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BQOM 2521

Professor Rokou

Final Project Assignment A7

For this assignment, we were tasked with assembling and submitting the Final Project, Assignment A7, for the Decision Making in a Complex Environment class. The topic of my final project was that of a wine and spirits distributor that is assessing entry into the market of four Red Belt States: Michigan, New York, Ohio, and Pennsylvania. For clarity, a distributor is different than a supplier. A supplier is the company that owns the brand and is responsible for creating the product. For instance, Svedka Vodka is owned by Constellation Brands, the former being the brand and the latter being the supplier. The distributor is the entity that represents and sells the product in the respective market. For the purpose of this project, I will be operating as the distributor. I have been given a budget of \$100,000 and must choose which state(s) to enter into given the strategic objectives, criteria, and ratings. For this, I have decided to create a Resource Allocation Using a Complex AHP/Ratings Model in order to assess which state would prove the most beneficial and cost-effective to enter. For ease, I have created the outline below to describe all the factors involved in arriving at the conclusion.

Goal

- Enter a New Sales Market
- **Strategic Objectives (With Additional Sub-Criteria)**
 - **Costs**
 - **Licensing costs**
 - What are the costs associated with securing a license to do business in the prospective state. How often does this license need to be renewed?
 - **Office**
 - These are the costs the company would have to pay upfront in order to rent office space for its operations. Here, particular attention is given to the typical cost of office space rental in the state and the overall size of the state as larger states might require more offices than smaller states.
 - **Hiring**
 - How much will it cost to hire a sales and support staff in each of the four markets? Here, particular attention is paid to the overall cost of living as that level is likely to vary across the four markets.
 - **Development**
 - What is the cost to develop the sales team to bring them to a level consistent with other sales professionals in other markets?
 - **Portfolio (Pull)**
 - **Nationwide Competition**
 - When the company enters the market, what will the portfolio look like upon entry? What is the competitive activity and strength of operations from nationwide competition and can the company align its portfolio in the new market to mirror that of other markets?
 - **In-State Independents**
 - What brands, if any, does the company represent in other markets that is represented by non-nationwide competition? Can we pull suppliers from independent distributors, or can we cannibalize independent business?
 - **Unique to Market**
 - What suppliers products, if any, that are unique to the prospective market of entry are category leaders and can we align those suppliers with our business?
 - **Government**
 - **Involvement**

- What is the expected overall involvement of the state government in the day to day operations of the company?
- **Taxes**
 - How much should the company expect to pay in taxes to operate in each of the four prospective markets? How is the tax assessed?
- **Monopoly**
 - Does the state have a monopoly on the sale of alcohol?
 - For example: Michigan, Ohio, and Pennsylvania are considered Control Markets due to the fact that the state government both runs and is responsible for the sale of alcohol in some capacity in their respective state. Yet, each state is not controlled the same way. Michigan and Ohio have state control over the sale of spirits, whereas Pennsylvania has state control over both wine and spirits.
 - Michigan and Ohio are Control Markets similar to 10 other states, while the Pennsylvania market is exclusive to itself. No other state controls both wine and spirits.
 - New York is considered an Open Market as the state government controls neither wine nor spirits.
- **Outlook**
 - What is the outlook of governmental involvement in the prospective state? For both the Control Markets and Open Markets, are the pending or rumored legislation that might change their status and market construction?
- **Market**
 - **Supply Chain**
 - What is the ease by which the consumer can purchase wine and spirits in the prospective market? How many retail outlets are available? Does the market allow for delivery options through companies such as Drizzly?
 - **Trends**
 - What are the market trends in the prospective state and can our portfolio capture incremental business on Day 1? Also, is the market strong enough to legitimize entry at this point in time?
 - **Growth Potential**
 - What are the factors unique to the prospective state that are driving the business forward and how do these factors compare to those of the other states?
 - **KPI Execution Feasibility**

