcohol policy are weakening. Systembolaget is planning to reduce its product assortment, and it could become an issue for EU investigation. Though, Systembolaget has an enormous range of products, and no substantial decrease is suggested, meaning that the operations of Systembolaget will not oppose the competition law of the EU. In order to survive when the travelers' allowances increase, Systembolaget has to become more customer-friendly.

Private imports is another matter, which EU has examined, since private persons have very limited possibilities to acquire alcoholic beverages from producers in other countries in the Swedish market due to the significant price increase when going through Systembolaget. This investigation is not threatening the basis of retail-monopoly, but the alcohol taxation instrument, which is the reason behind the huge price increase.

Marketing and advertising

There are very limited marketing and advertising opportunities for enterprises active on the Swedish alcohol market. The restrictions can be found in a number of regulations, laws, practices, guidelines, publications from different authorities, and voluntary obligations made by enterprises active in the industry. Since Sweden has limited the marketing and advertising of alcohol on the basis of public health protection, the EU directives could, when Sweden joined the Union, be fulfilled. The legislation on alcohol and marketing are set up for social protection, meaning that social concerns come before any conflicting economic interests or policies. The present marketing and advertising regulations are making it hard for enterprises active on the market to communicate with the consumers.

5.1.2 Economic

The influence of alcohol prices on consumers is the same as in the case of any other commercial product, when prices increase, demand decreases and reduced prices will imply an increased demand. The Swedish alcohol beverages prices differ to a great extent from their neighboring countries. Therefore, the fluctuations in exchange rates between Sweden and its neighbors will provoke certain customer reactions. This is especially true in the southern part of the country where there is increased border trade between Denmark and Sweden. A favorable exchange rate for the Swedes will result in increased border trade.

It is important to take into account that the customers' price sensitivity is related to the amount of alcohol that the beverage contains. In fact, price sensitivity increases with the increase of alcohol content, and therefore spirits are the most price sensitive. The assumption is true since wines are to a lesser extent price sensitive. All the facts mentioned above make prices a very effective instrument in influencing consumption. In Sweden, prices have not been updated to inflation during the last ten years, and therefore they are much smaller in real terms. At present an update to the inflation rate would increase them significantly since during the last year the Swedish Krona has been considerably weakened in comparison with the other currencies.

Prices of alcoholic beverages have remained stable in Sweden even after the EU membership, due to the existence of internal country counter factors. However, beginning in 2002 the EURO will be introduced in circulation in the EU member states. Sweden counts among the countries that decided to remain outside the currency union. The other two countries are Denmark and UK. The importance of this matter is that variations in the currencies of these three countries will affect to a greater extent prices. All the currency union members will have to transform and express current alcoholic beverages prices in EURO beginning with next year. People who travel abroad will therefore be confronted in the rest of Europe with prices expressed in a single currency, which simplifies price comparisons. For a consumer the prices expressed in EURO might also be more attractive, as in comparison with the prices expressed in SEK they look much smaller. Therefore, to some extent this detail might be reflected in increased purchases made abroad. Most certainly, the future level of excise taxes on alcoholic beverages will determine the level of prices, but is evident that if Sweden wants to reduce the level of travelers' alcohol imports and smuggling, a price decrease is necessary.

5.1.3 Social

For many years the temperance movement was extremely strong in Sweden, putting alcohol problems high on the political agenda. Today, the temperance movement is active in the alcohol debate, though to a much more limited extent than in the beginning of the 20th century. No signs of increased influence from the temperance movement can be identified. The fact is that the society of today is very different from what it was at the time of the extremely strong temperance movement. From being a collective society, Sweden is today highly individual and consumer oriented. State interference with consumption and life-style choices is seen as obsolete paternalism. Individual freedom of choice, as well as self-responsibility and the basis of the free market are important values. Since attitudes and values have changed in Sweden, traditions have lost their binding meanings.

Developed policies have to have legitimacy based on the attitudes of the population at large. Thus, during the last decades the public opinion has had substantial influence in the formulation of Sweden's alcohol policy. The move to an individualistic society, with individual freedom of choice and the basis of the free market as important values, imply a public opinion against restrictive alcohol policies. However, this is not the case, since the Swedish population to a great extent (74.8 %) is in favor of state regulations in the alcohol market. A division can be noted between two different groups. The media people are in general very skeptical to restrictive alcohol policies, while the general population is supporting such policies. Opinions stated in magazines and television might therefore to a greater extent be in favor of liberalization of alcohol policies than the general public.

When investigating public attitudes towards the present Swedish alcohol policies, the result is somewhat different. The majority wants to keep sales of spirits at Systembolaget, while 65 % of the population supports the sales of wine in grocery stores. There has been a division of alcoholic beverages into two groups. Wine is in the group viewed as 'non-problematic' beverages, while spirits is in the more 'problematic' category. This explains the differences in public support of sales location. The majority of the Swedish population does not support a complete removal of Systembolaget, since only 42 % was for the abolishment of the present retail monopoly system in a recent survey. Regarding taxes and travelers' allowances, Swedes want in general to be more like other EU countries, implying a support of a tax reduction and an increase in travelers' allowances to EU standards.

The interest from the general public about alcohol is great in Sweden, and it is actually increasing, and it is today seen as a status symbol to know which wine goes with which food. Swedes are not only drinking one type of alcoholic beverage, but the number of different alcohol sorts consumed has increased. The Swedish market has become very trendy, being influenced by worldwide trend, and also setting worldwide trends, as a result of a global world, where country borders are less significant than they used to be. Though, a cultural habit, which the Swedish population has kept, is the trend to drink during weekends and not in the middle of the week.

The Swedish population is aging. People are getting older at the same time as fewer children are born. Younger people are more influenced by trends, while the older generations tend to stick to traditions. Thus, there are both traditional habits and new habits in the market.

5.1.4 Technological

The technological development in form of Internet and digital television is increasing significantly, enabling communication worldwide. The access to global communication tools is reducing the significance of country borders, transforming the world into a global market place. As communication technology improves, the power of single countries to restrict certain types of information flows fade away.

5.2 Industry Analysis

To identify and analyze the Swedish alcohol market, and understand the conditions under which enterprises are operating, Porter's five forces model has been applied to the collected data. The five forces being analyzed are: power of buyers, power of suppliers, threat of substitutes, threat of entry and industry rivalry.

5.2.1 The Power of Buyers and Suppliers

In this section, the power of buyers and suppliers is analyzed. They will be discussed together as they are interrelated. Their power depends on a number of factors including: bargaining power, size and concentration, information, the cost of switching a supplier, and the threat of acquiring a supplier by the buyer. Generally, the power of buyers tends to be high when there is a concentration of buyers, particularly if their purchase volumes are high. The situation of the Swedish market is a bit special within this aspect, due to the retail monopoly situation.

Systembolaget's power as a buyer in the Swedish alcohol market is very high. This is due to the fact that Systembolaget is a retail monopoly, representing the only channel, within retailing, to consumers. There is no competition and the volume of purchases is high, determining to a great extent the producer/importer's sales volumes in the Swedish market. Therefore, it is vital for an enterprise to have its products in Systembolaget's product assortment.

There are several issues that build and at the same time maintain Systembolaget's power at high levels. One of them is the complicated method of product selection, comprised of different factors that are not necessarily related, including: price, trends, customer demand, quality, etc. It is important to emphasize that some of them are only prerequisites for a producer/importer to participate in the selection process, which stresses the degree of influence that Systembolaget holds. It is true that the final selection of the product is made upon a blind tasting and the selection criteria used are independent of Systembolaget, but at the end of the day, the final say remains with the retail monopoly who has the power to decide which product will enter their product assortment.

The range offered by Systembolaget, sustains the idea that they generally do not refuse the inclusion of any product in their assortment. However, for a producer/importer the range in which its product is included makes a very big difference for sales. For example, since marketing and advertising activities are restricted, the inclusion of a product in the special order range is not very convenient. This means that the product will not be present in the stores, and availability is therefore limited to special customer orders. Also, the transition from the test range to the regular range is time consuming, not representing really an alternative to the other Systembolaget ranges. The best option is to have as many products as possible in the so-called regular range. Systembolaget's significant power is clearly highlighted here, by the existence of those separate ranges, as the presence of a product in the alternative ranges will affect the sales considerably.

Another factor that amplifies Systembolaget's power is the fact that when purchasing products, the retail monopoly settles different price ranges in advance, which a producer/importer must comply with. Since the concept of "similar quality" cannot be exactly defined, being more a matter of taste rather than effective objective assessment between qualities, product rejection may appear for motives that are clearly subjective and Systembolaget specific.

Usually the price ranges reflect the quality of the products. Since consumers are price sensitive, a producer/importer has to be very careful in which price segment it will include its offer, in case of small differences. For example between the 41-50 SEK price segment and the 51-60 SEK price segment, a producer that has a product estimated at 50.5 SEK will have to be very careful and make price adjustments to comply with Systembolaget's request and in the same time to reflect the real quality of the product. As margins are small those adjustments can make a real difference for the producer/importer.

Systembolaget's power is reflected also by the fact that it is the one sending out requests for the products in advance, controlling demand in accordance with their plan. Here a producer/importer can not do anything to assure that its products will be on a future list, nor can they propose products for inclusion if not requested by the customers. In addition any attempts, in any form, to influence Systembolaget's purchasing decision are forbidden.

In conclusion, Systembolaget's power is and will remain high with regard to the product selection. There is a complicated path that has to be followed carefully by a producer/importer that wants to see its products on the store's shelves. Products must fulfill predetermined sales quantities and market shares in order not to be removed from the regular assortment. This situation will become even keener in the future due to the introduction of self-service stores and the diminution of the product range. While self service stores will avoid the situation in which one of Systembolaget's sales persons might favor one product instead of another, which can happen accidentally when the products are not visible, even though it is forbidden, it will become much more important which products are in the regular assortment. This is especially true, as the regular assortment products will be placed on the shelves in front of the consumer. This matter, together with the product range decrease, will further increase Systembolaget's product selection power.

HoReCa represents the other option for a producer/importer to market its products to the consumers. HoReCa's and wholesalers' importance and power as buyers has continuously increased in the Swedish alcohol market during the last years. What has contributed to this trend is the growing number of new outlets, restaurants and bars, along with the increased number of wholesalers. The proportion of alcohol sold at these kinds of establishments has been at an increased pace.

Wholesalers' power was amplified because the HoReCa businesses usually buy from them. The wholesalers' power as buyers is high also due to their concentration, a few big ones dominating the market. Referring to those big operators who are active in the wholesale distribution, their importance as a buyer has particularly increased over the time.

Furthermore, it is hard for a producer/importer to manage to sell its products directly to the HoReCa businesses due to their big number, making it more convenient to sell through the wholesalers. HoReCa's members also differ to a great extent in size, many of them representing small size businesses, making the direct marketing costs higher and not convenient in comparison with the volumes they purchase. The wholesalers are a positive solution because they market the products to an important number of businesses, which makes their purchasing volumes considerable.

