Pernod Ricard Portugal's Supply Chain During Global Disruptions

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Abstract

Over the past few years, supply chains of several organizations all across the world, including Pernod Ricard Portugal, have been significantly impacted by two major external disruptions, the COVID-19 pandemic and the War in Ukraine. These disruptions significantly impacted the companies' operations and supply chain, and created a massive consumer behavior uncertainty, requiring them to adapt their strategies to remain competitive.

This thesis analyzes how Pernod Ricard Portugal, a key player in the Portuguese market of wines and spirits, responded to these crises by leveraging dynamic capabilities, strategic foresight, and innovation to ensure resilience and sustained performance.

The study adopts a qualitative research methodology, drawing from interviews with company leaders, official reports, and market data. This case explores Pernod Ricard's strategies to mitigate disruptions, optimize operations, and adapt to changing consumer behaviors.

The findings reveal that Pernod Ricard Portugal employed measures such as supplier mapping, inventory optimization, sustainable procurement, and innovation in packaging to reduce costs and improve supply chain adaptability. Additionally, the company capitalized on emerging trends, to maintain its competitive advantage.

This case study provides valuable insights for supply chain management and strategic planning, offering practical lessons on managing volatility and fostering innovation in uncertain environments. It serves as a teaching resource for understanding resilience in global supply chains and the role of adaptability in navigating crises.

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Resumo

Nos últimos anos, as cadeias de abastecimento globais, incluindo as da Pernod Ricard Portugal, foram significativamente impactadas por duas grandes disrupções: a pandemia de COVID-19 e a guerra na Ucrânia. Estas crises causaram graves perturbações nas operações e nos comportamentos dos consumidores, obrigando as empresas a adaptarem as suas estratégias para se manterem competitivas.

Esta tese analisa como é que a Pernod Ricard Portugal, um dos principais intervenientes no mercado de vinhos e bebidas espirituosas em Portugal, respondeu a estas disrupções.

A pesquisa baseia-se em numa metodologia qualitativa, incluindo entrevistas com executivos da empresa, relatórios oficiais e dados de mercado. O estudo explora ainda as estratégias utilizadas pela Pernod Ricard para mitigar disrupções, otimizar operações e responder às mudanças nas preferências dos consumidores.

Os resultados destacam medidas como o mapeamento de fornecedores, a otimização de estoques, o aprovisionamento sustentável e inovações no embalamento, que reduziram custos e aumentaram a adaptabilidade da cadeia de abastecimento. Além disso, a empresa aproveitou tendências emergentes do mercado para aumentar a sua vantagem competitiva.

Este estudo de caso oferece lições práticas sobre gestão da volatilidade e promoção da inovação em ambientes incertos, servindo como recurso didático para compreender a resiliência em cadeias de abastecimento globais e o papel da adaptabilidade na superação de crises.

Título: A Cadeia de Abastecimento da Pernod Ricard Portugal Durante Disrupções Globais

Autor: Luís Maria Castelo de Almeida do Souto Barreiros

Palavras-chave: Cadeia de Abastecimento, Resiliência, Disrupções, Indústria das Bebidas Espirituosas, Pernod Ricard, Covid-19, Guerra na Ucrânia, Sustentabilidade, Tendências do Consumidor, Inovação.

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Disclaimer: AI algorithms (namely ChatGPT) were used for word compression and language correctness under the supervision of my advisor. Prompt conversation is available upon request.

I. Introduction

The wine and spirits industry is one of the oldest industries in the world, and throughout the years, it has undergone several transformative periods. Nowadays those periods are characterized by rapid shifts in consumer preferences and complex global supply chains, making it vulnerable to international disruptions. For Pernod Ricard Portugal, a leading player in this market, the COVID-19 pandemic and the conflict in Ukraine have posed substantial challenges, severely disrupted its established supply chain operations, and affected demand making it highly unpredictable. Some of these challenges include scarcity of raw materials, increased logistical costs, and unforeseen regulatory changes, all of which threaten the company's ability to maintain stable inventory levels and meet customer needs.

Pernod Ricard's response to these issues offers a unique perspective on strategic foresight and supply chain adaptability. This thesis examines how Pernod Ricard Portugal managed these disruptions and adapted its operational strategies in a period marked by rapid change and uncertainty. The COVID-19 pandemic and the War in Ukraine are analyzed as prime examples of global disruptions that tested the resilience of supply chains worldwide, due to the unprecedented complications that were generated. Employing dynamic capabilities and strategic foresight frameworks, the study aims to dissect the company's approach to risk management and crisis response within the Portuguese market and how the company used innovation as the main flag to overcome the impact of all the disruptions in recent years.

I.I Problem Statement

While there is an expanding body of literature on the impact of disruptions in Supply Chains there is a lack of research on the specific challenges and opportunities that multinational companies such as Pernod Ricard face when dealing with unforeseeable disruptive situations, as well as the strategies they use to overcome these challenges and succeed in global markets.

Taking that into consideration, the purpose of this thesis is to fill these gaps by providing a Case Study of a multinational wines and spirits company, Pernod Ricard, on a specific market, Portugal, considering the impact of two disruptions, COVID-19 and the war in Ukraine.

This case will provide a deeper understanding of the critical success factors that enable Pernod Ricard to sustain performance amid global supply chain volatility, with particular emphasis on supply chain adaptability, sustainability, and the strategic use of technology.

