

Bringing Innovation to Life at Diageo International

Consumer Goods Company

Overall Business Challenges

The \$3 billion International region of Diageo, a multinational beverage company, employed 7,000 people throughout Africa, the Middle East, Latin America, the Caribbean, and Asia Pacific. Facing economic, political, and social barriers, the region was experiencing modest top and bottom-line growth.

The Regional President was frustrated because he had high expectations to increase volume in 15 key markets, but they weren't achieving the double-digit growth he knew was possible. He believed the key to a sustainable future was to create a breakthrough performance culture. Achieving extraordinary growth, independent of overall market growth and geopolitical challenges, required innovation across the business—willingness to rethink anything that would stand in the way of breakthrough performance.

Innovating the Organizational Mindset

Celebrating Life, Every Day, Everywhere

Challenge

To unlock the organization's potential, the Regional President knew he needed to create an organizational capacity to think and work differently. He wanted everyone—from the bottlers to the executive team—to be in a "breakthrough thinking" mode about all aspects of the business. They had to shift how they viewed everything—their industry, their supply chain, their customers, their people, and themselves.

Additionally, in the absence of an inspiring, overarching purpose, the leaders were not operating as a unified team.

The predominant organizational mindset caused leaders to focus on increasing volume in their own markets as independent business units. With no collaboration or synergy across markets, the Regional President needed a way to bring them together.

Mindset Shift and Solutions

Diageo's traditional innovation approach focused exclusively on products, leading them to create revolutionary drinks. But, rather than viewing "innovation" as limited to **products**, the Regional President believed it needed to be an **organizational capability**. This expanded context forced them to challenge long-standing beliefs and assumptions across the business. To start, it caused them to reexamine things as fundamental as their reasons for being in business and for achieving extraordinary performance.

The executive team rolled out a purpose statement: "Celebrating Life, Every Day, Everywhere."

But it couldn't be just a slogan. Discussing the potential meaning and breathing life into every word brought them together as a team. Getting "under the hood" this way created an emotional connection to their purpose and to themselves as a leadership team.

Once they brought it to life, the purpose became a catalyst for the executive team to realize the power of 15 different parts of the company playing a bigger game together. It became a new, larger context for the business and its people, oriented around contributing to every aspect of life around the world.

Until this point, the business model called for each business unit to operate independently. It had not made sense for them to share valuable resources and information with each other. In the new paradigm, continuing to play with individual country shirts, which slowed things down, was no

longer an option. They recognized they needed to play as a unified team, innovating and optimizing performance across all markets.

As the organization committed to realizing their purpose, it created excitement, pride, and energy to build a new future. Across the business, people felt free to take risks and invent new possibilities to realize this inspirational vision. This new thinking became the driver for exceptional results throughout the organization.

// The power of us together was exponentially much bigger if we were unified about a common purpose. //

MANAGING DIRECTOR
LATIN AMERICA AND CARIBBEAN

Results

Fueled by their purpose and breakthrough performance mindset, Diageo launched a multinational initiative to enrich the communities they served. By unleashing a dormant desire to make a bigger difference across the globe, the company provided clean water for thousands of Africans, jobs and vocational training in Latin America and the Caribbean, and contributed to a greener environment in the Middle East.

Diageo's business and cultural transformation fueled people's innate desire to make a difference in the world. Galvanizing around purpose and working as a unified executive team spurred widespread innovation and breakthrough performance. In addition to shattering their flat growth trajectory, they outperformed every business unit and achieved the first of many record-breaking growth rates.

Innovating Distribution

Capturing New Market Share in Africa

Challenge

Diageo's East African Breweries business unit owned most of the African beer market. This made it difficult to increase sales in this huge, but saturated middle market. Despite new flavors,

better nutritional value, and new products, they had been unable to increase volume. Without a major shift in the business, there wasn't much growth to be had. Driven by the Regional President's call to unlock growth by bringing innovation to all parts of the business, they had to find new ways to expand sales in this market.

Mindset Shift and Solutions

The first breakthrough happened when the leadership team realized all their growth strategies had focused on "stealing share" to gain a few percentage points, at best. This insight led them to adopt a new perspective: **There is always more opportunity out there, and we will find it.**

This new mindset allowed them to generate bold, innovative ways to grow the business. They rethought everything, including consumer segments they could serve, how distribution networks had to be set up, and the social benefits they were providing.

One major innovation transformed delivery. Bottles were expensive and broke during delivery to distant locations. Leaders had concluded that distributing to these regions wasn't profitable and should be discontinued. Growth had to be found elsewhere.

Everything changed when they realized they had been operating within a set of rules about how beer had to be delivered to customers. Once they saw their assumptions, such as, **we can't reach certain locations because the bottles break during delivery**, they challenged them and innovated new ways to serve customers in remote locations.