HoReCa's importance as a buyer has increased, representing the other channel out to the consumers in the alcohol market. Since HoReCa is a free market, it is possible to influence their purchasing decisions. Therefore, a producer/importer can introduce a new product first here without many formalities. A quality product tested by the consumers in HoReCa's establishments, may then be requested in Systembolaget's stores, assuring in this way a quicker and easier way to get into monopoly's assortment. This is especially true for the wine segment of the market.

Referring to the *suppliers*' power in the alcohol industry, the majority of enterprises have private production sites and own personal vineyards. The suppliers' power increases for the production of certain alcoholic beverages, where several suppliers that have particular types of products are used. In this case the mix of products needed to produce the beverages cannot be easily replaced in the production process. Their bargaining power in relation to the buyers depends also on the number of enterprises that they supply and which segment they supply, wine or spirits.

5.2.2 Threat of Substitutes

Threat of substitutes takes different forms. There is product-for-product substitution, substitution of need by a new product or service rendering an existing product, generic substitution where products compete for need, or the so-called doing without substitute. The extent to which substituting products are a threat depends on buyers' propensities to substitute, and the relative price performance of substitutes.

For the producers/importers of alcoholic beverages active on the Swedish alcohol market the threat of substitution arises from three sources, respectively products coming from illegal home production, illegal imports and legal imports. There is a big difference between the three sources, since two sources are illegal and the other one is legal, reflected in big differences between the consumers that are willing to substitute by making use of these sources.

Another factor that plays an important role is the geographical location. The threat of substitution is for example much greater in the Southern part of Sweden, due to increased border trade with Denmark and Germany, comparing with the Central and Northern part, where there is limited cross border trade. In the sparsely populated areas of the country the biggest threat of substitution comes from the illegal home production. Availability may also play an important role in the consumer's willingness to substitute. However, the underlying reason behind substitution in the whole country is the price.

Substitutes coming from illegal imports in form of smuggling, represent at present the greatest threat of substitution for the products of a producer/importer of alcoholic beverages in the Swedish market The incentives to smuggle are high. While the smuggler gains important profits, the consumer makes substantial savings. For the time being that personal imports remain restricted**,** substitutes coming from illegal imports will continue to dominate. The spirits segment is leading with regard to cross border smuggling followed by the wine segment. Consumers switch to substitutes from the illegal market mainly because of price differentials. A division can be made here between consumers. Heavy consumers are the ones most willing to substitute, as price and quantity plays a much more important role for them rather than quality. The moderate consumers and the young people's willingness to substitute is actually much lower. It has also decreased during the past years due to several campaigns conducted in Sweden against smuggled products, people realizing the danger of these products, and preferring to switch to the wine segment instead, or to purchases at Systembolaget. Statistics show that the consumption of illicit spirits has decreased considerably during the last four years, continuing to be on a downward path. It is also quite difficult to sell these kinds of products, usually sales being made through private networks that target acquaintances.

Substitutes coming from legal imports, in the form of personal imports, are at present the second threat for substitution in the Swedish alcohol market. Their importance is lower due to the actual travelers' allowance level, but a shift is expected after 2002 when the allowances will start to increase. The spirits segment is leading, price being the most important incentive again for switching to this kind of substitute. The 1998-2000 decrease in travelers' spirits imports motivated by the abolition of duty free sales in 1999, was most probably replaced by an increase, since the level of travelers' allowances rose in 2000. With regard to product substitution from legal imports, heavy consumers do not play here an important role as they are usually not traveling that much. They are most probably willing to substitute with products coming from the legal imports' black market, which means products legally imported which are sold illegally. Moderate consumers, normal people, are the ones most willing to substitute Systembolaget purchases with private imports made within the admitted legal limits. The wine segment comes in second place. Due to bigger money savings a traveler is most disposed to carry one liter of spirit rather than one liter of wine over the border.

Illegal home production with regard to threat of substitution plays a less significant role. Again the spirit segment is the envisaged one. Home distilled spirits represent a substitute mainly due to price considerations. Heavy consumers and young people are the segments most disposed to substitute, while moderate consumers, supposed to be more oriented also towards quality, are not switching that easily. The wine home production is not regarded as a substitute, being more a hobby than a supply of cheaper wine.

In conclusion, with regard to the present threat of substitution in the Swedish alcohol market, the black market is prevailing. Although, there is a clear shift towards travelers' imports, which will become more obvious in the future due to increased level of allowances. The threat of product substitution in the spirit segment is much higher than in the wine segment, where the Southern part of the country is the most envisaged one. Even though different public campaigns managed to reduce the black market, the most effective way to get market share from the black market and combat other sources of substitution remains the price, which is a matter for the government.

5.2.3 Threat of New Entry

The extent to which new enterprises are threatening the established ones depends on the significance of barriers of entrance in an industry. Barriers to entry can be economies of scale, capital entry requirements, access to distribution channels, legal restraints, cost advantages, expected retaliation, price competition or differentiation.

To set up a business within the Swedish alcohol market is quite easy, since there are no fees in the registration process. The only thing enterprises have to do is to show that they are good citizens and that they can pay the taxes, to be registered as an excise taxpayer. However, even though it is quite easy to start operating in Sweden, it is not that easy to sell the products. In order to sell big volumes, an enterprise has to get into Systembolaget's basic assortment, which is hard. There is a lot of bureaucracy in the process of informing Systembolaget about the products, as special documents have to be filled in correctly. The enterprise has to have the knowledge of how to inform Systembolaget about its products. Otherwise, the products will be dismissed immediately without being tasted in Systembolaget's selecting process.

Even though an enterprise has the knowledge to inform Systembolaget about its products, the competition to get into the basic assortment is intense. Systembolaget does not make any difference between new or old suppliers, the selection being ultimately made through blind tastings. However, an enterprise can only try to get one brand into the assortment of Systembolaget at a time. This makes the process of entering the Swedish market long. If an enterprise cannot get its products into the assortment of Systembolaget's stores, the products will be offered on call lists (special order range) and consumers can order them. Since enterprises have very limited possibilities to undertake any marketing or advertising activities, it is hard to make consumers aware of a product on the call list. The consumer may also choose another product due to the delivery time of products on the call list.

If an enterprise manages to get its products into the assortment of Systembolaget, the market penetration is quite easy since the enterprise does not have to spend a lot of resources on sales and marketing activities. At the same time, it is very easy to drop out of the assortment if the product's quality is poor or if trends change. Another channel to reach the consumers is the on-premise sales, though the volumes in the on-premise sales are quite small, due to the very small size of the market. Also, to get products into restaurants and pubs requires big resources, since it is a free market, and the number of outlets is huge.

The fact is, that there already are too many players within the Swedish alcohol market. The threat of new entry is therefore minimal under the present circumstances. The number of players active on the Swedish market will not increase, but will rather go down due to mergers and acquisitions.

5.2.4 Industry Rivalry

Under this factor, the competitive conditions of the Swedish alcohol market are discussed. There are several factors of importance influencing the competitive rivalry in an industry including: market growth rates, competitor size, threat of substitutes, power of buyers and suppliers, threat of entry, and price competition vs. differentiation. Since competition and industry rivalry differs between different segments of the Swedish alcohol market, the wine segment and spirits segment will be analyzed separately.

5.2.4.1 Concentration

The number of importers and producers active on the Swedish alcohol market is huge, while the market size is rather small. This implies a high level of industry rivalry. However, due to the restrictive policies of the Swedish government, industry rivalry is not as high as it would be in a free market. Enterprises cannot compete on price to the same extent as in other markets, due to the high taxes on alcoholic beverages. Furthermore, enterprises have very limited possibilities to differentiate a product's image since the marketing and advertising legislation are very strict. Finally, the retail monopoly, which is the main sales channel, does not operate in a way that makes it possible for enterprises to achieve advantages.

Restrictive policies within the Swedish alcohol market limit competition since there are not many ways in which an enterprise can achieve advantages.

Overall, enterprises do not tend to push their products to a great extent, but are more laid back in their promotion. Enterprises are, irrespective of size or scope of operations, more or less competing on the same basis. This has made it possible for small enterprises to survive in the market. However, most enterprises active on the Swedish alcohol market sell both spirits and wines, and the portfolios of the big distributors look pretty much the same overall. All major enterprises have a wide portfolio of brands, increasing competition on other factors such as relations, service and education, especially in the on-premise sales. National enterprises are therefore finding it increasingly difficult to make an impression, as a division between global and regional enterprises is emerging. The fact is that there are more enterprises active within the Swedish alcohol market than required, and the bigger, global enterprises are finding ways of achieving advantages, and also growing through acquisitions.

5.2.4.2 Wine Segment

In this part industry rivalry and competition within the wine segment is discussed in terms of market growth, price, differentiation, and key success factors.

Market growth

The wine segment of the Swedish alcohol market has been increasing in size for the last 45 years, and it is still growing. This means that an enterprise active on the market may be able to achieve its goal of growth through the growth in the marketplace, and not through acquisition of other enterprises' market shares, implying that the competition within the market is limited. However, even though the market size for wine is growing, it is still quite small considering the huge number of enterprises active within it. In order to sell big volumes, enterprises have to go via the off-premise sales, Systembolaget, since on-premise sales only account for 15 % of total registered wine consumption. If an enterprise cannot get its products into the store assortment of Systembolaget, it has a big problem in reaching the consumers due to the Swedish advertising ban on alcoholic beverages. However, there are few means by which an enterprise can achieve advantage in its sales to Systembolaget.

Price

The competition within the wine segment of the alcohol market is divided into different categories depending on price level. The cheaper category dominates, since a majority of consumers prefer cheap wines, below 70 SEK. Within this category, price is an important factor of competition, since it is important for many people if the wine they buy costs for example 50 SEK or 55 SEK. Enterprises that can keep the lowest price therefore have an advantage. The profit margins in the market are quite small due to the high taxes, making it hard to cut prices.

Not all consumers are price sensitive. A small group of consumers actually asks for top of the line products. It is not possible to achieve big volumes operating within the high price segments. Though, due to much higher profit margins, taxes representing a smaller part of the total price in this case, it can still be very profitable. In this segment, differentiation is more important than the price.

Differentiation

Since profit margins are quite small due to the high taxes, enterprises are trying to differentiate their products, to make consumers loyal to a special brand. To achieve consumers' loyalty in the wine market is a tough task, since consumers tend to try new wines all the time and not stick to only one. Availability in terms of being in the assortment of Systembolaget is crucial in the wine segment, since a consumer who cannot find the wine he/she intended to buy is highly inclined to turn to a competing brand. The wine market is very sensitive to trends. The number of wines offered to the market is huge, and consumers are sensitive to trends, a wine can easily drop out of the market if it goes out of fashion or if it has poor quality. Some wines sell very well for several years, while others are very popular only for a couple of months and then go out of business. The market is very dynamic, making it hard to survive without a good portfolio of wines to rely on. This is pressuring enterprises to widen their portfolios through acquisitions. Enterprises that are selling only one or two types of wine will have a hard time to survive on their own in the long run.

