

A close-up photograph of a glass containing a drink with grapefruit slices and a long, thin, yellow garnish. The glass is filled with a reddish-orange liquid, and the garnish is a long, thin, yellow strip, possibly a citrus peel, that is curled around the glass. The background is dark and out of focus.

Case Academy - Midway Case Competition

4-hour case

Case writers: Mads Østergaard & Tobias Løvkvist

Alcohol consumption has become a topic of discussion, and an increasing number of people are trying to cut back

Introduction to the situation

Why is ISH relevant?

Society is experiencing an increasing focus on the consumption of alcohol. According to a research performed in the US, 52% of surveyed consumers are trying to reduce their alcohol intake. In the UK, 65% are trying to cut back and to put the matter in domestic context, 92% of a Danish survey did not feel that there are enough alcohol-free options when going out.

Some of the major reasons behind this rising trend is to improve health, avoid hangover, and worries about becoming dependent on alcohol.

So how can the consumers' growing demand for Low- and Non-alcoholic drinks be met? ***We would like to introduce ISH...***

Alcohol was linked to cancer by a study pick up by the mainstream media in March 2019.



Drinking one 750ml bottle of wine a week was found to raise the risk of developing cancer over a lifetime by the equivalent of 10 cigarettes a week for women and 5 for men. ”



ISH is a Danish startup with a mission to change the social norm around drinking by producing a range of alcohol-free spirits

Company overview



ISH is a Danish start-up producing a range of alcohol-free spirits which simply mirror the flavors of alcoholic spirits. The mission of the company is to fulfill the demand created by mindful drinkers by creating an alcohol-free alternative without compromising the experience. ISH is produced in Sealand, Denmark and developed in collaboration with Firmenich SA.



MISSION

Morten Sørensen, Founder & CEO

“ We are on a mission to change the social norm around drinking. By providing a satisfying, alcohol-free, alternative, we include individuals who don't want to drink, or simply wish to limit their intake in social gatherings, where alcohol typically is the focal point. ”



VISION

Morten Sørensen, Founder & CEO

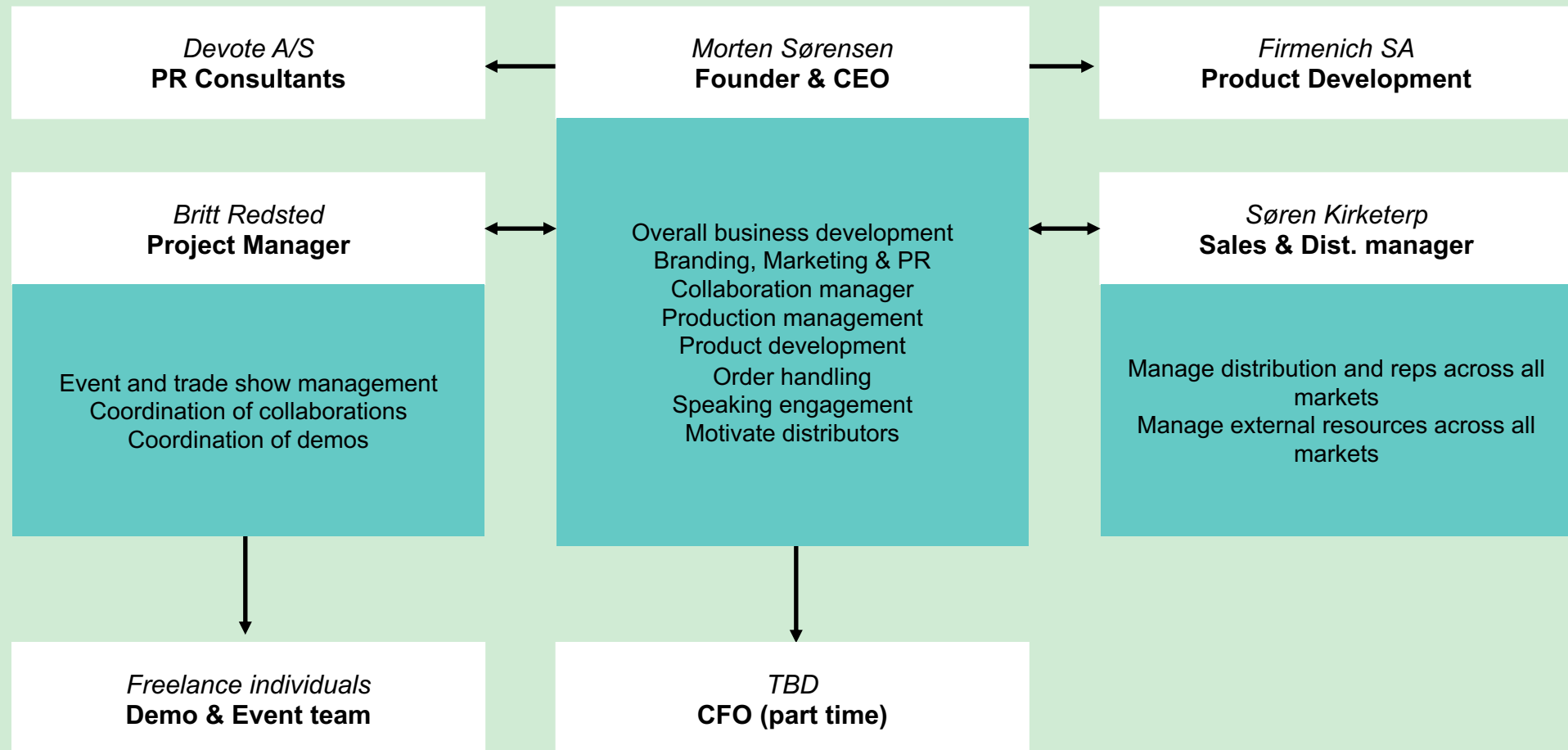
“ Any bar, restaurant or home must offer solid alcoholic free alternatives – it's a fundamental way of showing respect towards those of your guests who may not wish to drink alcohol ”