This case study will serve as a valuable teaching resource for courses in supply chain management and strategic planning, equipping students with practical insights into managing supply chains under extreme uncertainty.

I.II Case-Study Questions

1) What measures were taken by Pernod Ricard, to mitigate the impacts in their supply chain caused by COVID-19 and the War in Ukraine?

2) What role did innovation play in helping Pernod Ricard Portugal maintain a competitive advantage during periods of supply chain volatility and demand uncertainty?

3) What factors should be considered in designing alternative future scenarios to mitigate issues in Pernod Ricard's supply chain?

I.III Methodology

To be able to find insightful answers to the proposed research questions, a qualitative research design was adopted. The company provided most of the information needed by sharing official reports and allowing interviews with key departments of the firm. In addition, reports from Informa DB, data from NielsenIQ, and interviews with experts in the sector were used, given their key role in the spirits industry.

The study is structured around theoretical frameworks including the Resource-Based View (RBV), Dynamic Capabilities View, and Strategic Foresight, which provide lenses to analyze the company's resilience and strategic adaptation. Followed by the case study material, which was structured with an industry overview, a company overview that includes relevant aspects such as the structure of Pernod Ricard's supply chain, the financial evolution of Pernod Ricard Portugal, and an overview of how the company's main brands have evolved during recent years in the Portuguese market. Wrapping up with expectations and outlooks for the future, to understand what future trends and challenges the spirits industry will face, and explore how Pernod Ricard can continue to innovate and lead amidst emerging dynamics.

II. Research Notes

II.I. Impacts of Global Disruptions on Supply Chains

Supply chain has been a very discussed topic, especially in recent years due to the increasing number of global disruptions, but the truth is that most people still don't understand the full length of what supply chain means and what it includes. A supply chain is a fundamental driver of business success, encompassing a network of activities and entities, it goes from sourcing raw materials (procurement), transforming them into finished goods (manufacturing), storage of both raw materials and finished goods (warehousing), transporting the goods between stages (transportation), to delivering these products to the final consumers (distribution). Effective supply chain management (SCM) enables firms to achieve operational efficiency, showing us that the supply chain's role extends beyond logistical functions, influencing critical business outcomes such as profitability, market responsiveness, and competitive positioning. An optimized supply chain enables companies to meet customer demands while minimizing costs, managing risks, and fostering innovation. It also contributes to sustainability goals by reducing waste and optimizing resource usage. This level of optimization is only achievable if the channels of communication between the different stakeholders, suppliers, manufacturers, distributors, and retailers, are clear and fluid.

However, the more global supply chains are, the more inherently complex and susceptible to disruptions they get, making their proper functioning critical for sustaining competitive advantage.

Disruptions in supply chains can lead to cascading effects across industries, creating bottlenecks and reducing overall system resilience (Chopra and Sodhi ,2004). This underscores the need for firms to not only optimize their supply chain operations but also anticipate and mitigate potential risks, as the impact of a poorly functioning supply chain can be profound— affecting production schedules, financial performance, and market share (Craighead et al., 2007).

Global events such as the COVID-19 pandemic, ongoing geopolitical tensions, and other recent conflicts, for example, the war in Ukraine, have underscored vulnerabilities in critical supply chain components, revealing weaknesses in global sourcing, logistics, and production systems, particularly for multinational corporations. Understanding the dynamics and impact of such disruptions is crucial for organizations aiming to enhance resilience, reduce vulnerabilities, and maintain operational continuity amidst uncertainty.

These Global disruptions have led to acute shortages in essential materials, affecting industries reliant on complex international supply networks. High-demand sectors faced substantial delays due to bottlenecks in production and transport, (Ivanov and Dolgui, 2020) and cross-border flow, which increased the risk of supply disruptions and production downtimes. These interruptions often forced companies to adjust sourcing strategies, potentially seeking alternative suppliers at elevated costs or delaying production schedules to accommodate material shortfalls. It is important to understand that industries that rely on longer supply chains are more vulnerable to price volatility and scarcity of materials, especially in sectors that depend on specific, non-substitutable resources (Linton and Vakil, 2020). For a practical approach on Managing Sourcing Risk, see Appendix 1.

Most supply chains are built for predictability and gradual shifts in consumer behavior, so when the convergence of demand surges, meaning when there is an unusually high or synchronized increase in demand for specific products or services, supply chains get constrained and exert inflationary pressures across industries, exacerbating production costs and transportation costs. Transportation costs, which were already rising post-pandemic, were further impacted by the surge in fuel prices and logistical strain following geopolitical conflicts, especially within the European Union. Sanctions and energy supply constraints have further compounded the rising costs, contributing to an increasingly challenging environment for supply chain management, particularly within industries heavily reliant on global raw material sourcing (Linton & Vakil, 2020; Bode et al., 2020).

Pandemic-induced labor shortages, port congestion, and transportation restrictions have presented additional barriers to timely product distribution. Adjusting to these logistical challenges requires companies to reconsider their distribution networks, explore regional alternatives, and even decentralize certain production capabilities (Aylor et al., 2020). These disruptions reveal the critical role of resilience in supply chains because they can offer crucial pathways for organizations navigating uncertainty (Bode et al., 2020), helping companies to mitigate the impact of disruptions. Firms that actively monitor external conditions, adapt sourcing practices, and maintain effective contingency and risk mitigation plans are better positioned to weather these global shocks.