At the same time as market trends are important, and there is a growing consumer interest and awareness about alcohol, the market is huge, making it impossible for consumers to know all about the different products in terms of grapes, region, year, quality and so on. To convince people to buy a wine, enterprises therefore have to promote their wines, and increase consumer awareness. This has made brand differentiation important. Even if an enterprise offers a good quality wine through Systembolaget, at a low price, from a trendy region, consumers may not buy it because they are not aware of it. It is a bit tricky to market a wine in Sweden due to existing restrictions. However, there are some possibilities. One is the bottle, which can be differentiated. Consumers often go for a bottle they like when they buy wine, as a result of limited product information. The cheaper the wine is, the more important the bottle seems to be. Enterprises have actually been very innovative in the development of wine bottles, increasing the competition in the market.

Another way of marketing wine in Sweden is through wine journalists. Wine journalists have a tremendous impact on the market due to the advertising ban. Since consumers do not get information elsewhere, the writings of the wine journalists become extremely important. Therefore, it is important to have a good relationship with the wine journalists in order to get a good reputation. An enterprise, which has a wide portfolio of products, may meet the same journalists on several occasions when different wines are tested, and develop more personal relationships. The wine journalists do not represent a world of corruption, however, they do have interests of their own which may influence their opinion. This means that elements such as friendship might influence.

On-premise sales represent another important marketing channel for wine producers and importers. Although the market size of the on-premise sales is very small, an enterprise can use restaurants and pubs in order to increase consumer awareness regarding its products. The on-premise free market is therefore an important marketing channel. To be able to distribute the wine to many outlets an enterprise has to have sufficient resources, since the distribution is much more expensive than through Systembolaget.

Key Success Factors

Competition within the wine segment of the Swedish alcohol market is rather complex. Enterprises compete on both price and differentiation, depending on each single situation. Differentiation is part of the price competition. The successful importer/producer is the one who can find good wines at a low price and keep them alive. To do this, it is important to have resources to work with restaurants, and wine writers, to have new vintages introduced regularly, to work on different fairs, and to promote wine clubs to go to vineyards in different countries etc. Additionally, the enterprises have to have good volume, distribution, and be reliable suppliers. Even though industry rivalry is not as high as it would be in a free market, without strict regulations, it is intense, making it hard for smaller enterprises to survive in the long run.

5.2.4.3 Spirits Segment

After having discussed the wine segment of the market, we now turn to the competitive situation of the spirits segment to analyze market growth, differentiation and key success factors.

Market growth

The spirits segment has been declining steadily for several years. Though in year 2000, an increase of 0.7 % was actually reported. This growth is due to the abolition of tax-free, since business people, who travel a lot, no longer can buy spirits duty free, but they can afford to go to the monopoly stores in Sweden. The sales of spiced aquavit, cognac, and whisky at Systembolaget have therefore increased. Overall, however, the market is declining, and enterprises are fighting to maintain their market shares. If they want to grow, they have to go for competitors' market shares, which is hard due to the situation of strict regulations within the Swedish alcohol market. Like in the wine segment, industry rivalry is therefore limited. The main sales of spirits go through the retail monopoly. On-premise sales of spirits are even smaller than for wine, counting for only 7 % of total registered consumption. It is therefore even more important for the enterprises operating within the spirits segment to get their products into Systembolaget's assortment, than it is in the wine segment. The competitive situation in the spirits segment is actually quite different from the situation in the wine segment.

Within the spirits segment, Vin&Sprit AB is dominant, having a market share of more than 50 %. Though this does not mean little competition in the market. Vin&Sprit AB has for example not the power to exercise any considerable discretion over the prices it charges, since the government through taxes sets the price.

Differentiation

Brands are very important in the spirits market. Consumers are not as keen on testing new products as in the wine segment, and therefore they buy the products they know. People tend to drink pretty much the same products their whole lives. However, like in the wine market, there are also trends in the spirits segment. Single malt whiskies have been trendy for a while. A difference, though, is that in the spirits segment, trends have much more limited impact on industry structure. The spirits market is much more stable than the wine market, and there are no big movements between brands. This is a result of the very restrictive marketing and advertising regulations, and the fact than journalists do not have as much influence in this segment as in the wine segment. Like in the wine market, enterprises can differentiate their products through the packaging and communication through the on-premise sales outlets.

People that buy spirits from Systembolaget are not very price sensitive. The consumers that are price sensitive have already chosen another market, buying abroad, duty free or from the black market. Price is a factor in the background for the consumers going to Systembolaget, however, the brand is by far more important. Competition actually differs between different spirits groups. White spirits, like vodka and gin, are quite generic products where it is hard to notice a difference in taste. Enterprises therefore compete on brand differentiation in terms of design and image. In the whisky and cognac category, there are big differences in taste between products, and enterprises have several opportunities to differentiate the taste of a whisky or a cognac. Therefore, brand differentiation in the whisky and cognac categories is a combination of the taste of the product and its image.

The most price sensitive product category is vodka, while whisky consumers do not tend to be very price sensitive. This is related to the type of consumers, since vodka is consumed more buy young people and alcoholics, for which price is an important factor. However, it is hard to draw general conclusions on the price, because each case is highly individual. Price might for example be very important if there are several similar whiskies.

Key Success Factors

In the spirits segment of the Swedish alcohol market, enterprises cannot compete on price to a large extent due to the extremely high taxes. Therefore brands are the most important factor of competition, and consumers are very brand loyal. Trends are important, though, they tend to come and go, and do not really have a big impact on the market, making the spirits market less volatile than the wine market, since there are no great movements between different brands. To compete in the spirits segment, an enterprise therefore has to have strong brands. Since enterprises cannot invest in aggressive marketing activities in order to strengthen their brands, the competition is not very fierce, however, several players are active on a small market, implying intense competition.

5.2.4.4 The Competitive Situation

Despite the high alcohol taxes, the price is an underlying factor in the alcohol industry, being of great importance, as consumers to some extent are price sensitive. The alcohol taxes are extremely high, making the profit margins of enterprises quite small, but a big enterprise can make a little bit more on each bottle and can therefore lower the price. Price is however far from the single factor of competition. The Swedish market is sensitive to trends, and there are lots of constant changes, which make it important to have a good portfolio of brands. Though, due to the fact that many enterprises today have similar portfolios, more attention is instead paid to relations, services and education, especially in the on-trade market, but also in the off-trade market. Customer relations and customer service is really becoming the key today. Officially, though, it is hard to get advantages because of the monopoly system, and the fact that the monopoly is not expected to favor any of its suppliers.

It is becoming more and more important to be a big player. A big enterprise can offer a wide portfolio of products, and push for them to a much greater extent than a smaller player, being supported maybe by a global organization and marketing activities in other countries. The big players can also buy famous brands, while the small importers have to make a brand known. The brand is important in the alcohol industry, since people tend to buy products that have been on the market for a while. Further on, distribution is a very specific issue, because an enterprise has to think about where its products are, to ensure that they are spread to all Systembolaget's stores and also to restaurants. There is a big advantage of being a bigger enterprise, having the resources and the portfolio to get into a lot of places, and spread knowledge through restaurants.

5.3 Scenario Background

After having analyzed the macro environment and the industry environment in detail, we will in this part of the thesis develop future scenarios. In order to create valuable scenarios, the number of environmental uncertainties taken in consideration has to be low. Therefore, the most critical factors have to be identified. Four factors recognized as having significant importance will be discussed next. By taking in consideration their emergence, we will choose two of them to represent the basis for our scenarios. When developing scenarios, a time limitation of five years has been chosen.

5.3.1 Travelers' allowances

Sweden has an exception from the EU regulation on free private import of alcoholic beverages. However, this exemption only lasts until the end of 2003. Step by step, Sweden has to increase the travelers' allowances to meet the rest of EU in 2004, allowing imports for private use of 10 liters of spirits, 20 liters of fortified wine and 90 liters of wine. The Commission will not propose a new extension after 2004, and without a proposal from the Commission, Sweden cannot re-open talks on this issue.

5.3.2 Systembolaget

The Franzén case clearly showed that the monopoly on the retail of alcoholic beverages held by Systembolaget is not contrary to the free movement of goods. However, this does not imply that there are not other areas where the activities of Systembolaget might be contrary to the European Community law. For example, the retail monopoly clearly posses a dominant position on the market when it comes to distribution of alcoholic beverages in Sweden, which must not be abused according to the Community Treaty. Also its non-discriminatory nature must be constantly assured.

Currently there are no direct pressures from the EU side on Systembolaget, as they were moved from the supranational level to the national level. The survival of the retail monopoly depends now on the Swedish government, and represents a difficult task, as health considerations are no longer sufficient. Though, any changes in Systembolaget's practices are constantly examined by the European Commission in order to asses their legitimacy, with the help of two Swedish authorities: The Alcoholic Beverages Product Range Board and The Swedish Competition Authority. European Commission's actions might be categorized as inspections rather than pressures. In the absence of direct pressures, EU makes use of other instruments such as taxation and travelers' allowances levels.

Along EU's binding legislation and regulations, WTO's General Agreement on Trade in Services might represent a threat for the monopoly in the long run, as its current re-negotiation might lead to some changes including a further liberalization of the alcohol distribution systems. Due to the exclusion of alcohol at the retail level made in the commitments on distribution services, GATS does not represent a threat at present. Therefore, without any real pressure from outside, the survival of retail monopoly is and will remain an internal problem, a problem for the Swedish government.

It is obvious that in case of losing the tax pillar of the Swedish alcohol system, the government will do everything possible to maintain the retail monopoly. With regard to this matter the government has already started to take measures to protect the monopoly, and Systembolaget is currently undergoing significant changes in order to become more business oriented and customer focused. Extended business hours, shopping through Internet, Saturday's opening, new self-service stores are just few of the changes meant to keep the retail monopoly alive, and overcome the present challenges. Another present focus is fighting the black market that might undermine Systembolaget's existence, by considerably reducing its sales. However, in the end everything rests on the government's position on excise duties cut.

Various studies and research demonstrated that Systembolaget benefits also from the public support, the majority of Swedes favor the existence and maintenance of the retail stores system. The general opinion is that spirits sales should be carried out in Systemboalget stores, while for wine sales the support has fluctuated over the years. Furthermore, the retail monopoly stores new image, the self-service stores and the customer focus will most probably increase the level of public support.

Therefore, in the absence of any real pressure from outside, and benefiting from the inside support, both public and governmental, the existence of the retail monopoly will be assured during the coming years. Future threats might appear along the way, which may change the situation in a longer time perspective.

5.3.3 Taxes

Every EU member state has sovereignty over its tax levels, though, the EU has set minimum tax levels for alcoholic beverages, which member states have to stay just above. A maximum taxation level does not exist, and the member states can therefore set as high tax levels as they prefer. EU is supporting further tax harmonization, since the tax levels differ a lot between member states, being obstacles to the free movement of goods and services within the EU, and distorting competition. Several attempts to introduce common tax levels have been made, however, consensus has not been reached between member states, due to the huge difference in opinions of the level of a common taxation policy. Since consensus on tax harmonization cannot be reached, the Commission has decided to let taxation be an issue for the market forces through the abolishment of import restrictions.

In the beginning of 2002, the Commission will present a proposal to change the existing requirements of alcohol taxation, which most likely will support or even try to increase the present minimum taxation level. Also the Commission will support the adoption of an upper tax limit, but which most likely will not be developed due to low support from the member states. An increased minimum level might actually also be hard to enforce since many member states have very low taxes, and they do not want to increase them. At the EU level, the Amsterdam Group is active in networking and lobbying towards decision-making and legislative bodies, and it has great influence on policy formulations, promoting low taxes. A changed minimum taxation level will not influence the Swedish tax levels, since they are among the highest in the EU.