- Assuming that the company would enter the market, what is the feasibility that the state would be able to suffice corporately-mandated Key Performance Indicators such as: sales volume, sales growth, and product distribution (how much of Product A has saturated the market)
- **ROI**
 - **30/60/90 Market Capture**
 - Given our entry portfolio, what is our projected capture of market share over the first 30, 60, and 90 days in the market?
 - **Target Accounts**
 - What is the strength of the target accounts in the market compared to the other prospective states, and what is our expectation of capture in these accounts?
 - **Sponsorships**
 - Do brands in our portfolio have established sponsorships in the prospective state and market?
 - **Conversion Rate**
 - What is the expected positive conversion rate of suppliers, products, and sponsorships as a result of our entry into the market?
- **Premise**
 - **On-Premise**
 - What is the current strength and projected growth of on-premise accounts in the market?
 - On-Premise: bars and restaurants
 - **Off-Premise**
 - What is the current strength and projected growth of off-premise accounts in the market?
 - Off-Premise: Traditional exclusive retailers and package stores; Fine Wine and Good Spirits stores in Pennsylvania
 - **Grocery**
 - What is the current strength and projected growth of retail grocery accounts in the market?
 - **Casino**
 - What is the current strength and projected growth of casino accounts in the market?
- **Promotion**
 - **Sampling**
 - What ability will we have to sample customers in both on- and off-premise environments in the prospective state?

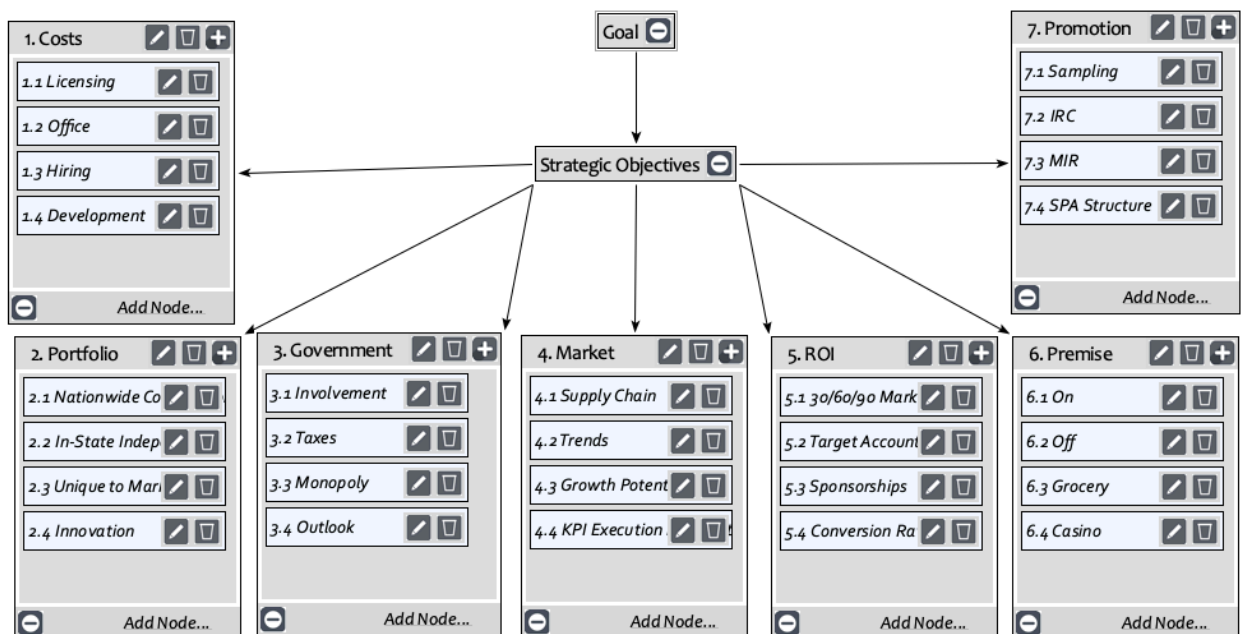
- **IRC**
 - Does the prospective market allow for IRCs (instant redemption couponing) in the market and what is the current level of utilization in the marketplace?
- **MIR**
 - Does the prospective market allow for MIRs (mail-in redemption) in the market and what is the current level of utilization in the retail marketplace?
- **SPA Structure**
 - What is the structure of SPAs (special price agreements) in the market? With what frequency and veracity will we be able to institute SPAs, and how has our competition employed these sales and what was the overall exposure?

- **Alternatives**

- **Michigan**
- **New York**
- **Ohio**
- **Pennsylvania**

Model

Below is the model created in SuperDecisions, with Goal, Strategic Objectives, and relevant sub-criteria.



Ratings Analysis

Below is the results from the systematic ratings in SuperDecisions. Given that I wanted to be as thorough as possible with the ratings, while also wanting have some sort of understanding as to the results in the event that they were inconsistent or incongruent with my expectations, I opted to rate each factor in the table. I employed a five rating scale utilizing values for: Excellent, Great, Significant, Moderate, and Poor. Below are the results that have been color-coded.