Building resilience often requires companies to not only implement reactive measures but also adopt proactive strategies, such as diversifying suppliers, localizing production where possible, and leveraging digital tools to forecast demand fluctuations and manage risks associated with the supply chain.

The COVID-19 pandemic and subsequent geopolitical tensions underscore the fragility of globally interconnected supply chains, as well as the need for adaptive strategies that balance both short-term adjustments and long-term strategic planning. As a theoretical framework, resilience equips organizations with the tools to recover swiftly from crises while capitalizing on shifts in consumer preferences allowing enhanced operational agility (Smith and Elliott, 2007), enabling them to manage disruptions more effectively and mitigate the potential impact of future global events.

II.II. Resource-Based View

A firm's ability to secure a sustained competitive advantage largely depends on its unique resources and the capabilities it possesses, according to the Resource-based view (RBV) framework, those unique resources cannot easily be duplicated or replaced by competitors (Barney, 1991). Within the RBV framework, resources are categorized into three main types: physical, human, and organizational. Physical resources encompass tangible assets like technology and capital, human resources refer to the skills, knowledge, and experience that a company gains with its employees, and organizational resources involving elements such as brand reputation and company culture (Wernerfelt, 1984).

Central to the RBV is the concept that resources must fulfill specific criteria to contribute to competitive advantage. Those specific criteria are introduced in the VRIN framework, which posits that resources must be Valuable, Rare, Inimitable, and Non-substitutable to establish a sustained competitive advantage (Barney, 1991). The four main questions one needs to ask are, does the resource create value by exploiting opportunities or neutralizing threats? Is the resource scarce to the competition? Is the resource difficult or costly for competitors to replicate? Are there no equivalent resources or capabilities that competitors could use as a substitute?

"A firm has a sustained competitive advantage when it is implementing a value-creating strategy not simultaneously being implemented by any current or potential competitor and when these other firms are unable to duplicate the benefits of this strategy" (Barney, 1991).

The VRIN model highlights that resources that meet those four criteria offer a unique advantage to firms by enabling them to implement strategies that are difficult for competitors to replicate (Peteraf & Barney, 2003).

Building on the VRIN framework we can add one more dimension to it, making it the VRIO framework. The "O" stands for Organized to capture value, this criterion assesses whether a firm has the structures, processes, and management capabilities to fully leverage the value of its valuable, rare, and inimitable resources. It emphasizes that, for a resource to be a source of sustained competitive advantage, a firm must not only possess it but also have the organizational capacity to use it effectively. If a firm has valuable, rare, and inimitable resources but lacks the organizational support to deploy them strategically, it may miss out on competitive benefits.

So the main difference between them is that VRIN focuses purely on resource attributes to assess competitive advantage potential, while VRIO currently being more commonly used and seen as more practical, includes the organizational aspect, considering a firm's ability to manage and deploy resources effectively. (Barney & Hesterly, 2012).

To sum up we can state that the key components of RBV are Firm Resources, which include all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc., controlled by a firm that enable it to conceive of and implement strategies that improve its efficiency and effectiveness.(Daft, 1983). These resources are foundational to RBV, as they provide the building blocks for strategic advantage.

Rare and inimitable resources, such as proprietary technologies or unique company culture, grant firms a degree of immunity from competitive replication (Barney, 1991). Competitive Advantage and Sustained Competitive Advantage arise when a firm implements a strategy that is not being used by its competitors and creates value (Barney, 1991). Sustained competitive advantage, however, extends beyond temporary benefits and is characterized by a firm's ability to maintain this value over time. "It is not this period of calendar time that defines the existence of a sustained competitive advantage, but the inability of current and potential competitors to duplicate that strategy" (Barney, 1991). This distinction emphasizes that the durability of a competitive advantage relies on its exclusivity and resilience against imitation.

Economic Value and Financial Performance are integral components of the RBV, with firms achieving competitive advantage by creating a positive economic surplus between production costs and customer willingness to pay (Barney & Mackey, 2018). A firm generates economic value when there is a positive difference between the willingness of its customers to pay for its products or services and the total cost of producing those products or services.(Barney et al., 2021). When this economic value is consistently greater than competitors, the firm is said to enjoy a competitive advantage that translates to superior financial performance.

Finally, the last key component is Imperfectly Imitable Resources such as organizational culture and location, which are especially difficult for competitors to imitate and thus provide a sustained advantage. For example, a unique culture or advantageous geographic position may grant a firm enduring competitive benefits (Barney, 1986). RBV scholars argue that unique cultural or locational factors, alongside resources shaped by history and specific company conditions, are particularly resistant to replication and form the foundation of sustainable advantages (Barney, 1985a).

While the RBV emphasizes the importance of unique resources in maintaining competitive advantage, it is noted for its limitations in dynamic or rapidly changing environments. Because RBV is inherently static, it does not fully account for how firms must adapt or reconfigure resources in response to environmental shifts (Barreto, 2010). Dynamic capabilities, in contrast, emphasize a firm's ability to evolve and reallocate resources to respond to change, thereby complementing the RBV framework by addressing its limitations in volatile contexts.