The ability of the EU to force Sweden to lower its alcohol taxes is limited, since the member states are allowed to have different taxation levels. However, it has some opportunities. Based on EU's law on competition, the Swedish wine tax was found to distort competition. From December 2001, Sweden therefore lowered its wine tax by 18.8 %, but a bigger tax decrease might have to take place, since the EU Commissioner is not satisfied with the present reduction.

In the Swedish Parliament, all but one party support a high-tax policy. High alcohol taxes is an important instrument in Sweden's alcohol control policy, and several researchers claim that it is the most effective tool to keep alcohol consumption and related harm at a low level. Consumers' price sensitivity increases along the increased alcohol content, making price control a very effective instrument in influencing consumption. However, since the EU is forcing Sweden to increase travelers' allowances to EU standards by year 2004, the pressure from the market forces on a tax reduction increases. According to the Swedish government, there are no plans to lower the alcohol taxes despite the increase in travelers' allowances. Great Britain has for example managed to keep much higher taxes than its neighbor France. Though, the government might have plans for a tax reduction, which are not yet revealed, due to political reasons. A tax reduction might therefore be introduced, as the travelers' allowances increase in order to retain control of the majority of alcohol consumption after 2004, a tax reduction of at least 50 % is required. A reduction of only 10 - 15 % will not make any big difference. The Swedish industry association, SVL is putting a lot of pressure on the Swedish government to lower the alcohol taxes. The power of industry associations is actually increasing, since they have more resources than health organizations to undertake different activities.

The WHO supports the high tax policy on alcoholic beverages, since it has shown to have clear positive effects on alcohol consumption and related harm. Though, WHO does not have any power in relation to EU, which is focusing much more on economic aspects of alcohol policies. The awareness of alcohol related problems have increased in the EU, and the Commission has started to take this problem more seriously. However, the Commission will never support high taxation policies in order to combat alcohol abuse, but other means will be recommended. So, health concerns have very limited influence on alcohol taxation policies.

The Swedish society is highly individual and consumer oriented, meaning that state interference with consumption is seen as obsolete paternalism. When the government develops policies, the policies must have legitimacy based on the attitudes of the population at large. Regarding the taxation of alcoholic beverages, the Swedish population in general wants to be more like other EU countries, implying that a tax reduction is wanted. However, tax reduction is preferred on food, petrol and properties, not on alcoholic beverages.

The EU has very limited possibilities to directly force Sweden to lower the alcohol taxes, but since Sweden now is forced to increase travelers' allowances, it will put great pressure on a tax reduction. The Swedish government states that there are no intentions for a tax reduction on alcoholic beverages since that would increase overall consumption in the country, however, as travelers' allowances increase a tax reduction might become inevitable. In the wine segment, EU might force further tax reduction, due to incompatibility with the law on competition.

5.3.4 Marketing and advertising

The Swedish marketing and advertising regulations on alcoholic beverages are very strict, being one of the government's main instruments in the alcohol control policy. The EU has accused the Swedish legislation of being too far reaching, since it is an obstacle to the free movement of services in the internal market. If the Swedish laws are compatible with EU laws is now up to Stockholm's District Court to decide. Despite the fact that it is the Swedish Court that will make the assessment, it does not mean that the result of the court's ruling will be in favor of the present legislation. The court has to make a legal assessment of proportionality, otherwise, the EU will not drop the case. This means that some changes in the country's legislation on alcohol advertising and marketing might be necessary. At present the EU is also investigating France's ban on alcohol advertising. The ruling on this case could have an impact on Swedish legislation in form of liberalization. Further accusations from the EU regarding this issue are also likely.

EU's regulations on marketing activities of alcoholic beverages are very limited. There is a trend toward more restrictions within the EU, as the awareness of social protection increases. The Commission has actually adopted several recommendations on alcohol advertising and marketing. However, they are not binding on the member states. It is almost impossible to reach a common agreement and develop regulations within the field of alcohol advertising and marketing in the EU, since the opinions and interests of the member states are very spread, and many do not support strict legislation. Also, the Amsterdam Group, an industry association promoting liberalization, has tremendous influence on different institutions within the EU. Within the coming five years, a common restrictive legislation on alcohol advertising and marketing within the EU, seems impossible.

Sweden has made extensive commitments on advertising services in the GATS 1994, meaning that the rules of GATS should apply to the trade of advertising services. In order to liberalize the alcohol market, changes are proposed on services, which relate directly and indirectly to alcohol. If they are adopted, the pressure on Sweden to liberalize alcohol advertising will increase. The GATS agreement is different from EU Treaties though, since it is only governments, not private persons that can use it towards other governments. There is a small possibility that the GATS agreement will force Sweden to liberalize its restrictions on alcohol advertising within the coming five years. However, Sweden might actually be able to re-negotiate the present commitments in order to exclude alcohol advertising from the agreement.

The WHO is promoting restrictions on advertising and marketing of alcoholic beverages, and the organization has the support of all its members, including the EU member states. A weakness of the work of WHO is that it does not have any legal power, making the organization less influential than the EU or WTO. The work of WHO is important for the alcohol debate, but if the power of WHO increases, it will be a long process.

Even though the Swedish government wants to retain its control instrument of restrictive advertising and marketing regulations on alcoholic beverages, liberalization might be enforced. Institutions, which could enforce such a development, are the EU and the WTO. WHO has too little power to stop a possible liberalization. However, since social concerns are increasing within the EU, the Union might not pressure Sweden to liberalize the legislation.

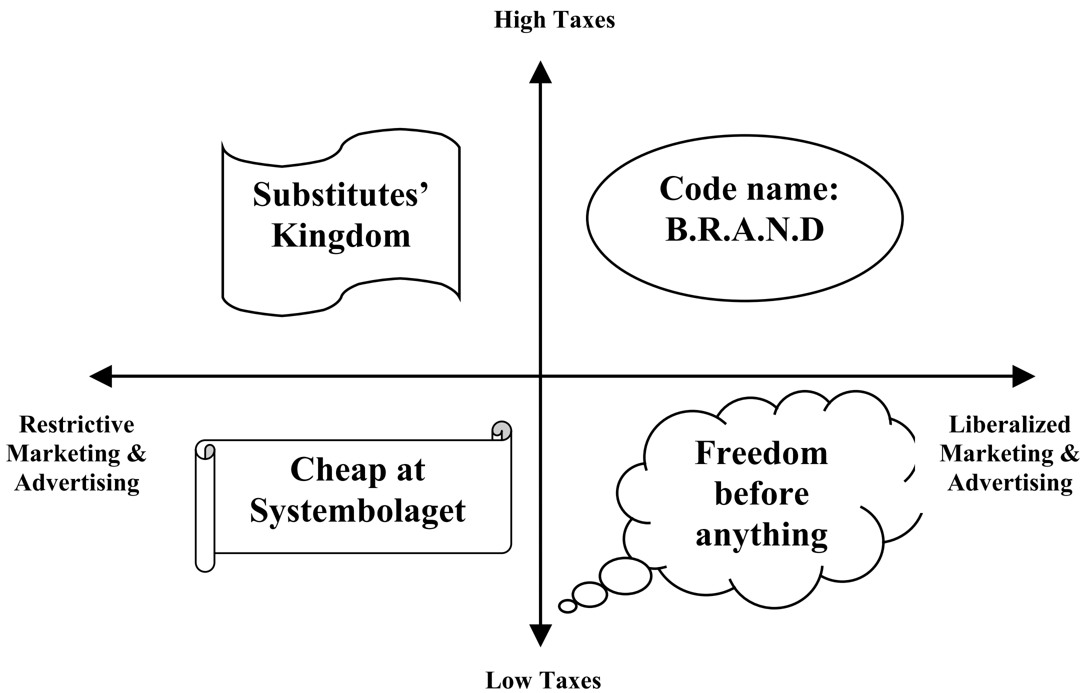
5.4 Scenario Analysis

Scenario analysis is a process of thinking and communicating about the future. Based on the key environmental influences and drivers of change already identified, we will build probable views of different possible futures. In order to be useful, a long-term view of the enterprise's strategy has to be considered, minimum five years.

All four scenarios are created for the beginning of the year 2007. In accordance with the scenario background, previously presented, out of the four major pillars taken into consideration in the scenario creation process, two are variable and two are rather stable. Therefore, the scenarios will be constructed on the ones that have the highest probability to be changed by the year 2007, the indirect taxes in form of excise duties, and the marketing and advertising regulations. As has already been discussed, in order to make a diffrence in the alcohol industry, the excise duties due to their very high present level have to be lowered by more than 50 %. A small decrease, below 15 %, will still keep them very high in comparison with the neighboring countries and therefore not lead to any significant changes in the industry. The marketnig and advertising regulations might be liberalized or kept restrictive, therefore being the other variable.

As far as it concerns the level of travelers' allowances, it is already settled that they will be increased gradually until 2004, when they will be harmonized with the other EU member states. As a background for the sceanrios, the level of travelers' allowances in 2007 will be identical with the actual EU rate, as there are no changes expected. Also a background for the scenarios is the continious existence of Systembolaget, as a retail monopoly for alcoholic beverages in Sweden. Here, the changes that are on the way will be taken into consideration, including the retail monopoly's new customer focus, extended functioning hours, business orientation, etc. As presented in the previous part, Systembolaget's current transformations will assure its survival at least until 2007. The four scenarios are shown in Figure 5.1.

Figure 5.1: Future scenarios of the Swedish alcohol market



Source: Own elaboration

Substitutes Kingdom:

- EU level of travelers' allowances
- Systembolaget, as retail monopoly
- Small tax reduction, max 15 %
- Restrictive Marketing & Advertising Regulations

Code name: B.R.A.N.D:

- EU level of travelers' allowances
- Systembolaget, as retail monopoly
- Small tax reduction, max 15 %
- Liberalized Marketing & Advertising Regulations

Cheap at Systembolaget:

- EU level of travelers' allowances
- Systembolaget, as retail monopoly
- Big tax reduction, min 50 %
- Restrictive Marketing & Advertising Regulations

Freedom before Anything:

- EU level of travelers' allowances
- Systembolaget, as retail monopoly
- Big tax reduction, min 50 %
- Liberalized Marketing & Advertising Regulations

As is common in scenario creation, the present tense is used when describing the situation. The scenarios are therefore presented as if we had moved to year 2007.

5.4.1 Substitutes' Kingdom

In this scenario Sweden has the same level of travelers' allowances as the rest of the EU member states, and Systembolaget continues to hold the retail monopoly of the alcoholic beverages in the market. The marketing and advertising regulations are still restrictive and a non-significant tax reduction, below 15 %, has been made.