	Costs				Portfolio				Government			
	Licensing	Office	Hiring	Develop.	Nationwide	In-State	Unique	Innovation	Involvement	Taxes	Monopoly	Outlook
Michigan	Moderate	Significant	Significant	Significant	Significant	Significant	Moderate	Significant	Great	Significant	Great	Moderate
New York	Great	Great	Moderate	Moderate	Great	Excellent	Significant	Excellent	Moderate	Excellent	Moderate	Excellent
Ohio	Significant	Significant	Significant	Significant	Moderate	Moderate	Poor	Moderate	Moderate	Significant	Significant	Significant
Pennsylvania	Moderate	Great	Moderate	Significant	Great	Moderate	Significant	Great	Excellent	Great	Excellent	Great

	Market				ROI				Premise			
	Supply Chain	Trends	Growth Pot.	KPI Execution	30/60/90	Targets	Sponsorship	Conversions	On	Off	Grocery	Casino
Michigan	Significant	Significant	Significant	Significant	Significant	Significant	Moderate	Great	Significant	Significant	Great	Moderate
New York	Great	Great	Excellent	Moderate	Moderate	Excellent	Great	Moderate	Excellent	Great	Excellent	Excellent
Ohio	Moderate	Moderate	Moderate	Great	Great	Moderate	Significant	Great	Moderate	Significant	Significant	Significant
Pennsylvania	Poor	Great	Great	Great	Significant	Great	Great	Significant	Great	Moderate	Moderate	Great

	Promotion			
	Sampling	IRC	MIR	SPA
Michigan	Significant	Significant	Moderate	Great
New York	Great	Excellent	Significant	Excellent
Ohio	Moderate	Significant	Moderate	Significant
Pennsylvania	Significant	Great	Moderate	Great

	Figures	
	Priorities	Totals
Michigan	0.2188	0.3960
New York	0.3242	0.5866
Ohio	0.1474	0.2667
Pennsylvania	0.3096	0.5603

Scale	
Excellent	
Great	
Significant	
Moderate	
Poor	

Of the priorities, I found the hierarchy as such: New York, Pennsylvania, Michigan, and Ohio.

This was also somewhat consistent with what I was expecting to arrive at as a conclusion to the project. I had expected New York to be more close to a runaway favorite of entry.

Here are the overall synthesized priorities for the alternatives.
You synthesized from the network Main Network: A7.sdmod: ratings

Name	Graphic	Ideals	Normals	Raw
Michigan	<div></div>	0.674975	0.218817	0.218817
New York	<div></div>	1.000000	0.324186	0.324186
Ohio	<div></div>	0.454583	0.147369	0.147369
Pennsylvania	<div></div>	0.955091	0.309627	0.309627

Additionally, as seen in the above synthesize priorities table, New York and Pennsylvania were found to be also even, with Michigan behind by one-third and Ohio rounding out the table behind by roughly one-half.

Capital Budget Allocations from Microsoft Excel

Below is the table of the capital budget allocations using the provided Microsoft Excel worksheet:

Capital Budget Allocations						
State	Total (From AHP)	Cost (in '000s)	Effectiveness (Normalized)	Decision Variable	Cost (in '000s)	Performance (Effectiveness)
Michigan	0.3960	\$ 45.00	70.676	1	\$ 45.00	70.676
New York	0.3200	\$ 65.00	57.112	0	\$ -	0.000
Ohio	0.2667	\$ 35.00	47.600	0	\$ -	0.000
Pennsylvania	0.5603	\$ 50.00	100.000	1	\$ 50.00	100.000

Number of States to Enter	2
Total Funds Used (Of \$100,000 Budget)	\$95,000
Performance Score	170.676

As a result of the table and analyses, it was found that the company should enter Pennsylvania and Michigan. This entry would cost the company \$95,000, allowing it to save \$5,000. This was somewhat surprising given the expectation that New York would be a state selected. However, it would appear as though the steep introductory costs and impressive level of competition proved prohibitive for entry. Both Pennsylvania and Michigan are control markets, meaning that they feature government control on the wholesaling and retailing of alcohol in some capacity. Additionally, while scoring less than New York on priority, the prospective of the dual Pennsylvania and Michigan entry seems to have outweighed the benefits of entering the single market of New York. This finding is realistic as both Pennsylvania and Michigan are sales

leaders within the control market sales environment, so it would be in the best interest of the company to capitalize and enter.