II.III. Dynamic capabilities View

In an era marked by frequent global disruptions, organizations are increasingly tasked with building and sustaining resilience and adaptability within their supply chains. This need has brought the theory of Dynamic Capabilities (DCs) to the forefront of strategic management discourse. Originally introduced by Teece, Pisano, and Shuen (1997), the concept of DCs extends beyond the static Resource-Based View (RBV) that suggests a firm's resources and capabilities are critical to its ability to achieve and sustain a competitive advantage, to focus on a firm's ability to realign and reconfigure its resources in rapidly changing environments. DCs are defined as a firm's capacity to "integrate, build, and reconfigure internal and external competencies to address rapidly changing environments" (Teece et al., 1997), suggesting that competitive advantage hinges on not only possessing valuable resources but also on effectively adapting them to evolving market demands.

The Dynamic Capabilities framework argues that sustained competitiveness requires more than valuable, rare, and inimitable resources (Barney, 1991). Instead, it requires capabilities that allow companies to continuously alter their asset configurations to meet the demands of changing contexts (Eisenhardt & Martin, 2000). This flexibility is especially critical in environments characterized by disruptions, where the ability to realign operations with market changes determines resilience. According to Teece (2007), "only firms that can continually innovate and adapt to new consumer needs will maintain their competitive edge".

Dynamic Capabilities are seen as a multi-faceted construct encompassing three core activities: sensing, seizing, and transforming.

Sensing involves identifying opportunities and threats in the external environment. This process requires vigilant market analysis and environmental scanning to detect shifts early on (Teece, 2007).

Seizing involves mobilizing resources to capture these opportunities or counteract threats. In this stage, substantial operational changes or investment in new technologies can be required to fully take advantage of those opportunities.

Finally, transforming entails a reconfiguration of the firm's assets and capabilities, enabling it to continue thriving in shifting conditions (Helfat & Peteraf, 2009). This transformative capacity ensures that an organization is not only prepared to face current disruptions but is also strategically positioned to leverage future opportunities.

Barreto (2010) further refines the concept by emphasizing that DCs are distinguished by "a firm's potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely and market-oriented decisions, and to change its resource base." This potential is not a static characteristic but a dynamic process where companies that cultivate strong DCs actively interpret external challenges, recalibrate their operations, and prepare for new strategic pathways in response to environmental changes (Van Tulder et al., 2022). The capacity to adapt serves as a protective buffer, allowing firms to mitigate adverse impacts and turn potential setbacks into strategic advantages. Given the need for adaptability, firms that excel in developing DCs are better equipped to survive crises and capitalize on market shifts. Helfat and Peteraf (2009) emphasize that robust DCs enable firms to not only weather disruptions but to seize new opportunities, often reshaping industries in the process.

In summary, the DC framework underscores the critical role of adaptability and strategic realignment in securing a competitive advantage in uncertain environments. As industries continue to face global disruptions, DCs enable organizations to transform challenges into pathways for growth and evolution. This adaptability framework, grounded in continuous learning and operational flexibility, offers a foundational lens through which firms can better navigate the complexities of the modern business landscape. Barreto (2010) summarizes the main conceptualizations of dynamic capabilities in Appendix 2.

II.IV. Strategic Foresight and Scenario Planning-Three Horizons Framework

Strategic Foresight has become essential for companies seeking resilience and adaptability, especially in a landscape of increasing global uncertainties. One effective tool for foresight, particularly in environments subject to disruptions, is the Three Horizons Framework (THF), initially developed by Baghai et al. (2000). The THF provides a structured approach for organizations to balance present stability with mid-term adaptations and long-term innovation, thereby offering a roadmap to continuously adapt and thrive even in volatile markets.

The Three Horizons Framework divides strategic planning into three distinct, yet interconnected, phases. The first one, Horizon 1 focuses on maintaining and optimizing core business operations. This initial phase is especially relevant during periods of disruption, as it prioritizes immediate stability and resilience within the company's current operations. At this stage companies work to ensure continuity by addressing logistical bottlenecks, mitigating supply chain issues, and stabilizing resources essential for short-term success (Ivanov & Dolgui, 2020). The goal in Horizon 1 is to withstand present disruptions through a grounded focus on agility and short-term adaptability, ensuring that fundamental business functions continue without major interruption (Aylor et al., 2020).

The Second Horizon transitions from a short-term focus on stability to incremental adaptation and mid-term resilience. This phase emphasizes ongoing improvements and adjustments that help companies not only react to disruptions but also develop a more flexible structure. The second stage can require substantial investments in technology, such as data analytics for demand forecasting and enhanced supply chain transparency, which are crucial in this phase. These tools allow organizations to predict trends more accurately and respond proactively to unexpected changes (Linton and Vakil, 2020). Horizon 2 also encourages diversification strategies, such as broadening the supplier base or even engaging in local partnerships which reduce dependency on single-source suppliers and increase flexibility (Bode et al., 2020). This adaptation phase is vital for companies to create buffers against potential future disruptions, enhancing resilience across multiple operational layers.

Finally, Horizon 3 represents a shift toward long-term, transformative innovation. In this phase, companies prepare for emerging trends and shifts in consumer demands, focusing on breakthrough changes and foresight-driven initiatives. For example, investments in sustainable practices and innovations in product design align with the growing global emphasis on environmental responsibility, making the company better positioned for evolving regulatory standards (Teece, 2007). This forward-looking approach is instrumental in allowing firms to not only anticipate future industry shifts but actively shape them. By embracing Horizon 3 strategies, companies move beyond reactive measures, establishing themselves as leaders in innovation who are prepared to navigate evolving market landscapes.