The increased level of travelers' allowances, harmonized with the rest of EU countries, has led to an increase of unregistered consumption, mainly for spirits, and especially in the border areas where the population has greater access to cheap alcohol. The private imports are leading, followed by illegal imports and home distilling. The level of personal imports has increased in the whole country, but there are still differences between the Southern region and the Northern region. People are able to bring significant amounts of alcoholic beverages into the country, making substantial savings by buying abroad. The spirit segment leads, as it is more convenient to carry 10 liters of spirits over the border in comparison with 20 or 90 liters of wine for example. Comparing the estimated consumption of spirits per year with the level that is allowed to be imported, one person can from one single trip abroad import legally the necessary amount of spirits for a whole year, or even more. As a result, a black market consisting of legal imports sold illegally has been developed.

Competition in the industry has increased comparing with year 2001, making it very hard for local producers and small importers to survive. Competition is carried out on the same aspects: price and differentiation, but the market has been reduced notably, and therefore a concentration trend has started.

Concerning the spirit segment of the market, it has decreased considerably. Rivalry has intensified significantly, making it possible for only the strongest brands to survive. However, vodka sales still dominate in this segment. A slight reduction is recorded also in the wine segment, but not a significant one. The wines present in the Swedish market, in all price segments, still have better quality than the ones purchased in the neighboring countries. The increased level of travelers' allowances has affected Systembolaget's sales seriously, diminishing its power in the market. As previously mentioned sales of spirits have decreased, only affluent consumers that are not traveling abroad, nor are purchasing from the black market are buying from Systembolaget. If people continue to buy their spirits abroad, the retail monopoly will be seriously threatened as its goal of reducing consumption and protecting the public health is not fulfilled anymore. The sales to the other customers present on the market, HoReCa, are also affected but not to the same extent as the Systembolaget's. Wholesalers' importance is decreasing as well.

5.4.1.1 Opportunities and Threats

The situation in the Swedish market, looking at the environmental settings does not differ that much from year 2001. The only major dissimilarity consists of the increased level of travelers' allowances. However, its impact is considered to be major in this setting. The threat of product substitution has considerably increased in the whole country, especially in the border areas, affecting to the greatest extent the spirits segment of the market. In general, the whole market is shrinking which represents a considerable threat for all the actors present in the market. Systembolaget's sales have considerably decreased, especially in the spirits segment. As a consequence brands are dropping out of the market much easier, in both wine and spirits segment.

Even though the spirits segment is seriously threatened, the current situation offers an opportunity for enterprises present in the Swedish market in this segment, as far as it concerns vodka products. Sales of vodka have not been affected to a great extent, they representing in fact the only spirit that continues to sell. Opportunities arise also in the wine segment of the market, especially for good quality wines, where the impact of the traveler's allowances level has not been that great. However, the greatest opportunity that emerged is the possibility for big enterprises to acquire small producers, due to the intensified competition that led to a concentration trend in the market.

5.4.2 Code name: B.R.A.N.D

Travelers' allowances have increased to 10 liters of spirits, 20 liters of fortified wine, and 90 liters of wine. The restrictive marketing and advertising legislations of 2001 have been liberalized. There are still restrictions, however, the terms of competition resemble a free market situation to a greater extent than five years ago. The taxes are almost the same as in 2001, only a small reduction of maximum 15 % has been introduced. The retail monopoly persists.

Since alcohol taxes are still very high, but travelers' allowances have increased substantially, the Swedish alcohol market has decreased and people import more from neighboring countries like Denmark and Germany. The increase of imports is especially high in south Sweden, but has also grown in the northern parts of the country. The black market has decreased a bit, since travelers' imports have taken over, however a new kind of black market has emerged, where people import legally, but then sell illegally in Sweden.

The increase of travelers' allowances has been greatest in the spirits segment, since people more easily can carry ten liters of spirits than 90 liters of wine. The earnings on importing spirits are much higher, due to the high taxes in this segment. The decrease of the spirits segment of the Swedish alcohol market therefore is significant. The wine segment is not characterized by such a steep decrease, the taxes in Sweden are much lower in this segment, and Swedes have been able to import big volumes of wine for quite a few years. The decrease of the market size in the spirits segment has resulted in intensified competition, where enterprises fight for each other's market shares in order to grow. The competition has been further enhanced as marketing and advertising legislations have been liberalized, and it is today hard for small, local enterprises to survive due to the resources required in order to invest in marketing activities.

The liberalization of marketing and advertising legislation has not yet had a great impact, but in the longer run, it is supposed to increase consumption, and make consumers switch brands more than today. Since enterprises have started to undertake more marketing activities in the Swedish market, the state has started to work hard with campaigns and other activities in order to keep alcohol consumption and related harm down.

Within the wine segment, the power of wine journalists has decreased since enterprises now are advertising for wine on their own. Consumers are not as interesting in getting information about the products, as they were when the marketing and advertising legislations were very strict. More marketing activities in the Swedish market, have increased the importance of brands, especially in the sprits segment, and reduced the power of Systembolaget. Since enterprises are marketing their products, Systembolaget has less power in the selection process, and brands, which are only on the call lists of Systembolaget have more possibilities to communicate with consumers and increase awareness. This means that the power of big, global enterprises, having world famous brands, has increased substantially. It is very hard for new enterprises to enter the market, due to its small size, but a huge number of players and the fact that more resources are required in order to invest in marketing activities.

5.4.2.1 Opportunities and Threats

Liberalized marketing and advertising regulations have made it possible for enterprises to push more for their products and brands, increasing the opportunity to achieve competitive advantage. The wine segment is still quite big in Sweden, not being affected to the same extent as spirits by the increase in travelers’ allowances. Enterprises therefore have the opportunity to grow in this segment through more extensive marketing and advertising activities.

The threat of substitutes has increased significantly in the spirits segment, and enterprises are finding it hard to survive in this segment. Greater movement between brands due to more marketing activities have increased the threat of dropping out of business, but also made it slightly easier to introduce new products. Intensified competition and the importance of resources in order to undertake marketing activities have given small and local enterprises a hard time to survive. For the global players, the opportunity to acquire smaller enterprises cheaply has therefore emerged.

5.4.3 Cheap at Systembolaget

Travelers' allowances have increased to 10 liters of spirits, 20 liters of fortified wine, and 90 liters of wine. The taxes have been reduced substantially, being at least 50 % lower than they were in 2001, for both spirits and wine. The retail monopoly, however, persists as well as a very restrictive marketing and advertising legislation.

Due to a significant tax reduction, people are no longer importing large amounts of alcoholic beverages, the increase in such imports has been reduced. Consumers can now find alcoholic beverages at Systembolaget at a price, comparable with other countries, only slightly higher. Since taxes have been reduced, the price at Systembolaget has been lowered and the incentive to sell spirits on the black market has decreased significantly. The black market is therefore very small today. There has been a main shift from buying alcohol abroad, on the black market, or home production to acquiring the beverages at Systembolaget or HoReCa.

The overall consumption of alcoholic beverages has increased in Sweden, due to lower taxes. Therefore, the state is now very active through campaigns and other activities in order to keep consumption at a low level.

Consumers have started to drink more at restaurants and pubs, since the price in on-premise sales has been lowered, and the market size of HoReCa has therefore increased significantly. Overall, the size of the Swedish alcohol market has grown, and enterprises can achieve their goals of growth through the growing market, meaning slightly reduced industry rivalry. Though, since the taxes count for a smaller part of the price, the margins have increased, followed by intense price competition. Differentiation is still important as a base of competition, like it was in year 2001.

The biggest growth has been in the spirits segment. The wine segment has only increased slightly, since the taxes in 2001 were not as high in this segment as in the spirits segment, making the tax reduction smaller on wine. As the on-premise sales has increased, more opportunities to undertake marketing activities have emerged, using HoReCa as a communication channel to consumers. Due to more marketing activities at HoReCa outlets, enterprises are able to influence the consumers to a greater extent than they were five years ago. This has led to slightly more movements between different brands, since consumers try more drinks. Since the on-premise consumption has increased, HoReCa and wholesalers are more important than they used to be. It is important for the producer/importer to sell its products through HoReCa outlets in order to communicate with the consumers. The power of HoReCa has increased somewhat.

Systembolaget's power is still very high, since there is no competition in the retail alcohol market, the off-premise sales. The threat of new entrants in the Swedish alcohol market is low, however, due to the market increase, it is slightly easier to enter the market today than back in 2001. The opportunity to enter the market through HoReCa is better, though not easy. To get into Systembolaget's assortment is still hard, however it can be enhanced by undertaking marketing activities through HoReCa.

5.4.3.1 Opportunities and Threats

Since the alcohol market has grown, especially in the spirits segment, enterprises now have the opportunity to grow significantly, and increase their sales in the Swedish market. The spirits segment is characterized by more growth than the wine segment, and it therefore represents a major opportunity. Not only have the overall sales increased, but also more people have started to buy alcohol from the on-premise outlets, increasing the sales and market share of HoReCa. The opportunity to enter the market through HoReCa has increased. Through HoReCa, enterprises also have the opportunity to undertake more marketing activities and communicate with consumers. As enterprises have started to communicate with the consumers through HoReCa much more than back in 2001, there has been a slight increase in movements between brands, increasing the threat of dropping out of business. However, brand movements are still rather limited.

With lower alcohol taxes, there is a possibility to operate with higher price margins, and earn a little bit extra per bottle sold, in the long term this could lead to intense price competition if enterprises do not manage to differentiate their products. Due to an increased market, global enterprises focus more attention on the Swedish market, intensifying competition and industry rivalry.

The threat of substituting products, in form of the black market and travelers' imports has been reduced considerably.

5.4.4 Freedom before Anything

In this scenario Sweden has the same level of travelers' allowances as the rest of the EU member states, and Systembolaget continues to hold the retail monopoly of the alcoholic beverages in the market. The marketing and advertising regulations have been liberalized and a significant tax reduction, above 50 %, has been implemented.

According to the description presented above, the Swedish alcohol market has the characteristics of a free market, with only one exception - the retail monopoly. The significant tax reduction has reduced prices considerably, and therefore consumers in the entire country are buying their alcoholic beverages at Systembolaget. They have switched from private imports and black market purchases to domestic acquisitions. However, under all the conditions and transformations mentioned above Systembolaget's power has been considerably reduced, barriers of access to the retail distribution channel being considerably reduced.

The competition in the market has increased significantly, being keen, both in the spirits and wine segment. Enterprises still compete on price and differentiation, however to a larger extent, due to the liberalized market. The market for spirits has increased considerably as well as the wine market in comparison with year 2001. Furthermore, HoReCa's importance and power has increased remarkably, people are going out more often and consuming more spirits and wines. A shift has actually been recorded from home drinking habits to out drinking customs. Together with HoReCa's power, wholesalers' power has been increased.

Increased competition and liberalized marketing and advertising regulations have made the survival of small importers and local producers almost impossible. An important factor here are the high costs needed for marketing and advertising, as a result the majority will most probably be acquired by the big players in the market. The same reason has decreased the importance of the wine journalists, enterprises being able to undertake own promotional advertising.

5.4.4.1 Opportunities and Threats

The situation in the Swedish alcohol market regarding the external environment has completely changed in comparison with year 2001. However, Systembolaget managed to maintain the monopoly of retail sales. Undergoing substantial transformations the increased liberalization of the Swedish alcohol market offers certain opportunities and threats for the enterprises active on the market, more similar to a free market situation.