ISH was founded by Morten Sørensen and has a limited amount of employees

Company overview

Morten Sørensen, Founder & CEO

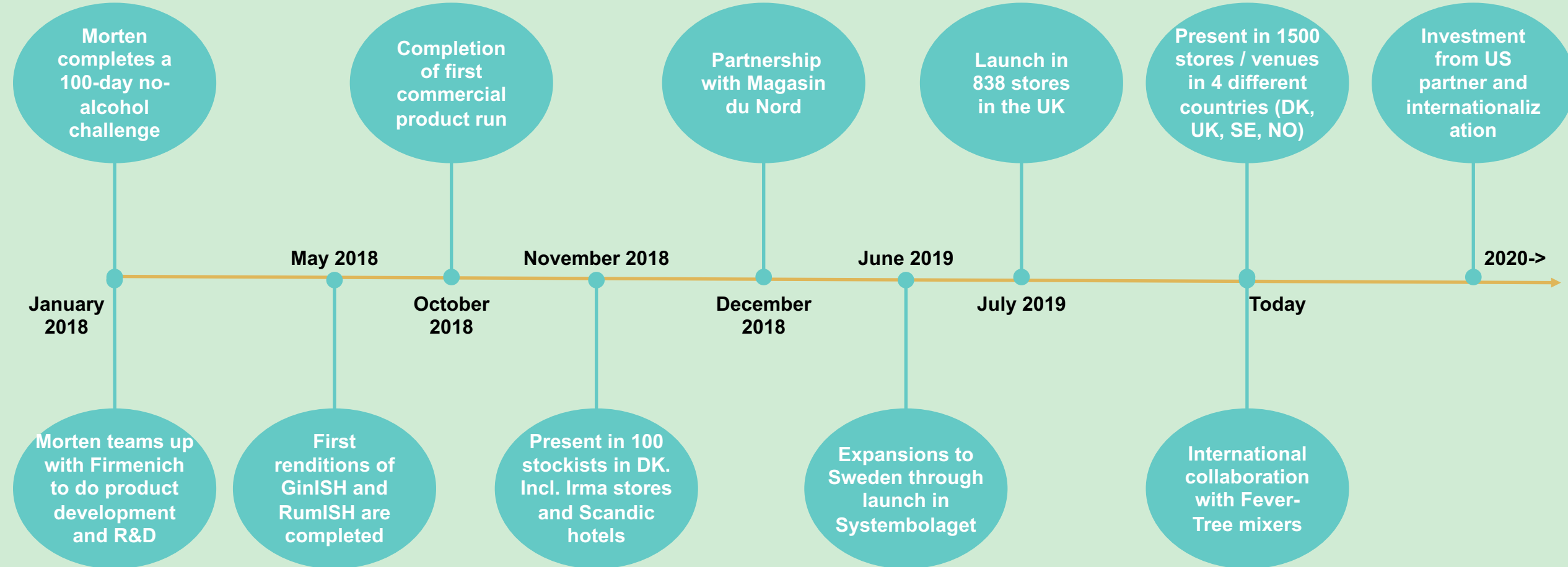
Morten is a 37 year old entrepreneur from Denmark with a passion for start-ups. Before the foundation of ISH, Morten had a career in the creative industry working primarily with brand building. Morten saw a potential in the market after doing a 100 days no alcohol challenge.



ISH has been on a growth journey since day one and has onboarded 1500 stores in 2019



The history of ISH



ISH has got a foothold in Scandinavia and United Kingdom, and is now looking to expand even more geographically

What is the current state of ISH?



Product launch October 2018



Available in 1,500 outlets in 4 different countries (DK, SE, NO, UK)



Award winning products in Sweden and Denmark. Moreover ISH has won the title of "Denmark's most scalable company" in 2019



Has secured a partnership with Fever-Tree and done marketing collaborations with Mercedes Benz and BMW



90% of consumers state that ISH lived up to their expectations. 8% say partially and only 2% do not think ISH lived up to their expectations.



How will ISH expand moving forward?

ISH is on a **global** mission and will continue to add markets.

Strategy

ISH onboards local agents/ reps who represents ISH in their local markets. The agents are put through a screening process to test whether they are the right fit. ISH invests into the market with a marketing package and continuous marketing in accordance to volume



Currently onboarding agents in: Canada, Dubai, Germany, Belgium and Slovenia



Early conversations with agents in: Hong Kong, China, Caribbean, Latin America, Czech Republic, Australia and USA



ISH has just started a partnership with a large brewery in the US. Hence, capital is secured for the growth journey they are embarking on.

ISH is continuously enhancing their current products while adding new products to the product portfolio

Product overview

CURRENT PRODUCTS

ISH has developed two different spirits, that being GinISH and RumISH. The first product completion happened in October 2018. However, the fragrance and flavor of the current products are continuously enhanced through the partnership with Firmerich

GINISH

Retail price range: 99-199 DKK

Size: 35cl, 50cl, and 70cl

Alcohol: 0,5%

Content: Zero sugar, 6 kcal pr. 100 ml.



RUMISH

Retail price range: 99-199 DKK

Size: 35cl, 50cl, and 70cl

Alcohol: 0,5%

Content: Zero sugar, 6 kcal pr. 100 ml.

FUTURE PRODUCTS

Ready-to-drink (no alcohol)

ISH has developed a pre-mixed GinISH & Tonic and a SpritzISH with the exact same profile as the popular “Aperol Spritz”. The selling-in process will begin this fall. They appeal to the health-conscious consumer and can be half the cost of on-trade servings. ISH will primarily target 20-35 years old with their new RtD products due to their convenience, shareability, and most importantly; they are instagramable.