Together, the three horizons help organizations strike a balance between immediate operational needs and long-term strategic positioning. The THF serves as a valuable guide for organizations to build resilience and maintain agility across various timeframes. By fostering a structured yet flexible approach to planning, the framework encourages companies to systematically strengthen their present, prepare for potential disruptions, and innovate for the future, positioning them for sustained success regardless of market unpredictability.

III. Case Study

III.I. Spirits Industry Overview

Introduction

The spirits industry represents a significant segment of the global alcoholic beverages market, characterized by a rich history and evolving consumer preferences. Broadly defined, spirits are distilled alcoholic beverages made from fermented grains, fruits, or other ingredients, offering a diverse range of products from whisky and brandy to gin, vodka, and rum (Brown & Jameson, 2021).

Globally, the industry is segmented by product type, distribution channels, and geography. Product types include whisky, rum, brandy, and others, while distribution channels are divided into on-trade (distributors, bars, restaurants, nightclubs) and off-trade (supermarkets, online retail). These distinctions allow for tailored market strategies, facilitating industry growth and innovation (International Spirits Federation, 2023).

Supply chains of the major players in the spirits industry have all more or less the same structure, which is how each player manages its supply chain, and the internal strategic decisions that are made, that allow companies to gain a competitive advantage over one another.

In Portugal, the spirits market is an essential component of the alcoholic beverage sector. While wine and beer dominate consumption, spirits represent approximately 9% of the market, driven by both domestic preferences and international influence (INE, 2023). Key players in Portugal, such as Pernod Ricard, Diageo, and Bacardi, compete in a dynamic environment shaped by trends like the demand for premium products, health-conscious options, and sustainable practices.

In recent years, worldwide disruptions such as COVID-19 and the war in Ukraine have impacted multiple industries, especially their supply chains. The spirit's industry was no exception, these disruptions changed completely the habits of consumers and the way companies operate, forcing players such as Pernod Ricard to adapt and create solutions to mitigate and try to capitalize on the impact of these disruptions.

This case study aims to analyze how Pernod Ricard Portugal, managed the impact of COVID-19 and the war in Ukraine. Focusing on the industry's structure and supply chain, emphasizing Portugal's market dynamics, highlighting the company's response, and its capacity for exploring opportunities for innovation and growth. Several of the decisions that the company made during these turbulent years, and some of the strategies implemented, ultimately resulted in Pernod Ricard Portugal rising to the #1 company in the wines and spirits industry in the Portuguese market.