As a result of this new thinking, they discovered they could deliver beer to these regions by reinventing the containers to prevent breakage. Additional, unexpected benefits of the innovative packaging were that it used less expensive, yet durable materials that kept products fresh for much longer. This innovation fueled the creation of a new distribution network of drivers that expanded delivery into new territories.

Another innovation boosted profitability in a market challenged by declining margins. Driven by the mindset of **there is always more opportunity out there**, the leadership team rethought the value of the company's products to the community and redefined their economic impact on the company. They knew they took much care to provide safe, high-quality beer to African communities that often distilled their own beverages, sometimes with tragic consequences. The new growth mindset prompted them to work with the government to consider the value of these efforts for their constituents. Recognizing this as a "social good," the government granted a 50% tax reduction, significantly increasing profitability

Results

On a combined basis, these innovations resulted in a 10x volume increase and £70 million (\$93 million in USD) in additional profit over three years.

Innovating Product

Johnnie Walker – Part I

Challenge

Johnnie Walker was the top-selling brand in its category, and consumer demand was growing. However, a severe challenge with the aging process would soon result in a shortage of a key ingredient. The shortage would prohibit them from meeting future demand forecasts for their blended whiskey.

Mindset Shift and Solutions

This imminent threat caused the team to challenge the age-old notion that their premium whiskey required 12 years to age before it could be sold. In a meeting to generate new ways to achieve breakthrough performance targets, someone came up with an idea for creating whiskey that wouldn't have to age as long. Rather than immediately dismissing an idea that defied industry norms, the team's innovation mindset enabled them to adopt a new view—they could create a whiskey aged for much less time that people would purchase and enjoy.

Results

Operating from a new mindset, they created new techniques to produce whiskey in less than three years. The result was a new product, Johnnie Walker Double Black, a synthetic whiskey that was aged differently than the blended whiskey. It was comparable to Black Label, yet innovative in the intensity of its smoky flavor.

Innovating Product Positioning

Johnnie Walker – Part II

Challenge

Having solved their product supply issue, the Johnnie Walker team faced a new challenge of having two whiskey brands that could cannibalize each other and reduce profitability.

The team believed that positioning Double Black relative to Black Label (the "crown jewel" of Diageo's portfolio) would require them to charge a lower price for the new brand, which would pull business from Black Label. Every option appeared to decrease profitability of one or both brands

Mindset Shift and Solutions

Despite financial principles that seemed fixed, the team was committed to positioning both products to increase profitability. They adopted a new mindset that **they could shape any consumer behavior**. And they did. They defied all economic assumptions by positioning Double Black as a new premium brand at a price higher than Black Label.

Results

Consumers flocked to the new Double Black Label, happy to pay a premium price for a new product with intense smoky flavors. In one year, Double Black sales grew to one-third the volume of its 102-year old predecessor, without hurting Black Label sales, which continued to increase.

Innovating Customer Segments

Latin America and Caribbean: Emerging Middle Class

Challenge

As a premium business, Diageo's primary market was affluent. The company had no product portfolio positioned for the burgeoning middle class. Many attempts to attract middle class consumers were unsuccessful because competitors sold lower quality spirits at lower prices. As a premium, global brand, this was not considered an option for Diageo. Even though they didn't have the solution, their commitment to growth drove them to rethink assumptions about how to penetrate the emerging middle class.

Mindset Shift and Solutions

This problem could not be solved until the leadership team shifted how they thought about their customers. They believed consumers in socioeconomic segments below affluent could not afford premium spirits, and the only way to serve them would be to provide lower-quality whiskey.

Everything changed when they were willing to consider a new view—**everyone deserves luxury in their lives, even at a lower price point**. They realized they could have a different portfolio based on consumer demographics. This led them to redefine themselves as taking care of the total market versus just the premium beverage alcohol market.

Rather than abandoning this demographic, they realized they could fulfill consumers' preferences with lower-priced brands in their portfolio and wait for them to move up to core premium brands. Eventually, these people would become premium consumers, and the sooner they earned their brand loyalty, the better.

Results

With this new mindset, the team created a product that fit the middle-class segment, while also elevating consumers' preferences to the premium brands Diageo represented. The result was a less expensive brand with premium positioning that became a popular "luxury treat."

Overall Results

The combination of these and other breakthroughs enabled the International region to achieve record growth in all major metrics, outperforming every business in the company.

Specific results included:

- Double-digit growth in top and bottom lines, marking the first in a series of record-breaking growth rates for the region and the overall business
- For five consecutive years, the region achieved double-digit growth in operating profit with an overall CAGR of nearly 20%
- The region became known as "the growth engine for the future," both internally and by external analysts