Retail price: 20-25 DKK







Size: 250 ml cans

Alcohol: <0.4%

Content: Natural botanicals
Organic cane sugar
Low calorie












ISH has utilized partnerships as a key element of their growth so far by securing strong, strategic partners such as Fever-Tree

Partner	Purpose	Description of collaboration
	Product Development and R&D	Firmenich is the world's largest privately-owned flavor house. They product develop all ISH products, while ISH has ownership of these recipes. Firmenich is a global corporation with partners worldwide which will become relevant when volume increases and ISH begins to produce its products locally in its respective markets. This is both financially sane and optimizing sustainability.
	Branding	Fever-Tree is a premium mixer brand that works perfectly together with ISH. Fever-Tree and ISH have established a great collaboration on a global plan and they are looking to further utilize this partnership globally in the markets where both brands are present.
	Branding	Mercedes Benz and ISH joined forces through an activation where ISH served "Drink & Drive Drinks" at Mercedes showrooms across Denmark.
	Branding	BMW Denmark invited ISH to serve cocktail at their annual company day. 350 employees attended and none of them know that the cocktails they were drinking were in fact alcohol-free. This was revealed during dinner to their big surprise.
	Product development & Branding	Mikkeller is an incredibly cool beer brand that ISH will potentially launch a co-branded special edition product together with. Alcohol-free is a category Mikkeller is betting heavily on, as their number one seller today is one of their alcohol free-beers
	Sales	7-Eleven has 170 locations in Denmark and ISH will potentially launch its new RtD range exclusively in all stores (time limited exclusivity). The conversation is in its infancy and given the terms and if marketing support aligns, this will provide an optimal launch pad for a high-gear Grab & Go product.

ISH has penetrated four key markets and is looking to expand considerably

Market overview

				
 # stores carrying ISH	500	60	D2C & on-trade	838
 Distribution Channels ISH's webshop is linked to local distributors, so they do not sell online themselves.	Mainly retail (Coop and Meny), but also Horeca (Scandic and Brøchner Hotels).	Systembolaget	Leske.no – an alcohol free distributor with sole focus on No-alcohol.	Holland & Barrett (UK's <i>Leading Health Retailer</i>)
 Repeat orders	90% of stores have reordered	Half the stores had repeat orders within 2 weeks	First order placed to be delivered in November 2019.	Repeat orders within a month Have currently shipped 18,000 bottles to Holland & Barret.
 Expansion plans	RTD no-alcohol Spritz and G&T	Expanding into the Swedish Horeca segment	Vinmonopolet launch Nov. 1 and increased focus on on-trade expansion	Intensive focus on expansion in UK due to market potential
 Collaborations	Strong partnership with Fever-Tree	Collaborating with brands such as Volvo and ACNE	No collaborations yet	Strong collaboration with H&B - In dialogue with H&B buyers in Belgium and Holland (600 stores).

The LONO market is growing, and with people drinking less, ISH can capitalize on this opportunity as a first-mover in the industry

Industry overview

ISH is operating on the low-/no-alcohol market (which is called LONO). The spirits in this industry contain less than 0.5% alcohol and can be mixed with other ingredients to make cocktails and drinks of lower alcohol percentage than usual.

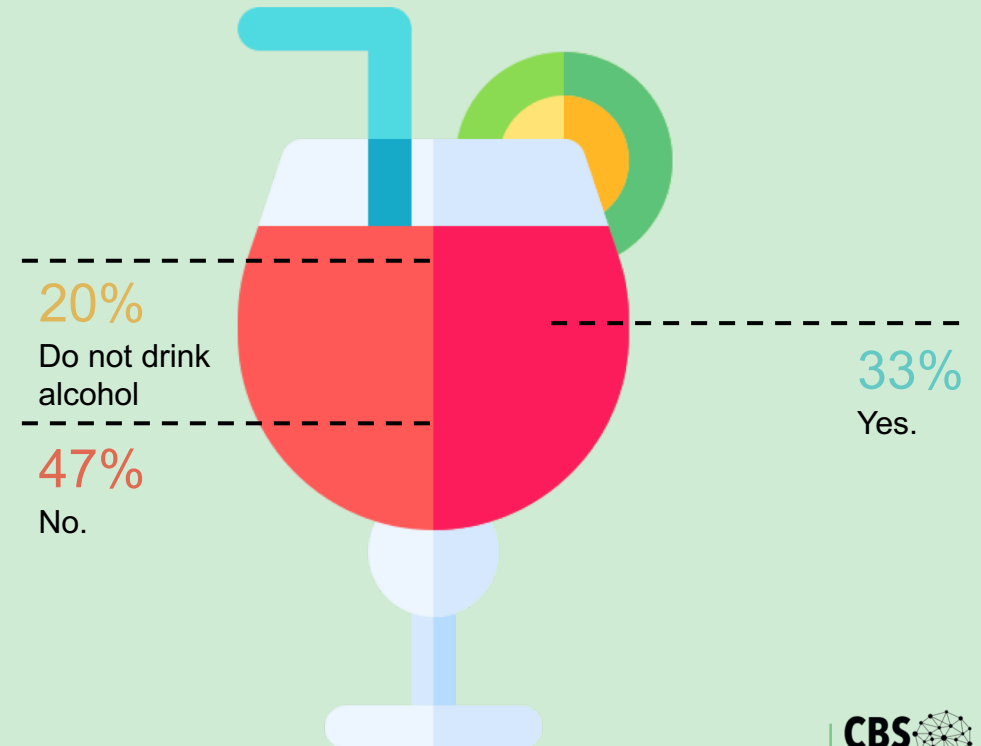
The LONO market has enjoyed a booming growth in the recent years. However, in a market such as UK, it still accounts for less than 1% of retail sales. The outlook for the segment remains strong though – many leading drinks conglomerates are committed to supporting this, while the segment is also attracting new entrants who are pushing the envelope with ever-more sophisticated flavors and approaches. The growing availability and visibility, as well as continuous improving quality, should continue to unlock growth.

*Based on data from UK, but fair to assume similarity in countries that are culturally alike.

A third of adults drink moderately – a fifth do not drink*

Alcohol is an integrated part of drink culture in many Western countries. However, a fifth of adults say they do not drink alcohol and a third have taken steps to limit or reduce their intake

Have you limited your alcohol consumption during the last 12 months?