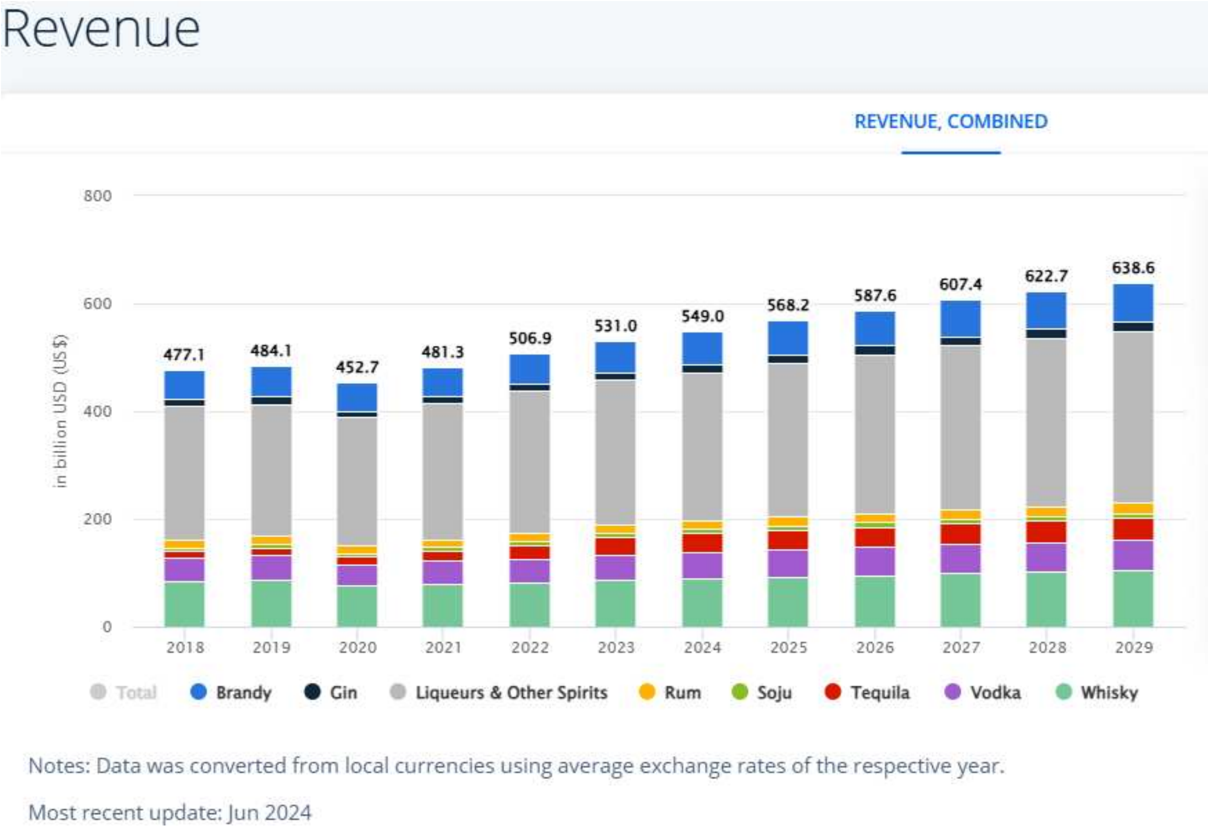
Market Worldwide

Following the trend of recent years, the global spirits market continues to thrive, driven by rising consumer demand for premium and artisanal products. From 2023 to 2028, the industry is expected to grow at a compound annual growth rate (CAGR) of 3.94%, contributing an additional $91.7 billion to global revenues. The global spirits market is segmented by product type, distribution channel, and geography. Based on product type, the market is segmented into Whisky, Brandy, Rum, Tequila, and Others, while regarding distribution channels, the market is divided into two major channels, On-Trade (distributors, bars, restaurants, hotels, nightclubs) and Off-Trade (supermarkets/hypermarkets, convenience/grocery stores, online retail stores). This level of segmentation creates several opportunities for the players in the market allowing companies to explore different consumer tendencies such as the interest in high-quality products, the rise of craft and small-batch spirits, innovations in flavor profiles and production techniques, all of which are actively contributing for the increased growth of the spirits industry.

Geographically, the Asia-Pacific region remains the largest and fastest-growing market, while Europe, North America, and Latin America maintain strong demand across premium and ultra-premium segments.

Categories-wise, whisky, brandy, and vodka are the global leaders, supported by shifting preferences toward more sophisticated and personalized experiences.

Figure 1: Revenue Combined (At home + Out of home) Spirits Worldwide



Source: Statista Market Insights.

Market Portugal

In Portugal, the spirits industry plays a significant role within the broader alcoholic beverages market. Recent data indicates that in Portugal, beer is the leading alcoholic beverage with consumption at approximately 50%, followed by wine at 38%, and spirits at 19%, with the remaining percentage split among other beverages. The spirits sector in Portugal, while smaller, still makes for a market size of €326 million in 2023 (Revista de Vinhos 2023), reflecting broader global trends, with consumers increasingly favoring premium offerings. This shift is evident in the success of categories like whisky, vodka, and gin, with gin experiencing particular growth due to its appeal among younger, urban demographics.

Portugal's spirits industry is heavily influenced by a mix of local and international brands, the key players include global giants like Pernod Ricard, Diageo, and Bacardi, among others. The industry's value in Portugal has grown steadily, with innovative product launches and a focus on sustainability and localized marketing strategies. Recent trends, such as the popularity of craft cocktails and the incorporation of local ingredients, with the growing search for health-conscious options (low alcohol and no alcohol), have further bolstered demand.

The structure of Portugal's spirits market reflects a balanced distribution between on-trade and off-trade. On-trade channels account for a slightly larger share, driven by Portugal's vibrant hospitality sector, as well as the high volumes of tourists that visit Portugal. Whisky, gin, and rum are the top contributors to the sector's growth, while ready-to-drink (RTD) and low-alcohol products have also gained traction. Additionally, the industry shows promise in aligning with consumer demand for sustainability, as many companies are adopting eco-friendly practices and packaging.

This dynamic environment positions Portugal as an emerging player in the global spirits landscape, with significant opportunities for innovation and growth in both domestic and export markets.

Latest Trends in the Spirits Sector

Offering options for all tastes and preferences the spirits sector is highly influenced by consumer preferences and tendencies. Consumers shape how companies respond to those tendencies and lately, customers demand more premium experiences especially those that allow them to access local and heritage brands.

Consumers want to feel that the product they are acquiring is tailor-made for them, which boosted the offer of premium and high-quality spirits, creating a big upside for companies such as Pernod Ricard because the margin in those premium spirits is substantially higher when compared with more basic brands.

Premiumization is not the only growing consumer interest, there has been a growing demand for low-alcohol and non-alcoholic options as well as major concerns regarding sustainability. The growth of these market trends has been followed by the major players, but right after COVID-19, the demand for these health-conscious products was so big especially in the gin category, that the companies responded immediately with product launches such as Gordon's 0.0% (Diageo) and Beefeater Light (Pernod Ricard).

Another major trend has been sustainability, customers have been more and more concerned about the origins of the products and the materials used. That forced companies to look at sustainability not only as an obligation to meet customer demand but as an opportunity to create competitive advantages. Eco-friendly production practices and packaging innovations have been continuously improved, making sustainability one of the main pillars of companies like Pernod Ricard.

This dynamic environment positions Portugal as an emerging player in the global spirits landscape, creating significant opportunities for innovation and growth in both domestic and export markets.

III.II. Pernod Ricard Overview and History

Pernod Ricard Group

Pernod Ricard (PR) was created in 1975 through the merger of French companies Pernod and Ricard and since has grown into a global leader in the wines and spirits industry. The company rapidly expanded internationally, building a diverse portfolio of popular brands such as Absolut Vodka, Chivas Regal, Jameson, and Martell Cognac currently operating in 60 countries and with distribution in more than 160 markets.