The wine segment of the market as well as the spirit segment has increased considerably, allowing growth opportunities for enterprises in both segments. However, this has led to a threat, as competition in the market has increased significantly. The liberalization of the marketing and advertising regulations had a similar outcome. While the regulations increased the marketing and advertising opportunities for the enterprises willing to promote their products, the high costs that such activities imply represent a threat especially for smaller enterprises or local producers. The significant tax reduction, allows now higher margins for the big enterprises, while at the same time threatens the small ones. As a result, all the outcomes mentioned above undermined the existence of small players. Acquiring opportunities have therefore arisen for the big enterprises.

Furthermore, HoReCa and wholesalers' importance has increased, enterprises having the opportunity to undertake more marketing activities and communicate with consumers through this channel. Additionally, the barriers of access to Systembolaget's retail distribution channel have been reduced considerably.

5.5 Allied Domecq Sweden AB

After having presented the enterprise's strategy and its specific strategic capabilities in the Nordic area, we will now discuss the enterprise's more specific strengths and weaknesses relevant to, and capable of dealing with the business environment. Unique resources and core competencies concerning enterprises' marketing and sales activities in the Swedish market are to be emphasized in the form of strengths and weaknesses.

5.5.1 Strengths

Global support: Allied Domecq Sweden AB has a great advantage as it benefits from Allied Domecq's PLC global support, which is significant due to the enterprise's size. As the second largest spirits and wine enterprise in the world, significant financial investments are made annually in marketing activities. Allied Domecq PLC has retained a strong financial position despite several acquisitions lately. In the Nordic region strong financial performances have been recorded for the last period.

Economies of scale: The fact that Allied Domecq is a global player, operating in many different markets, allows the development of economies of scale in different sectors including not only marketing and advertising activities but also production. In the Swedish alcohol market this allows the enterprise to have higher profit margins than a smaller actor, earning a little bit more on each bottle sold. Furthermore, this allows special offers for selected customers and increased cooperation with the wholesalers.

Reputation: Due to its size, the huge number of brands, presence all over the world, Allied Domecq has managed to build a good reputation on a global scale, which most certainly is positively reflected on the Swedish market. Built on a number of resources, the brand reputation is an important strength of Allied Domecq

Customer focus and customer relations: The enterprise's focus is to establish long-term relations with its customers. Since it is very hard to communicate with the consumer in the Swedish alcohol market, due to restrictive marketing and advertising regulations, the on-premise channel, more exactly the HoReCa business, represents an appropriate way to communicate with the consumers and increase brand awareness. Moreover, sustained by the global organization, Allied Domecq Sweden AB possesses the resources to undertake this approach.

Brand portfolio and brand management: Especially in the spirit segment, Allied Domecq possesses numerous global brands with consistent brand strategies. The Swedish brand portfolio encompasses the four global priority brands, Ballantine's – whisky, Beefeater - gin, Kahlúa – liqueur and Sauza – tequila, along with another thirty spirits brands. Moreover, with regard to brand management, Allied Domecq allows adaptations in accordance with local market characteristics and requests. The enterprise possesses the necessary resources to promote its brands in a persuasive way especially towards on-premise channels. The marketing campaigns carried out globally through television and Internet support the brand promotion in the Swedish market, where otherwise marketing and advertising are restricted.

Responsiveness to market trends in the spirits segment: Due to the variety of brands offered on the market a high degree of flexibility is met. If one brand does not sell well due to the trends existing in the market, another one that is trendy at that moment and assures the enterprise's stability in the long run can replace it.

The people: Allied Domecq's has a very creative sales and marketing team. Since transformations in the market are expected, the management has to be continuously aware of the possible changes that might arise. The marketing team proved over time its creativity through constructive ideas regarding marketing and sales issues. The effectiveness in promoting and executing sales depends on this innovative team. Allied Domecq possesses a very balanced team in Sweden, where professionals with different backgrounds and different personalities meet and form a unity. The employees have demonstrated adaptability to change, which allows a high degree of strategic flexibility. Their skills and knowledge represent a valuable asset. Knowledge is spread within the enterprise, as communication with the employees is a specific target and a special tool has been developed in this regard, the Intranet portal. Connected to a high degree of motivation among employees is the innovative, focused and efficient culture of Allied Domecq, which combines the softer and harder values into a good mixture.

Technology. In this area, Allied Domecq has leading edge customer management sales tools and evaluation tools, through which the enterprise can increase the effectiveness of its activities, and therefore save a lot of time. Furthermore, Allied Domecq's Intranet is an efficient way of communication, which allows best practices to be shared globally. Focusing on, and investing in information technology the enterprise strives to increase its business performance.

Organization: The flexible structure of the Nordic organization allows strong co-operation and sharing of information.

5.5.2 Weaknesses

Brand portfolio and brand management. Even though the brand portfolio within the spirit segment is one of the enterprise's major strengths in the Swedish alcohol market, the situation is different within the wine segment. Allied Domecq markets only eight brands of wine, out of which five are red wines and three are white wines, making this segment considerably underrepresented. Therefore, it constitutes a weakness for the enterprise. At the global level the situation is a bit different, as the wine brand portfolio has been strengthened lately, through several acquisitions. This implies that situation might change in the future, sustained also by the enterprise's goal to expand its wine portfolio in Sweden by 2005. A weakness may be found also in the spirits segment where the enterprise distributes only one brand of unspiced white spirit (vodka), Svenskt Brännvin. Vodka is the dominant spirit in Sweden.

Delivery time and speed of distribution: In certain cases this represents another weakness in the Swedish market, due to Systembolaget's rules concerning their product assortment. In general, the enterprise cannot store significant amounts or a large variety of products, due to the high costs implied. If customers are ordering one of Allied Domecq's products that is not in Systembolaget's regular assortment, but in the ordering assortment, the delivery time of the product might be considerable sometimes depending from where the product is imported or where it is produced. This affects to a greater extent the wine segment in comparison with the spirit segment, since wine consumers switch brands more easily than the spirits consumers. A delayed delivery may lead to this consequence.

6. Conclusions and Recommendations

In this chapter we will present our conclusions and recommendations for Allied Domecq, our case study enterprise. We will start by discussing and analyzing the strategic implications resulting from external environment influences for each of the four scenarios previously developed, closing with more general conclusions and recommendations.

6.1 Future implications for Allied Domecq

For each scenario developed in the previous chapter, a SWOT analysis is conducted where the identified threats and opportunities in the external environment are discussed in relation to the strengths and weaknesses that the enterprise possesses today.

6.1.1 SWOT for "Substitutes' Kingdom"

In this scenario travelers' allowances have increased to EU standards, the marketing and advertising legislation remain restrictive, and insignificant tax reductions have been undertaken. Systembolaget continues to act as the retail monopoly in the market.

The increased level of travelers' allowances, as a major change in the environmental setting of the Swedish alcohol market, and its particular consequences, resulted in an increasing threat for the enterprises active on the market. Allied Domecq is no exception here. The threat of product substitution recorded increased levels in the whole country, and influenced negatively Systembolaget's sales of alcoholic beverages. Consumers' purchases consist mainly of products coming from legal imports, but also from the black market sources including: illegal imports, home distilling and legal imports that are sold illegally. Allied Domecq's business is seriously affected since Systembolaget represents its major customer. In the retail monopoly stores the sales of all types of spirits are decreasing, the only category managing to endure being vodka. Therefore, the enterprise's brand selection offered on the Swedish market does not match with the actual requirements. In order to survive Allied Domecq has to improve its assortment by introducing a few other vodka brands, and improve the non-spiced white spirits category as Svenskt Brännvin has become insufficient. Due to the fact that brands are dropping out of the market more easily, the other brands offered in the spirit segment also have to be revised in order to focus on the most famous ones where Allied Domecq can benefit from the marketing and advertising activities carried out at the global level.

The fact that the whole market is shrinking is obvious under present conditions. Only the strong spirits brands are able to survive in this scenario. The situation differs with regard to the wine segment, as the current setting offers several opportunities for enterprises present in the market, especially for those ones that market good quality wines. The product substitution threat has not increased considerably in this segment, customers have continued to purchase wines at Systembolaget with almost the same frequency as five years ago. Allied Domecq definitively has to extend its wine product assortment offered in the Swedish market as it is substantially underrepresented. Focusing on quality wines, a good assortment of both white and red wines has to be developed. This becomes even more important as the threat of dropping out of the market for wine brands has increased.

In any case, the increased level of travelers' allowances, which led to increased cross border trade, harms Allied Domecq's operations in the Swedish market. However, this might result in increased sales made at the Nordic level due to the cross border trade, especially with Denmark. Benefiting from a flexible Nordic organization Allied Domecq will be able through coordination to increase its sales volume in Denmark, while focusing on targeted brands in Sweden.

Since the competition has increased considerably in the industry, it has become harder for small actors to survive. The concentration trend, which started in the Swedish alcohol market already at the beginning of 2000, offers the big enterprises the opportunity to acquire smaller ones. Allied Domecq, being a major player in the global alcohol industry, possesses the necessary resources to make acquisitions. This represents a positive option as the enterprise may acquire small producers/importers that have a limited number of brands, which are already known in the Swedish market with presence in Systembolaget's regular assortment.

Communication between the market teams in the Nordic area is crucial in this scenario. Allied Domecq has to be aware of this fact and make use of the technological resources it possesses that offer the opportunity to survive under the rough market conditions. In a shrinking market with marketing and advertising restrictions, the importance of Allied Domecq's sales team will increase considerably. Holding a very flexible team, the enterprise should move its customer focus from Systembolaget towards HoReCa and the wholesalers. Even though their importance as buyers has also decreased in the market, they could be the solution for survival.

6.1.2 SWOT for "Code name: B.R.A.N.D"

In this scenario travelers' allowances have increased to EU standards, and the marketing and advertising legislation of 2001 has been liberalized. No major tax reduction has been undertaken, nor has there been a de-monopolization of the retail system.

Due to the increase in travelers' allowances the Swedish population is acquiring a huge amount of alcohol from abroad. The Swedish alcohol market has decreased significantly, and, as discussed in previous scenario, it represents a tremendous threat to Allied Domecq's operations in Sweden. The decrease is huge in the spirit segment, while there actually still are big volumes in the wine segment, especially quality wines are selling well. To survive on the Swedish market the enterprises have to offer a wide portfolio of good wines, since consumers tend to try different wines all the time and not stick to one brand, making it easy to drop out of the market if trends change. Allied Domecq's business in Sweden will be seriously damaged if the enterprise does not increase its focus on the wine segment and develops its wine portfolio.

The decrease in sales of spirits is affecting the whole country, though it has a greater impact on the southern parts, which are closer to Denmark and Germany, countries with low alcohol taxes. Allied Domecq Wine & Spirits Sweden AB's sales figures will therefore be higher in the northern parts of Sweden. The increase of border trade will have a negative impact on Allied Domecq's total sales in Sweden. However, since Allied Domecq's operations in Sweden are part of the enterprise's Nordic team, under the European division, the decrease in Sweden will be substituted by a positive effect on the enterprise's sales in Denmark or Germany, assuming that Swedish consumers continue to buy the products of Allied Domecq, but on another market. Marketing and advertising of alcoholic beverages is allowed on the Swedish market, and Allied Domecq should seize this opportunity to increase consumer awareness and loyalty. By marketing its products, Allied Domecq will increase sales, not only in Sweden, but also in neighboring countries where taxes are low. The operations on the Swedish alcohol market will be important as a part of Allied Domecq's Nordic organization, but of less importance in isolation.