Fierce competition from the world's largest breweries means ISH has to stay relevant at all times

Competitive landscape*

Direct competitors



Seedlip is ISH's main competitor selling non-alcoholic spirits. Seedlip is priced around the same level as ISH, but has also included a subscription service for no-alcohol spirits in their product portfolio.

Seedlip is also being sold in Holland & Barrett. Seedlip is funded by Diageo, one of the world's largest producer of spirits, beer, and wine.



Pernod Ricard is a distributor of premium spirit brands and a variety of wines. They have called the LONO category a dynamic area, and launched their own brand, Celtic Soul, in July 2019. Celtic Soul is a 'dark-blend', much similar to a Whiskey – however, it should not be enjoyed "on the rocks".

Indirect competitors



Ab InBev targets at least 20% of its global beer volumes to be LONO variants by 2025. It has pledged to spend \$1 billion on marketing campaigns to encourage smart drinking behaviors. ISH is in close dialogue with AB InBev to explore synergies.



Heineken is committed to "making responsible consumption cool" through a 10% investment of its media budget on this. They are committed to drive innovation in the LONO category.



Carlsberg has committed to 'zero irresponsible drinking' in 2030, including aiming to offer an alcohol-free alternative where its alcoholic drinks are being sold.

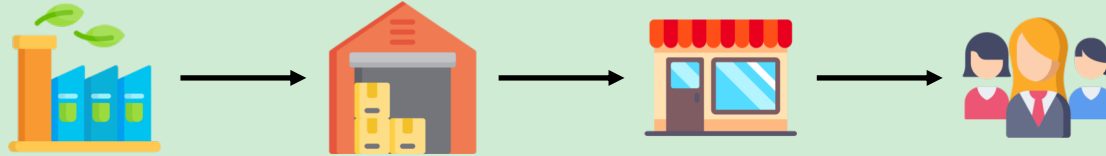
*Please see additional readings for more information

ISH is targeting two types of customers which vary significantly from each other

Description of customer types*

Explanation of customers

Off-Trade
Currently 80%
of ISH's volume



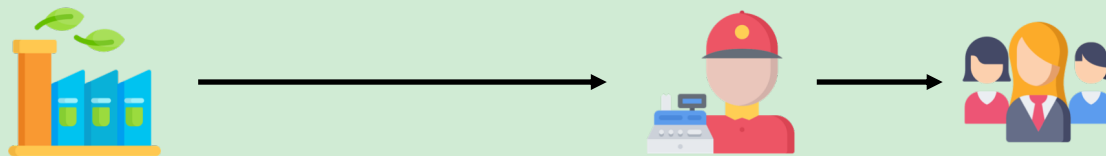
Examples

Supermarkets, retail,
webshop etc.

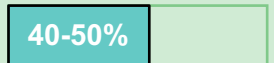
Margins % *



On-Trade
Currently 20%
of ISH's volume



Restaurants, hotels, bars
etc.



*Please see additional readings for more information

A vast amount of consumers are trying to reduce their alcohol intake, however, it remains awkward to cut back in social situations

Market trends

Preferences

38% try to reduce their alcohol intake to “manage their weight”



22% think that healthy attributes are missing from LONO alternatives



47% try to reduce their alcohol intake to “improve their health”



92% do not feel that there are enough no-alcohol options when going out



Willingness to pay

38% Would pay the same for no-alcoholic drinks as alcoholic ones

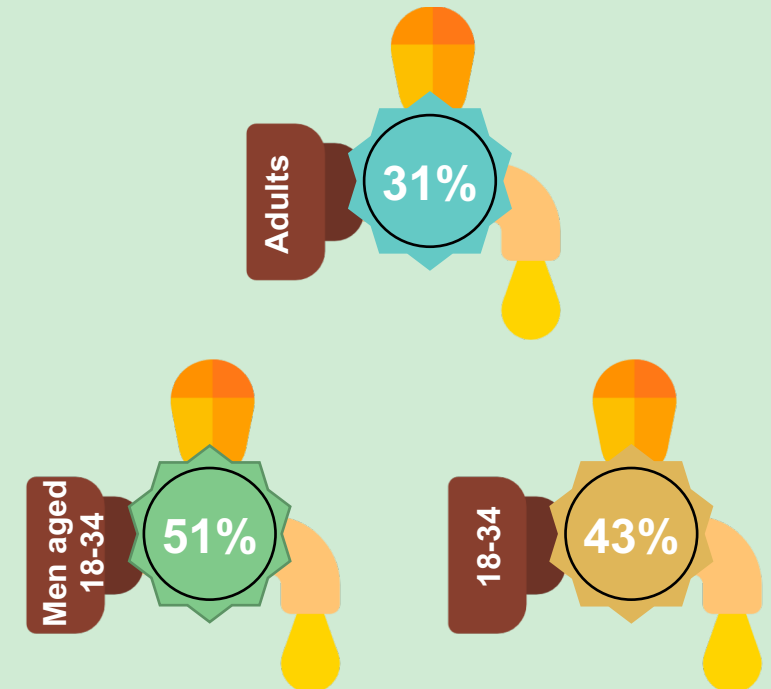


34% Have limited the amount of alcohol they drink to save money

Saving money matters for many alcohol reducers, but it is not a driving factor for most. This underpins an openness to alcohol-equivalent prices – thereby points to a strong opportunity to justify prices above traditional soft drinks.

