CASE STUDY 1

'42 Below’—the excitement of ‘start-up’, new products, new markets, innovation and creative promotion

Greg Walton, School of Marketing and International Business, Victoria University of Wellington, New Zealand

The economies of Australia and New Zealand are rife with small-to-medium-sized enterprises (SMEs). This simply reflects the entrepreneurial spirit of managers in these countries. New Zealand’s Ministry of Economic Development estimates SMEs with fewer than 20 staff make up some 96% of all businesses in New Zealand and 86% of these have fewer than five staff (<http://www.med.govt.nz>). An increasing amount of academic research and published literature is focusing on SME internationalisation. If there is a gap in this research at all it is in the area devoted to the ‘pre-internationalisation’ and ‘early internationalisation’ stages of firm internationalisation—hence the importance of early chapters in texts like this devoted to important considerations to understanding, ultimately, the international competitiveness of the early stages of firm export activity. This understanding by both students and managers is especially important when we consider the emerging characteristics of ‘new to export’ firms. SMEs are often characterised by entrepreneurial management that sees the firm’s growth pathway internationalising early, rather than a more conventional approach to business growth by developing the domestic market first, then going offshore (usually to psychically close countries first). ‘Start up’ and ‘born global’ firms add to this mix and to the increasing need for new understandings about readiness to go offshore and building international competitiveness.

What it lacks in size, 42 Below Ltd more than makes up for with its entrepreneurial approach and creativity, increasing exports of its super premium vodka and other beverages to NZ$9.6 million in 2006, up 30% on the previous year.

42 Below produces award-winning spirits and spring water that are uniquely New Zealand. Established in the late 1990s by advertising executive and now company CEO Geoff Ross, it started exporting in 2003 and today its products are sold in the top bars around the world. Significantly, says commercial manager Andrew Steel, export sales surpassed domestic for the first time in 2005 (full year).

The company’s original product is the country’s only super premium vodka, ‘42 Below’, a brand that is ‘unashamedly New Zealand’, says Mr Steel.

We have created the cleanest vodka because we have one of the purest water supplies in the world and we are the most awarded vodka in the world because of our pristine environment.

There are two ways a firm can grow—organic growth (sell more of what it makes) and growth by acquisition. 42 Below is still a small firm (albeit with dynamic entrepreneurial management) and growth by acquisition may be some time in the future yet. So organic growth is the key for the firm, regardless of whether it becomes an object.
of acquisition itself. But how? Growth can also occur (or be planned for) by two strategic growth paths—new product development (NPD) and new market development (NMD). This is often a choice, one or the other. Factors such as the nature of the product, demand function, experience and skills of management, and the nature of both the market and the marketing help to determine which pathway is more appropriate for management to take the firm. Some academics would advocate only choosing NPD or NMD and, only when satisfying its 'now' (current products in current markets), when ‘market penetration’ strategies are no longer contributing to growth. 42 Below is so ambitious it is doing both NPD and NMD at the same time.

42 Below ‘extended its line’ to include four varietal flavours—feijoa, Manuka honey, passion fruit and kiwifruit. Product innovation has also seen the introduction of South Gin (another award-winning product), Stil Vodka, Tahiti Dark Rum, Seven Tiki Rum and 420 Water. Operating on a shoestring budget and up against some big international brands, the small New Zealand company has had to be a bit maverick in order to make its mark in a very competitive market.

42 Below knows what business it is in—consumer food and beverage and specifically, discerning alcohol segments with its vodka line of products. It determines both the markets (geographical) and the segments it chooses to compete in.

42 Below has a market entry approach that is not conventional. The conventional market entry for a food and beverage provider is by first appointing a distributor or agent via agreement/contract. This is typical entry level exporting. 42 Below does it differently. It enters a new market by targeting a specific segment of the retail market—the most influential bar in the city. A team of brand ambassadors, typically expatriate Kiwis passionate about the brand, then sell 42 Below to every top bar and restaurant in the targeted area. ‘It’s a matter of convincing bar owners to give the vodka with the most unique story a go’, says Mr Steel. Whereas most spirit brands tend to market themselves directly to the end consumer, 42 Below targets bar owners and bartenders, initially with its super premium vodka, introducing other products once the relationship is established. ‘We’re not afraid to make comparisons between our brand and others, we’re very confident and we’ve won enough gold medals to back us up’, says Mr Steel.