Since the size of the Swedish alcohol market has decreased significantly, and marketing and advertising of alcoholic beverages has been liberalized, industry rivalry has increased. Enterprises are fighting for each other's market shares, making it hard to survive, especially for the small and local enterprises. Allied Domecq Wine & Spirits AB is supported by the global organization of the enterprise, and can participate in the fierce competition by undertaking marketing and advertising activities. The creative and innovative marketing team makes the enterprise very flexible and capable of identify opportunities arising in the market. To survive, Allied Domecq can, due to a relatively strong financial position, acquire smaller enterprises that are finding it hard to survive with only single brands.

For the longer period of time, marketing and advertising of alcoholic beverages will lead to increased consumption and greater movements between different brands in the spirits segment. It will become important for enterprises active on the Swedish alcohol market to market their products in order not to drop out. This also applies to Allied Domecq. However, liberalized marketing and advertising regulations also represent an opportunity for brand differentiation and image associations. Since Allied Domecq already has globally developed brand strategies and campaigns, the enterprise can gain from the global awareness and make a greater impact on the Swedish market.

Due to more marketing and advertising activities of alcoholic beverages in Sweden, the government is now working hard with campaigns and different activities to keep the alcohol consumption at a low level. The government though is finding it hard to make an impression on the market since its resources are very limited in comparison to commercial actors. By acting responsibly, Allied Domecq can strengthen its position on the market.

Since enterprises are undertaking more marketing activities, the power and influence of wine journalists have decreased tremendously. Brands have become more important, and the power of Systembolaget has been reduced. Enterprises are now pushing more for their products, and Allied Domecq also has to undertake more promotional activities in the Swedish market. Further, it is easier to introduce new products on the market than five years ago, since enterprises have more opportunities to communicate with consumers. Products, which only are on the call lists of Systembolaget, can be sold in big amounts if consumers ask for them. This means that the power of Allied Domecq in the relationship to Systembolaget has increased. The threat from new entrants is very weak.

6.1.3 SWOT for ”Cheap at Systembolaget”

Travelers' allowances have increased in this scenario, and the taxes have been reduced substantially, by at least 50 %, for both spirits and wine. The retail monopoly, however, persists as well as a very restrictive marketing and advertising legislation.

Since the taxes on alcoholic beverages have been reduced substantially, the threat of substituting products, in terms of the black market and travelers' imports, is much weaker than it was in 2001. The sales at both Systembolaget and HoReCa have increased, resulting in an overall bigger market. Industry rivalry is therefore reduced, and Allied Domecq has the opportunity to grow on the Swedish market, increasing it sales of both spirits and wine.

Since the taxes are lowered, they now count for a smaller amount of the total price. Enterprises undertaking activities on the Swedish alcohol market have higher price margins, and control their price levels to a greater extent than back in 2001. This has led to increased price competition. Allied Domecq benefits from economies of scale due to its global scale of operations, and can participate in the price competition, however more focus should be devoted to product differentiation since competition on price is never healthy in the long run.

The spirits segment has grown more than the wine segment, since the actual tax reduction is bigger within this segment. It therefore represents a major opportunity of growth for Allied Domecq Wine & Spirits AB, having a really strong portfolio of brands within the spirits segment, with the exception of vodka. Vodka remains the major category of spirit sold in Sweden, and more focus on the enterprise's present brand, Svenskt Brännvin along with a widening of the portfolio within this category should therefore be considered.

Since the price has been lowered in both off-premise sales and on-premise sales, consumers drink more at restaurants and pubs than they did five years ago. HoReCa has become an important customer and now represents a great opportunity for enterprises in the area of consumer communication. Allied Domecq should therefore focus on its relations with HoReCa, and the distribution of its products. Through HoReCa, Allied Domecq has the opportunity to promote its brands and make them the preferred brands of consumers. HoReCa can be targeted both directly by Allied Domecq, and indirectly through wholesalers. From this point of view, not only the relationship with HoReCa, but also wholesalers will become important for Allied Domecq.

The increase of marketing communication with consumers through HoReCa has increased brand movements in the spirits segment, making it easier to drop out if trends change, however, consumers will still be more brand loyal within the spirits segment than in the wine segment where wine journalists are very influential. Allied Domecq's wide portfolio of brands in the spirits segment ensures survival in the market, if one brand drops out, another brand may sell very well. However, the wine portfolio could be improved to enhance Allied Domecq's position within the wine segment of the market.

Systembolaget's power remains strong, due to the monopoly situation in the off-premise sales. Though, since HoReCa's share of the total consumption has increased, enterprises have more opportunities to sell their products and influence consumers. Allied Domecq will have to continue working towards Systembolaget, at the same time as undertakings towards HoReCa increase. Due to the increase in the size of the market, threat of new entrants has increased somewhat, however, it remains weak and is no real threat to the operations of Allied Domecq.

The overall consumption of alcoholic beverages has increased in Sweden, due to lower taxes. Therefore, the state is very active through campaigns and other activities. Enterprises operating on the Swedish alcohol market have to pay attention to the different campaigns, and be aware of the states undertakings. Allied Domecq should not only pay attention to the state's actions, but also select undertakings that do not contravene the state.

6.1.4 SWOT for "Freedom before anything"

In this scenario travelers' allowances have increased to EU standards, and the marketing and advertising legislation have been liberalized. There has also been a major tax reduction. Systembolaget still holds the retail sales monopoly.

Major changes in the external environment have led to a completely new situation in the Swedish alcohol market, having several features of a free market. Only the existence of Systembolaget, the retail monopoly, continues to hinder the development of a completely free alcohol market in Sweden. The importance of Systembolaget has however been reduced significantly, barriers of access to the retail distribution channel being considerably diminished, since several other aspects have been liberalized.

Travelers' allowances have been harmonized with the EU level at the same time as the Swedish taxes have been reduced significantly. Due to the significant tax reduction, travelers' imports have not increased, but actually been reduced and this has led to increased sales at Systembolaget. People in the entire country prefer to buy their alcoholic beverages at the retail monopoly stores rather than from the black market or abroad. This represents a significant growth opportunity for Allied Domecq Sweden AB with regard to its sales volume.

Both the sales of wine and spirits have increased considerably, allowing growth opportunities for Allied Domecq in both segments. Offering a wide range of spirits brands Allied Domecq is well positioned in the spirits segment. An important support and substantial savings are registered from the global organization's marketing activities and brand promotions carried out at the global level, which now can reach the Swedish consumers to a greater extent than before. However, the sales of spirits are dominated by vodka brands, an area where Allied Domecq is rather weak. With only one brand present on the market, the enterprise has to increase its range of vodka brands. Improving the wine range is another focus for Allied Domecq. In order to achieve growth in this segment, and be less vulnerable to trends, both the white and red wine ranges have to be extended. Since enterprises can undertake their own marketing activities and advertising campaigns, the power of wine writers has decreased significantly. Therefore, Allied Domecq should not only increase its product range but also embark on serious campaigns to promote its wine brands. Due to the particularity of the Swedish market and its sensitivity to trends, the resources needed for marketing and advertising campaigns have to increase.

Market liberalization has driven keen competition, and enterprises compete on price and differentiation in the market to a larger extent. The liberalized marketing and advertising regulations represents an opportunity and at the same time a threat for enterprises present in the market as they imply high costs. Along with increased competition they have made the survival of small producers or importers impossible. An important opportunity arises here for Allied Domecq in terms of acquisitions.

The substantial tax decrease allows enterprises to operate with higher price margins, and therefore increase their profits in the Swedish market. Furthermore, as a global player and producer Allied Domecq can afford this to a greater extent than its smaller competitors. The situation has also improved with regard to product entry barriers, which have been reduced. It is much easier to get into Systembolaget’s assortment since communication with the consumers is possible through traditional marketing activities.

HoReCa’s importance in the market has also increased as people are drinking much more in the on-premise sales, as a result of the tax reduction and lower prices. Allied Domecq has to take this aspect into consideration and remain customer focused and develop long term customer relations with both HoReCa and the wholesalers. Marketing and advertising activities carried out through these channels have to be intensified, as they are an effective way to reach the consumers.

6.2 General Recommendations

Beside the specific recommendations made for the enterprise in accordance with each of the four future scenarios, presented in the previous part, recommendations of more general character will be presented next. They will encompass suggestions that are common for all scenarios, and other recommendations of a more broad nature arising from the external environment.

A common recommendation found in all four scenarios refers to Allied Domecq’s product range on the Swedish market. The enterprise has to focus on closing the vodka gap in the spirit segment and enlarging its wine portfolio in

the wine segment. From our research it has been depicted that the sales in the spirits segment has been and continues to be dominated by non-spiced vodka brands, while the wine segment of the market has continuously grown during the last 45 years. The spirits segment of the Swedish alcohol market has been declining for several years, and its future is rather unstable, being highly dependent on future alcohol taxes. The wine segment on the other hand is growing and it is less volatile to macro environmental changes, meaning that a relatively stable situation and market size is to be expected also in the future.
Therefore, a development of Allied Domecq's present wine portfolio on the Swedish market should be prioritized.

6.2.1 Wine

To be successful within the wine segment of the Swedish alcohol market, it is important to offer a wide portfolio of wines since consumers try new products often and brand loyalty is rather low. The lower price categories are huge, 80% of the wine sold in Sweden costs less than 70 SEK. However in the higher price categories, the price margins are much better.

When making the selection of which categories of wine to introduce to the Swedish market, several factors are of importance. First of all the quality of the wine is important, as Swedish consumers are very knowledgeable and have a great interest in the product. Secondly, trends are important since wine consumers are inclined to try new wines all the time, and prefer wines from different parts of the world as trends come and go. The bottle and the presentation of the wine are also important, especially in the lower price segments. Furthermore, Allied Domecq has to ensure good relationships with wine journalists, if possible, whose influence is remarkable in a market with restrictive advertising and marketing legislation. Wine clubs represent another communication channel with consumers. The increased importance of HoReCa as a marketing channel has to be considered. HoReCa buys mainly from the wholesalers, and building good relations with the wholesalers is therefore vital. Reliable and efficient distribution is another feature that has to be fulfilled.

Our recommendations with regard to the widening of the wine portfolio are consistent with the enterprise's goal stated in the "Consumer 2005" strategy project, and can be accomplished due to the acquisitions of numerous wine brands around the world already made by Allied Domecq PLC at the global level. The acquired wine brands can now be transferred to the Swedish market.