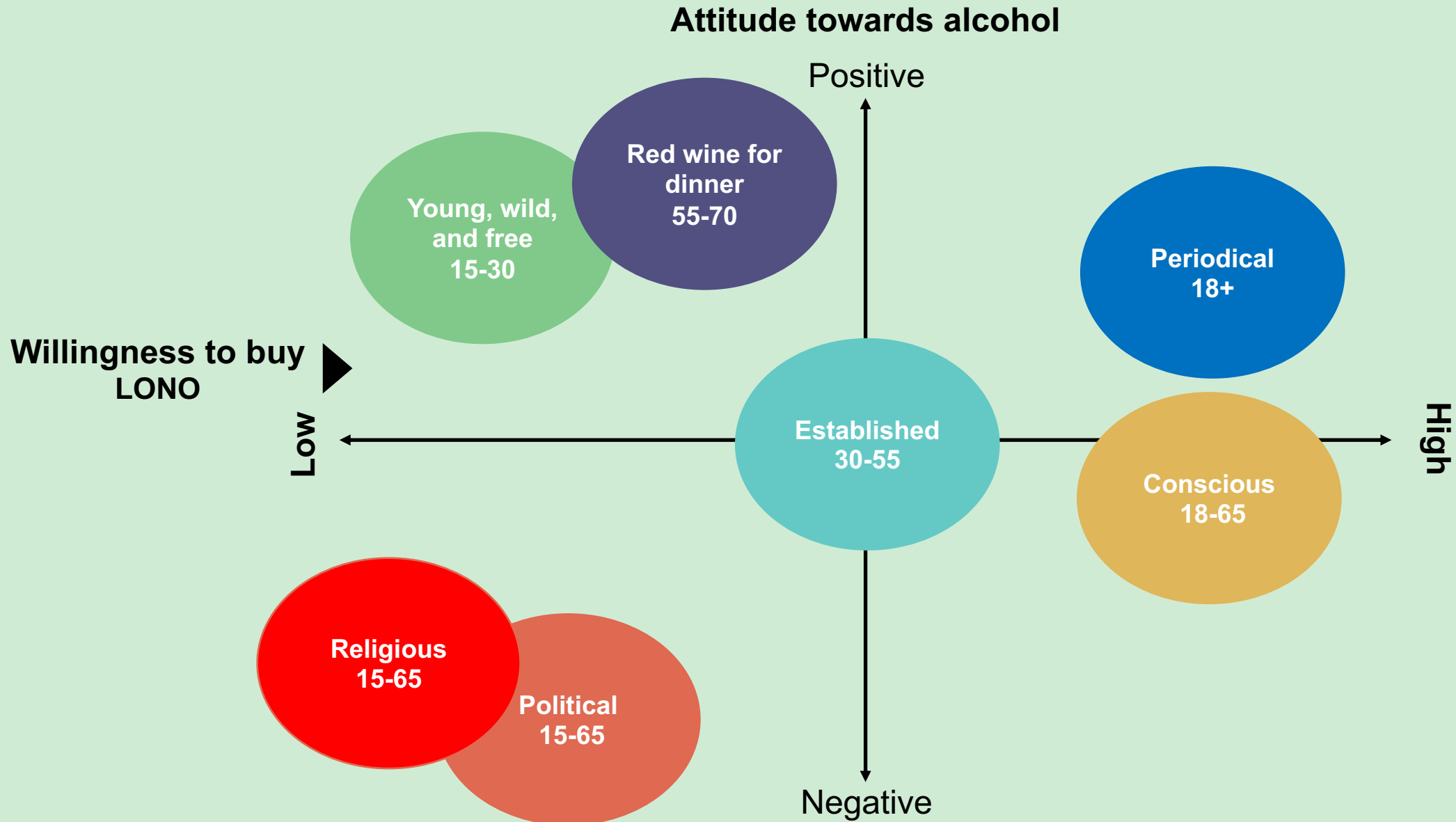
Alcohol in social context

Share of adults who drink alcohol and agree that not drinking alcohol in social situations is awkward










The potential consumers can be divided into five segments

(The illustration only considers the largest segments and do not take subsegments into account)



The potential consumers have various characteristics that differentiate them

Segmentation	Age	Willingness to buy LONO	Description
 Young wild and free	15-30	Low	They consider alcohol an essential part of all social interactions. Typically high school or university students and would consider not drinking socially awkward.
 Periodical	18+	Low	These people do not drink alcohol in periods, but not because of their attitude. This could for instance be pregnant people, people medicating or people driving.
 Political	15-65	Low	The segment does not drink alcohol as a statement. They deliberately choose to drink something else, for instance juice or soda.
 Religious	15-65	NA	The segment does not drink alcohol because of religion. Not targeted by ISH as products contain 0.2% alcohol which cannot be changed currently.
 Conscious	18-65	High	The segment is trying to reduce their intake, E.g. to improve health or improve appearance. Spans from students to families and contains many sub-segments
 Established	30-55	Medium	They have a steady income and have settled down. They enjoy alcohol and few over-consume. Some are conscious due to their commitments, e.g. job and family
 Red wine for dinner	55-65+	Low/medium	They enjoy drinking a glass of red wine for dinner and have few commitments. Their attitude towards alcohol is very difficult to affect.

ISH is situated in a market with fierce competition from large, global players with resources that far exceed ISH's. The market is growing, and more people are trying to reduce their alcohol intake – some completely, others embrace the concept of “mindful drinking”. In order to win this market, ISH needs to become a “*household brand*” meaning a brand that people naturally have at home. ISH aims to become a natural part of any liquor cabinet, any super market, and any menu card at restaurants and hotel lobbies.