Known for its decentralized management approach, Pernod Ricard values local autonomy, which has been key to its agility and innovation in markets worldwide allowing a stronger community engagement and cultural integration. The corporate headquarters, based in Paris, France, oversees the group's global strategy, governance, and key initiatives. Including the Executive Board, responsible for decision-making at the highest level, and other global function departments such as marketing, finance, sustainability, and innovation that set broad policies and ensure that the company's strategic vision is aligned through all their branches across the world.

Pernod Ricard divides its global operations into regions to be able to manage geographical diversity and market-specific needs effectively. These regional hubs are semi-autonomous and focus on adapting the global strategy to local conditions. Being the key regions: Europe, North America, Asia, Africa and the Middle East, and Latin America. Each region is led by a Regional Managing Director, who coordinates between the global headquarters and local market companies. Besides the regional hubs, the company branches are divided into two groups, market companies and brand companies.

Market companies operate within individual countries or clusters of countries, they focus on the distribution and sales of the PR brand portfolio, localization of marketing campaigns to ensure cultural and market relevance, and developing partnerships and customer relationships in their respective markets, guaranteeing that they have a significant level of autonomy, which is a hallmark of PR’s decentralized approach.

While brand companies are responsible for the production, innovation, and global marketing of specific brands within the Pernod Ricard portfolio for example Martell Mumm Perrier-Jouët for cognac and champagne or Chivas Brothers for Scotch whisky. The brand companies collaborate directly with market companies to ensure consistent brand positioning and product availability worldwide. This structure has enabled PR to navigate through complex markets and achieve sustained global growth while empowering local teams to respond swiftly to market dynamics and retaining a focus on their local market nuances.

Over the years, Pernod Ricard has consistently acquired and integrated new brands, reinforcing its leadership in premium segments and at the same time expanding its geographic reach. In 2018, Pernod Ricard acquired a stake in Monkey 47, a high-end German gin, which has since become a flagship brand in the super-premium gin category. This move underscored the company’s commitment to expanding within the gin market, particularly as demand for premium gin grew globally. Another acquisition made by PR was La Hechicera in 2021, a premium Colombian rum, which broadened PR’s offerings in Latin America and added to its portfolio of high-end rums.

All these recent acquisitions reflect the company's efforts to stay at the forefront of consumer preferences and expand its reach into premium and regional markets worldwide, reinforcing its position as a leading global spirit company. Today, the group operates in over 160 markets, with a strong emphasis on sustainability and responsible drinking, aiming to achieve carbon neutrality across its supply chain by 2030.

Pernod Ricard Portugal

Pernod Ricard entered the Portuguese market through SOMAGNUM a Portuguese company known for its strong foothold in the local market.

SOMAGNUM was specialized in the distribution of wines and spirits, including renowned international brands and locally beloved products. This foundation provided the expertise and market penetration that would later align with Pernod Ricard’s vision when the global group integrated SOMAGNUM into its portfolio. Pernod Ricard Portugal (PRPT) was established as part of PR’s global expansion, adapting the company’s renowned portfolio to Portugal's unique market and cultural landscape. Following the transition to Pernod Ricard Portugal, the company retained SOMAGNUM’s valuable market insights while embracing Pernod Ricard's global strategies.

This synergy enabled PRPT to combine deep local knowledge with international expertise, leading to its position as a major player in Portugal's wine and spirits sector. One of the defining aspects of PRPT's operations is its dual role as both market company (responsible for the distribution and adaptation of the group's global portfolio in the Portuguese market) and brand company (overseeing the production, development, and promotion of Macieira, a flagship Portuguese brandy). Macieira brandy, is a cherished Portuguese spirit with a history dating back to 1865, became a part of the company's portfolio, reinforcing its identity as a producer and not merely a distributor.

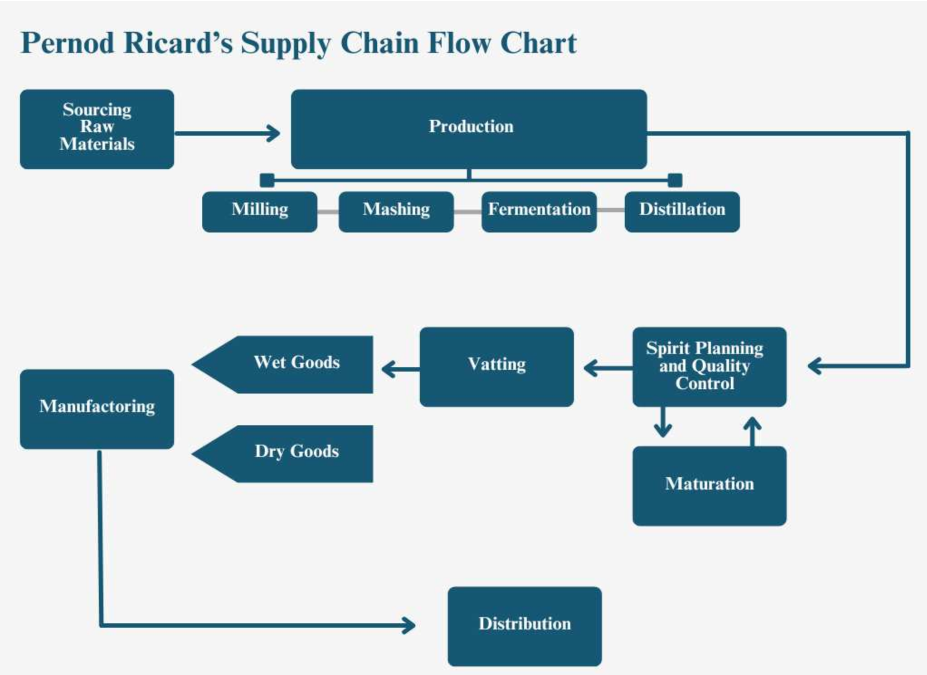
The management of Macieira showcases PRPT's ability to honor traditional craftsmanship while modernizing its image and appeal to align with evolving consumer preferences. This has included efforts to innovate in branding, packaging, and marketing, positioning Macieira as a product with both local heritage and international relevance. The perfect example is the launch of Macieira Cream, launched in 2022, and considered the product of the year in 2023 for the category of liquors.