6.2.2 Spirits

In the spirits segment of the market, Allied Domecq should consider increasing its focus on vodka. The spirits segment has declined continuously and therefore special attention should be paid to the enterprise's product choice. The vodka brands continue to lead in sales and no major shifts are expected, as spirits consumers tend to drink the same products for their entire life. There are trends also in the spirits market, but they have little impact. Today, Allied Domecq only has one vodka brand, Svenskt Brännvin. More focus on developing the potential of this brand and also a widening of the enterprise's portfolio should be considered. Except for the vodka category, Allied Domecq has a wide products assortment of spirits offered on the Swedish market, possessing strong brands. The enterprise is especially strong within the whisky segment, a segment Allied Domecq should continue to focus on, especially promoting its single malt whiskies since they represent a trendy category at the moment. Activities in form of tasting can be arranged for whisky clubs.

None of Allied Domecq's brands are among the top ten of Systembolaget's best selling products, and there may therefore be potential for improvements. Another reminder is the fact that the majority of the spirits sale is effectuated by Systembolaget's development of self-service stores, implying increased importance of the product's bottle and package. Within the spirits segment, brands are very important, and product packaging is highly connected to brand image. For white spirits, brands and bottle represent the two most important factors for differentiation. In colored spirits categories product differentiation is also very important. Since marketing and advertising regulations are very restrictive in Sweden, international communication channels such as Internet and satellite/digital television are important forms of support to the local operations of Allied Domecq.

6.2.3 Other Findings

Allied Domecq can benefit from several important advantages by increasing communication between the marketing teams in the Nordic area. The Intranet tool already developed is very useful here. Constant interaction between the Nordic teams may help in balancing sales in the Nordic region and identify trends that might occur in the markets, making the enterprise prepared for changes. Successful marketing practices should also be shared through this channel.

The enterprise should also increase the number of tastings on the Swedish market. This is a very effective way to market the products in an environment characterized by restrictive marketing regulations. Therefore, outside of ensuring its participation in all the fairs that have as a central theme wine and spirits or/and food, Allied Domecq should take the initiative to organize tastings on a smaller scale. This is very important especially for the wine segment of the market, and will become even more necessary if the enterprise enlarges its wine portfolio in order to penetrate the market with new products. To assure the success of this kind of activity the presence of wine journalists is vital. Since Allied Domecq has a good reputation, and good quality products this will ease the attempt to reach the consumers considerably, by getting potentially favorable reviews from wine journalists. In addition it will allow the enterprise to establish or to strengthen relationships with the wine journalists.

Allied Domecq should increase its focus on HoReCa as a buyer, and implicitly on the wholesalers. HoReCa's importance has lately increased, and prospects show that the rising path will continue in the future. However, attention should be targeted towards the wholesalers, as usually HoReCa businesses purchase mainly from them. Additionally, Allied Domecq should focus on big or/and trendy restaurants, cafés and different bars. Advertising and promotion campaigns carried out through this channel are an efficient way of reaching out to the consumers. With regard to consumer communication, Allied Domecq's employees and sales team play a fundamental role. The enterprise has to educate its sales team to build long-term relationships with wholesalers and HoReCa businesses. The focus has to shift from only selling, to establishing long-term relationships. The value of the established relationships will increase in the future, as the market most probably will recognize and adopt this new trend already started by Systembolaget through their new customer focus.

7. Suggestions for Further Research

Prolong the period for scenarios: When developing scenarios, we used a time period of five years. It would also have been interesting to create scenarios for a ten-year-period. In a longer period of time, the retail monopoly situation of the Swedish alcohol market might for example have changed. Also, health considerations within the EU might have become stronger, implying more restrictions at a European level.

Relationship Marketing: We have in the previous part recommended that Allied Domecq increase its focus on HoReCa, building long-term relationships and ensuring consumer communication through this channel. We did not have the opportunity to investigate this issue any further, and therefore suggest further studies on relationship marketing.

Brand Management: Globally, Allied Domecq has acquired several wine brands. A study of how to position them on the Swedish alcohol market therefore represents a current issue for investigation. Further on, each of the brands in Allied Domecq's portfolio could be studied in terms of strategy and positioning.

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Appendix 1

Interview Questions

General

1. Which are the most important factors that are influencing the alcohol industry today? (EU, Swedish Government, WHO and other health organizations, WTO, Industry Associations, others)
2. How has the influence of different health organizations on alcohol policies changed lately? (WHO, Eurocare, other)
3. To what extent can WHO influence EU's decisions on alcohol related matters?
4. What will be the main changes to Sweden's alcohol policies in the near future (following 5 years)?
5. Will Sweden be able to renegotiate the EU decision made on the level of travelers' allowances? (the introduction of EU standards in 2004)
6. Will Sweden be able to maintain its high alcohol taxes after 2004? Please comment.
7. What is the public opinion today concerning Sweden's current alcohol policy? (Systembolaget, high taxes, travelers' allowances, restrictive marketing)

Competition

1. How do you describe the competition in the Swedish alcohol market at present, with regard to the following aspects: enterprises' size and market share, range of products offered by different enterprises, price vs. differentiation (advertising, promotion, product development)?
2. Is the Swedish alcohol market growing or declining?
3. Is the spirits segment of the Swedish alcohol market growing or declining?
4. Is the wine segment of the Swedish alcohol market growing or declining?
5. Which are the key success factors of an enterprise operating in the wine segment of the Swedish alcohol market? (price, quality, brand, reputation, country of origin, delivery time, publicity etc.)
6. Which are the key success factors of an enterprise operating in the spirits segment of the Swedish alcohol market? (price, quality, brand, reputation, country of origin, delivery time, publicity etc.)

Customers

1. What factors influence Systembolaget's purchase decisions of wine? (price, quality, brand, reputation, country of origin, packaging, trends, journalists' opinions, etc.)
2. What factors influence Systembolaget's purchase decisions of spirits? (price, quality, brand, reputation, country of origin, packaging, trends, journalists' opinions, etc.)
3. Can Systembolaget easily refuse to include the products of an importer/producer in its product range?

4. On what grounds can Systembolaget refuse to include the products of an importer/producer in its product range?
5. How does a producer/importer influence Systembolaget's purchasing decisions? (lobbying, personal contacts, special offers, fairs, etc.)
6. Is HoReCa's importance as a customer increasing? Why/Why not?
7. How does a producer/importer influence HoReCa's purchasing decisions? What channels are used? (lobbying, personal contacts, special offers, fairs, etc.)
8. Is the wholesalers' importance as a customer increasing in the Swedish alcohol market? Why/Why not?
9. How does a producer/importer influence wholesalers' purchasing decisions? What channels are used? (lobbying, personal contacts, special offers, fairs, etc.)

Substitutes

1. To what extent does the black market influence the alcohol sales of enterprises active on the market? (smuggling, home production, illegal import)
2. Is the black market growing or declining?
3. To what extent do the travelers' imports influence the alcohol sales of the enterprises active on the market?
4. Which one is having greatest impact on enterprises' sales in the Swedish alcohol market: travelers' import or the black market?

Market Access

1. Can new enterprises easily enter the Swedish alcohol market? (capital requirements, access to distribution, governmental and legal barriers, economies of scale etc.)
2. To what extent are new entrants threatening the more established enterprises?

Consumers

1. What factors influence consumers' purchase decisions of wine? (price, quality, brand, reputation, country of origin, packaging, trends, etc.)
2. What factors influence consumers' purchase decisions of spirits? (price, quality, brand, reputation, country of origin, packaging, trends, etc.)

Allied Domecq

1. What is the present strategy of Allied Domecq in the Swedish alcohol market?
2. What is Allied Domecq's vision?
3. What are Allied Domecq's goals?
4. What are Allied Domecq's values?
5. What are Allied Domecq's main resources and capabilities? (Financial, Physical, Technology, Reputation, Enterprise Culture, Skills and knowledge, Communication, Motivation, Enterprise infrastructure, Human resources management, Technology development, Procurement, Logistics, Operations (manufacturing), Marketing, Sales, Service, Others)

6. What marketing and sales activities is Allied Domecq undertaking in the Swedish alcohol market? (PR, advertising, promotion, personal contacts, customer services, events, sponsorships, sales support, etc.)
7. How is Allied Domecq marketing itself towards Systembolaget? (PR, advertising, promotion, personal contacts, customer services, events, sales support, etc.)
8. Which are the main suppliers of Allied Domecq?

Taxation

1. What is the present situation regarding tax harmonization in the EU?
2. Is tax harmonization on alcoholic beverages in EU's current agenda? If yes, which will be the possible development under this aspect?
3. Are the EU member countries supporting tax harmonization on alcoholic beverages?
4. Will the current minimum tax levels on alcoholic beverages increase/decrease/ be maintained in the future?
5. Are maximum tax levels on alcoholic beverages to be set in the future?
6. Will EU pressure high tax countries, such as Sweden, to lower their current alcohol tax levels?
7. Will health issues be taken into consideration in the EU with regard to future alcohol taxation?

Marketing and Advertising

1. What is EU's current position regarding marketing and advertising regulations of alcoholic beverages?
2. Will EU propose a stricter regulation for marketing and advertising of alcoholic beverages?
3. Will Sweden be able to maintain its restrictive advertising and marketing regulation in the future?
4. Will EU further attack the Swedish marketing and advertising regulation? If yes, on what grounds can this be done?
5. France was recently brought to the European Court of Justice due to its advertising ban. How will the outcome and the European Court of Justice rulings in this case influence the Swedish advertising ban?

Retail Monopoly

1. With reference to the Franzén case, the Swedish retail monopoly was found in accordance with EU regulations. What is the present situation regarding this matter?
2. Does the retail monopoly at present contravene any EU regulations?
3. What is the general opinion concerning the retail monopoly in the EU member states at present?
4. What are the most important threats for the Swedish monopoly's future survival?

Appendix 2

Product Assortment of Allied Domecq Wine&Spirits Sweden AB

Whisky
Ballentine's finest (Scotch blended)
Ballentine's Gold Seal (Scotch blended)
Ballentine's Pure Malt (Scotch blended)
Doctors' Special (Scotch blended)
Teacher's (Scotch blended)
Long John (Scotch blended)
Laphroaig 10 years (Scotch single malt)
Laphroaig 15 years (Scotch single malt)
Glendronach 15 years (Scotch single malt)
Scapa 12 years (Scotch single malt)
Tormore (Scotch single malt)
Tullamore Dew (Irish)
Canadian Club (Canadian)
Canadian Club Classic (Canadian)
Marker's Mark (Kentucky bourbon)

Wine
Black tower Pinot Noir (Red)
Marques de Arienzo Crianza (Red)
Marques de Arienzo Reserva (Red)
Marques de Arienzo Gran Reserva (Red)
Marques de Arienzo Especial (Red)
Marques de Arienzo Blanco (White)
Lark Rise (White)
Black Tower (White)

Other Spirits
Beefeater (Gin)
Curtis (Gin)
Svenskt Brännvin (vodka)
Sauza Gold (Tequila)
Sauza Silver (Tequila)
Sauza Conmemorativo (Tequila)
Courvoisier VS (Cognac)
Courvoisier VSOP (Cognac)
Courvoisier Millennium (Cognac)
Courvoisier XO (Cognac)
Courvoisier Napoleon (Cognac)
Fundador (Brandy)
Kahlúa (Liqueur)
Frangelico (Liqueur)
Midori (Liqueur)
Tia Maria (Liqueur)
Harveys Bristol Cream (Sherry)
Harveys Club Classic (Sherry)
La Ina (Sherry)