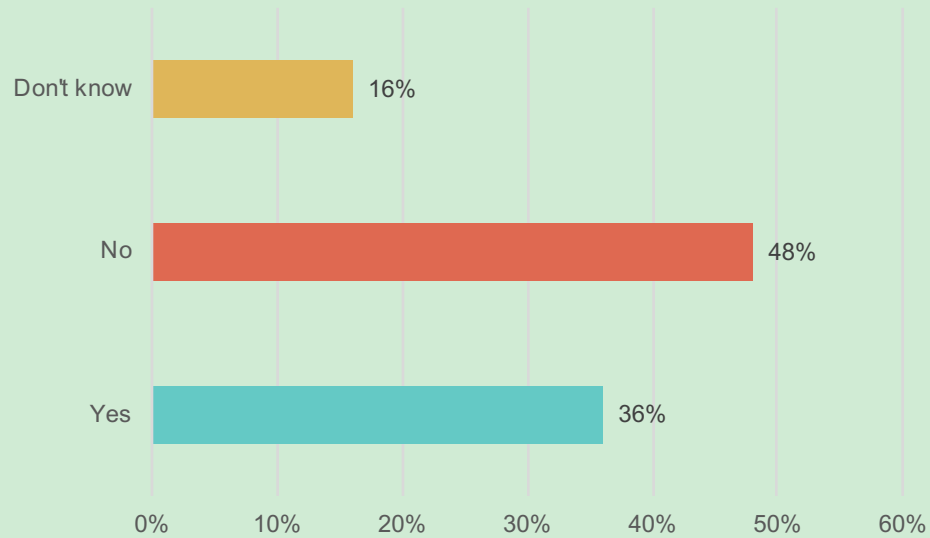
Morten, the founder and CEO of ISH, asks help from you to consult him on this matter and provide an answer to the following question:

“

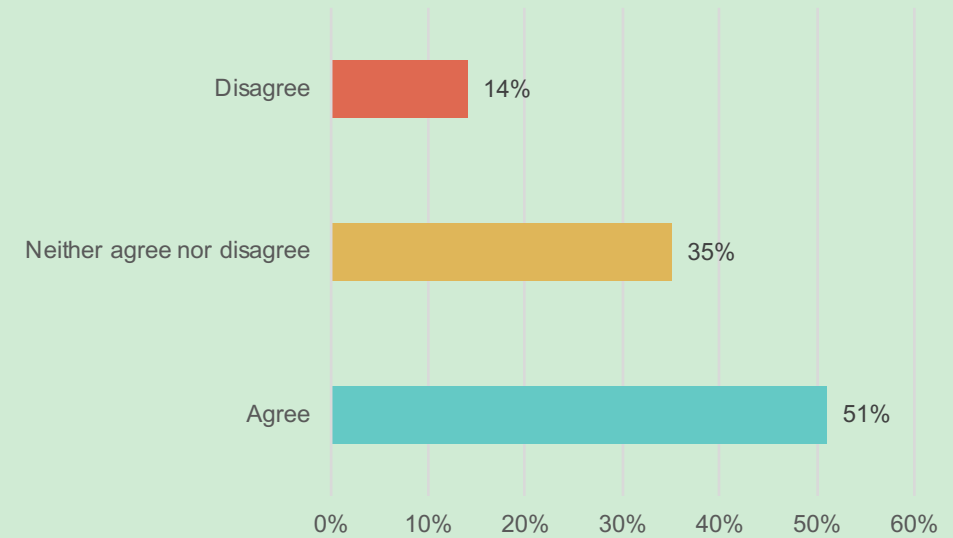
How can ISH stay relevant and become a household brand within the next 5 years? ”

ISH asks you to consider how they can measure their success in terms of becoming a global house hold brand.

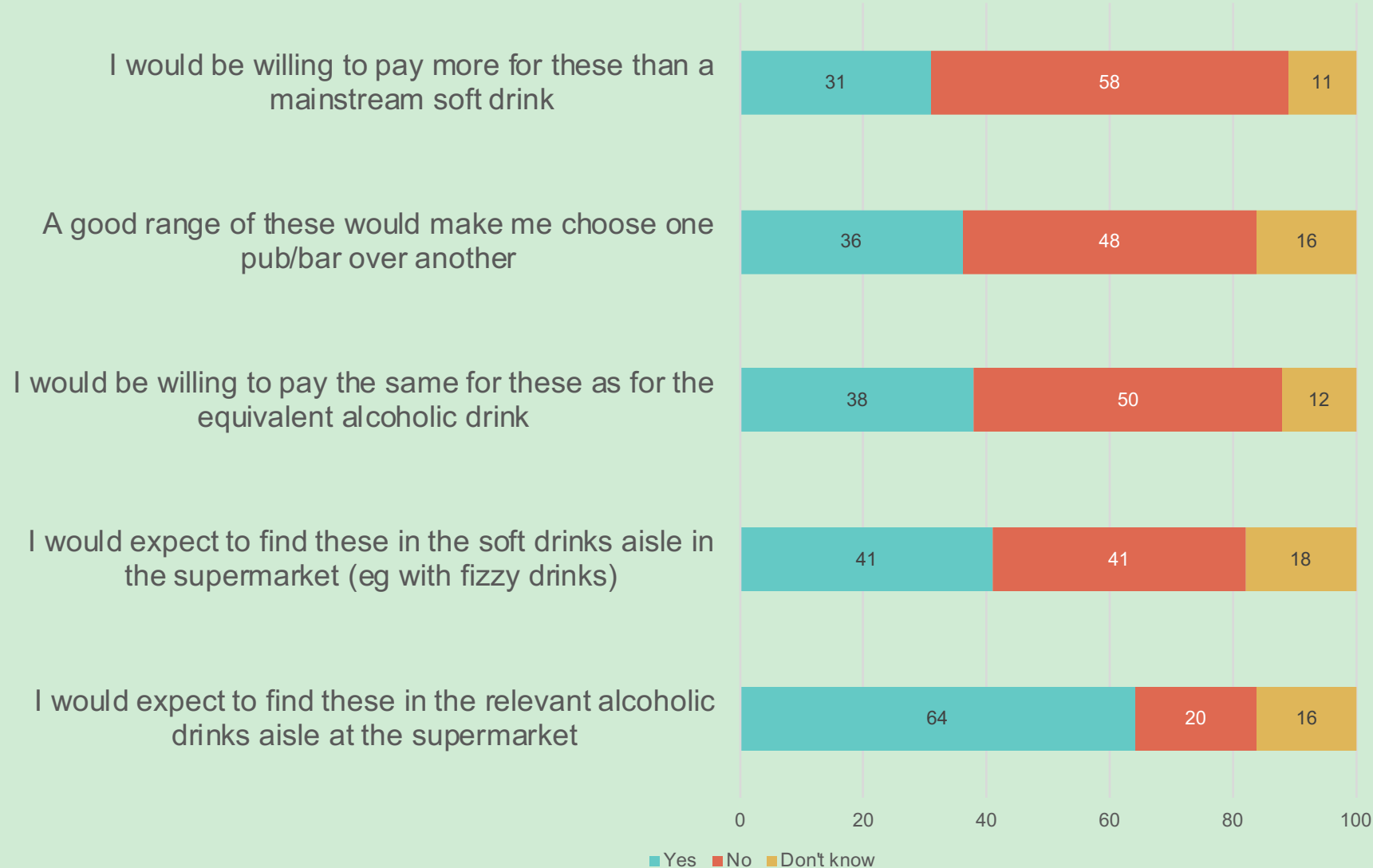
”A good range of non-alcoholic options would make me choose one pub/bar over another”