Unusual for a relatively ‘new to export’ firm is this ‘sales office’ approach to market entry. Expatriate Kiwis provide the sales and after-sales servicing function to this retail segment. This market entry mechanism is equivalent to transferring the sales function to an in-market partner short of being a wholly owned function. The fuller marketing function remains in New Zealand. Once traction has been gained in the market 42 Below adopts a more conventional market development approach and seeks importer/distributors to take the brand to the next level, allowing 42 Below to reduce its own costs and gain the benefit of a larger, more experienced local partner.

As a ‘consumer good’ 42 Below must understand product decisions. Product positioning and branding decisions are critical to capture the minds, hearts and wallets of a firm’s target audience. A product that does not have a clear position in the customer’s mind consequently stands for nothing in a marketplace with many substitutes. 42 Below has positioned its premium product with a set of product attributes that are different to that of substitutes, including long-standing substitutes with high brand awareness. It’s quirky and, importantly, memorable:

‘Every year the boffins from some institute that measure “air purity” come on down and set up their instruments. And every year they tell us the same thing: “Your air is still the best and sets a benchmark for purity”. Not only is this cool for the scientists that get a free trip to our ski slopes, it’s cool for us as well . . .’.
London’s Ritz hotel celebrated its centenary last year and nominated 42 Below as its cocktails supplier. ‘You’d expect a special 100 year birthday cocktail at one of the world’s best known hotels to attract a premium price and The Ritz 100 does just that, retailing for NZ$50 in the hotel’s bar.’

42 Below chief vodka bloke Geoff Ross says the selection of 42 Below Pure shows the New Zealand brand is being recognised in all the right places: ‘It’s great to see an iconic British brand such as The Ritz choosing a vodka from the colonies to celebrate its centenary. This is colonialism in reverse—our vodka is laying claim to home territory in the most renowned of the empire’s establishments. It shows Kiwis should never be daunted about taking their brands to the world stage’.

Education is another key tool in 42 Below’s arsenal to engender brand loyalty. It holds regular Vodka Universities for bartenders and the annual Cocktail World Cup in Queenstown, New Zealand, where competing teams of elite bar tenders from around the world fight it out to make the most original 42 Below-based cocktail. This activity is an example of conventional promotional strategy. It is designed to build brand awareness and encourage ‘influencer’ buy-in. Having fun is clearly an element of the firm and involving key stakeholders like its customer group (bar tenders) is a part of the promotional/communications mix and an important statement in firm and product positioning.

The company increased total sales to $15.8 million in 2006 and Mr Steel says that growth is coming from increasing sales in existing markets, in particular the UK and USA, and expansion into new, developing markets in Asia and the rest of Europe. Sales are also growing strongly in its important home markets, New Zealand and Australia. ‘Expansion into new export markets is costly and in the beginning it means investing a lot of money’, cautions Mr Steel. ‘It’s a risk and you have to be very careful about where you choose to put your product. But the reward is a huge audience and the great feedback we get from the rest of the world.’

In order to take advantage of the direct channels to markets it has created, 42 Below is expanding its product portfolio. ‘In this way we believe we can continue to grow while protecting ourselves from cyclical or faddish changes in the market’, explains Mr Steel.

As an entrepreneurial company it encourages staff to take sensible risks: ‘In order to stay on top of that risk, we constantly monitor the situation in each of our markets. This also allows us to react quickly and effectively, minimising negative effects and maximising opportunities’.

42 Below has 25 staff in its Auckland office, the heart of its marketing and product innovation, and its offshore Brand Ambassadors. Bottling and distribution are outsourced. The company listed on the New Zealand Stock Exchange in October 2003 and in late 2006 liquor giant Bacardi offered to buy it.

‘That’s a fantastic development for the brand; it will give us access to their global distribution network and put some real muscle behind the company’, says Mr Steel. ‘They want to help us grow and stay true to what the company is now.’ He says a challenge will be to grow carefully to make sure 42 Below does not lose its strengths: ‘It’s very important to us to stay fresh. To make sure we don’t rest on our laurels, to stay slightly hungry. We treat exporting like warfare; we never hold our position, we are always advancing, because if you’re not going forward you’re going backwards. We’re getting out there and hammering it’.

Bibliography

Questions
1. What can be said about 42 Below’s motivations to internationalise?
2. What indicators of firm ‘readiness to internationalise’ or compete successfully are evident in this case study? What elements of these indicators appear to have more emphasis?
3. What model is appropriate to consider the strategic growth paths open to 42 Below? Discuss.
4 What factors lend to a broad geographical spread of markets and a firm being successful in serving them all? Conversely, what factors lend to market concentration? Considering these factors what should 42 Below do?

5 How should we go about assessing how ‘internationally competitive’ 42 Below is?

6 Explain the value of an international marketing plan.

7 What tactical marketing considerations (marketing mix elements) should 42 Below consider?