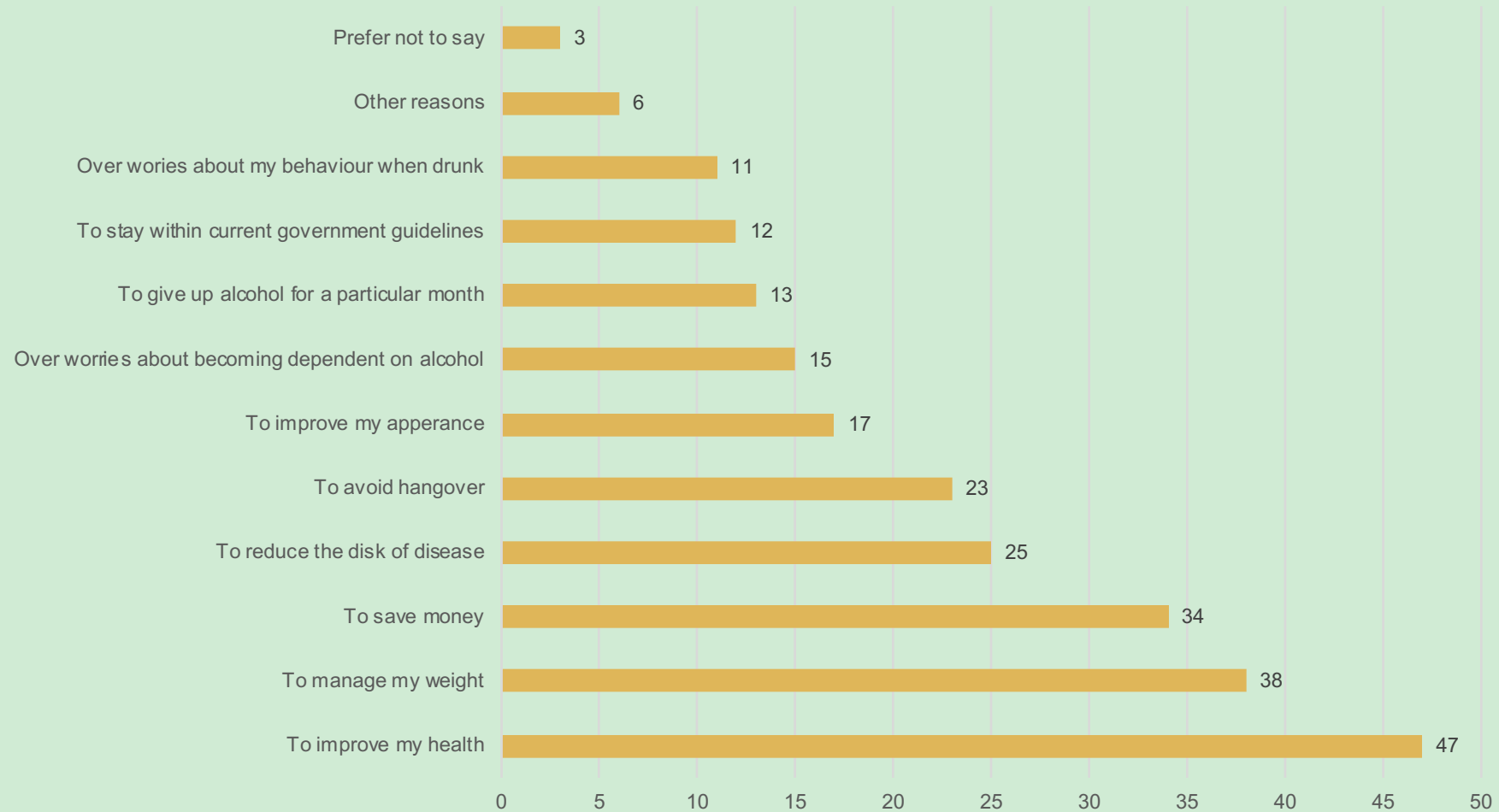
“Cocktails are more about flavor than alcohol”



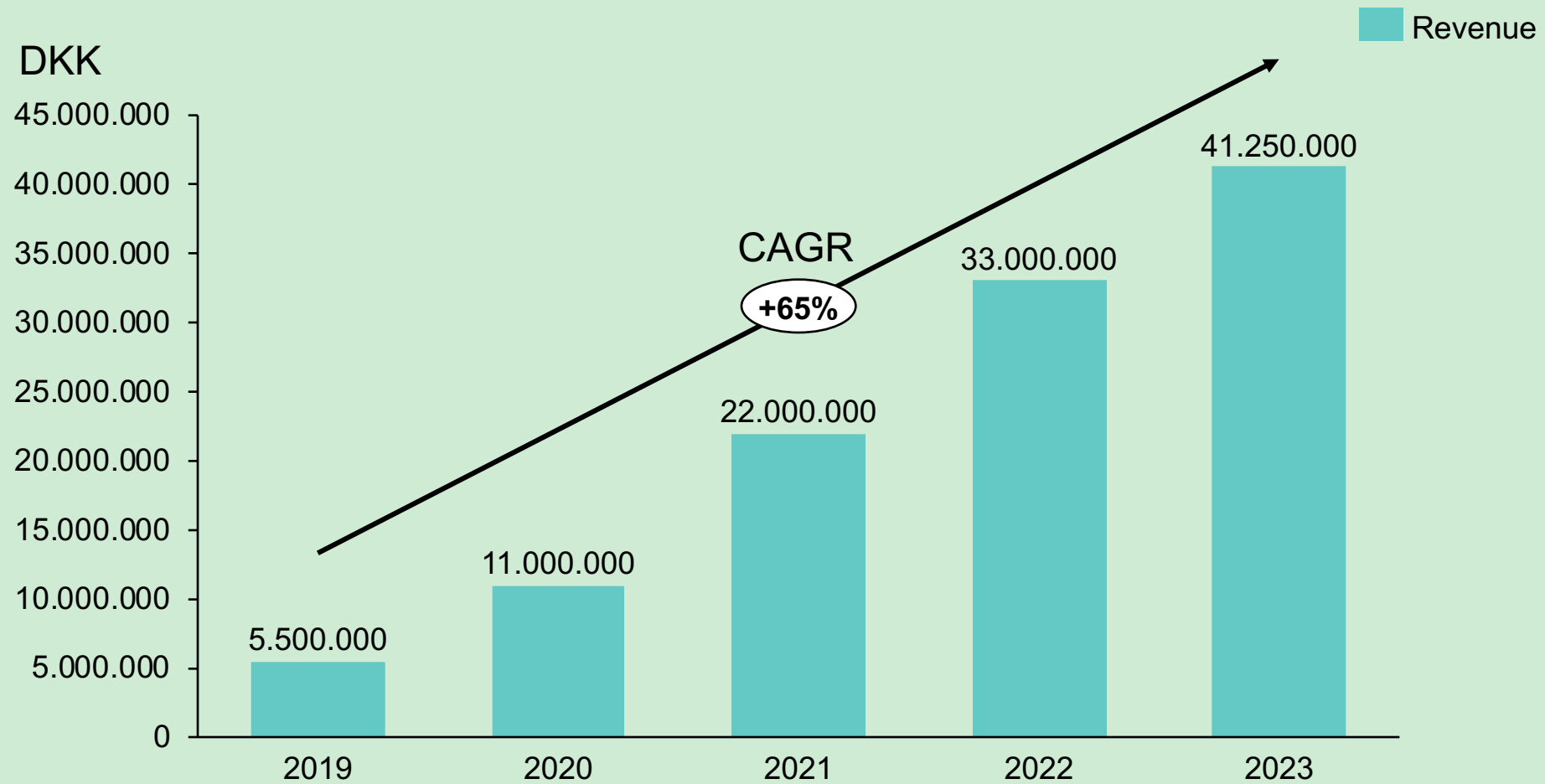
“Do the following statements about drinks designed as an alternative to standard alcoholic drinks apply to you?”
In %



I have limited/reduced the amount of alcohol I drink in the last 12 months... In%



ISH ApS - Financial statement 2018-2019			
Revenue	DKK		Percentage of total revenue
Sales in DK	1.685.641		57%
Sales in NO	118.695		4%
Sales in SE	165.359		6%
Sales in UK (approx.)	1.000.000		34%
Other	4.301		0%
Total revenue	2.973.996		100%
Operating costs			
Production costs	- 1.735.415		-58%
Gross profit	1.238.581	Gross-margin	42%
Administrative costs			
Wages	- 105.770		-4%
Total marketing and travel expenses	- 577.152		-19%
Total Administrative and other costs	- 251.061		-8%
EBITDA	304.599	EBITDA-margin	10%
EBIT	304.599	EBIT-margin	10%
Net interest expenditure	- 3.783		0%
Extraordinary expenses	- 100.000		-3%
Net Income	200.815	Profit-margin	7%



ISH is facing fierce competition in the global LONO market. ISH has had a first mover advantage, which has been utilized to secure high growth and ambitious expansion plans. However, ISH is challenged by the fact that large players are looking into the industry. ISH's main competitor is Seedlip which offer no-alcohol spirits to the high end segment in same price range as ISH; but the main difference is that Seedlip is funded by Diageo, one of the world's largest producer of spirits, beer, and wine.

Furthermore, the large breweries are committed to encourages responsible drinking behavior through marketing initiatives and product innovation. Even though their main market is beer, all the large breweries are highly diversified meaning the spirit industry is not far from their core. In relation to that, Carlsberg has stated that the strong growth of alcohol free products has meant that they have made plans for line extensions and standalone brands that can drive the category forward.

Besides the competition from the multinationals, ISH must be aware of smaller brand that are trying to disrupt the industry. Because the industry is still very young, ISH is highly threatened by innovation from small local players and multinationals with strong financial positions to invest in R&D:

Many competitors in the industry have launched products such as alcohol-free beers and low alcohol wine, however, ISH has spirits and pre-mixed LONO cocktails as its primary focus. In 2019, spirits made up 5% of the revenue in the LONO industry in UK, corresponding to £5.7m. Looking at volume, spirits sold 0.1m liters, corresponding to less than a percent of the total volume.

ISH has two primary types of customers: **1) Off-trade** and **2) On-trade**.

ISH sells to both off- and on-trade customers in Denmark:

- Retail (Coop/Meny)
- Horeca (Scandic/Brøchner hotels)

Selling to both on- and off-trade customers requires relationship building skills, understanding market segmentations, channel management and product development.

- *On-trade* requires Key Account Management skills and a strong distribution network that can be utilized while
- *Off-trade* requires relatively more interpersonal skills and direct sales experiences.

An IWSR* study shows that retailers offer “significantly more selection of LONO products than bars and restaurants. But this does not necessarily make the on-trade market unattractive, as we have often seen a rise in alternatives in the on-trade market. For instance, consider the amount of vegetarian offerings in restaurants now compared to 5 years ago – vegetarian options have become a hygiene factor.