Initially focused on importing and distributing iconic brands, the company has since expanded its offerings to meet the preferences of Portuguese spirits consumers. Over the years, the subsidiary has grown its operations, and because of PR business model, PRPT was able to retain operational independence, foster local partnerships, and address the unique market dynamics of Portugal, while continuously strengthening the company's presence. Recently Pernod Ricard Portugal just became #1 in the Portuguese market due to their capacity to actively engage with local communities, fostering sustainable practices, addressing challenges such as economic fluctuations and supply chain disruptions, and launching new innovative products ensuring that the Portuguese market is well covered with their brands.

Pernod Ricard Supply Chain

Pernod Ricard's supply chain is designed to balance global efficiency with operational flexibility and market responsiveness, aligning with its decentralized operational model (Pernod Ricard Integrated Annual Report FY20).

Figure 2: Pernod Ricard's Supply Chain Flow Chart



Source: Designed by the Author based on the description provided by PR Annual Reports.

The process begins with raw material sourcing and acquiring key ingredients such as grains, sugarcane, agave, or fruits, depending on the spirit type. Pernod Ricard sources these materials globally, maintaining partnerships with farmers and suppliers to ensure high-quality materials while adhering to sustainability practices and potential biodiversity projects.

After the raw materials are sourced, they move on to production. This stage includes four stages: milling, when the grains are ground into smaller particles to extract fermentable sugars; mashing, when the ground grains are mixed with water and heated, breaking down starches into fermentable sugars; followed by the fermentation stage, where yeast is added to convert the sugars into alcohol, forming the foundation of the spirit; And finally the distillation, where the alcohol is purified and concentrated, removing impurities and creating a high-proof spirit. Distillation stage may be repeated multiple times depending on the desired product.

After the production phase, and before the spirits are matured or bottled, rigorous planning and quality checks are carried out to ensure compliance with taste, aroma, and consistency standards. Quality control is made through different advanced analytical techniques alongside sensory testing by master blenders and quality control experts. Certain spirits, such as whisky and cognac, are aged in barrels for years to enhance flavor and complexity. This step is called maturation and it's crucial for premium and super-premium products in Pernod Ricard's portfolio. Barrels are monitored throughout the maturation process to maintain quality.

Passing through this control stage, the vatting phase starts, and here is where a lot of the “magic” happens. This is the blending process where spirits from different batches, casks, or types are mixed to achieve a specific flavor profile and consistency. It is a critical step for Pernod Ricard's iconic blended whiskies, rums, and other products.

The manufacturing process is fueled by two key streams, Wet goods, which are the result of all the processes since the sourcing of the raw materials up until this point, meaning the liquid spirit that is ready to be bottled; and Dry goods which refer to the packaging materials such as bottles, labels, caps, and boxes used for final product assembly.

For Pernod Ricard, procurement of Dry Goods plays a strategic role in maintaining brand reputation. Ensuring the timely delivery of aesthetically consistent and premium-quality dry goods is vital for reinforcing the luxury appeal of their products. Besides luxury appeal, one of the company's main concerns and a really important pillar of Pernod Ricard is responsible procurement. This approach ensures that the sourcing of dry goods minimizes environmental impact while supporting ethical practices across the supply chain. Sustainable procurement focuses on reducing waste, lowering carbon footprints, and supporting the use of recyclable and biodegradable materials in packaging.

At the manufacturing stage, the wet goods are carefully filled into the prepared dry goods. This process incorporates cutting-edge bottling, labeling, and packaging technologies to maximize efficiency while minimizing waste. The combination of these streams results in the creation of Pernod Ricard's finished products, which are then ready for distribution.

Pernod Ricard Portugal Financial Overview

Figure 3: Evolution of Pernod Ricard's Portugal Sales (2018-2022)

Evolução das vendas e serviços prestados e recebimentos de clientes								
	Entidade						Setor Dimensão: Grandes empresas	
	2018	2019	2020	2021	2022	Var. 2022/ 2021	2023	Var. 2023/ 2022
Vendas e serviços prestados (€)	44 249 408,59	32 726 455,62	31 939 615,18	45 228 555,51	50 845 256,51	12%	122 204 351,03	12%
Recebimentos de clientes (€)	-	-	36 045 754,53	55 223 886,89	67 813 804,85	23%	107 646 402,13	25%
Valor a receber de clientes (€)	19 158 410,98	12 248 319,19	12 841 109,14	13 187 227,53	5 380 725,58	-59%	20 944 998,64	34%

Source: InformaDB - PERNOD RICARD PORTUGAL - DISTRIBUIÇÃO, S.A. full report 11/2024

Over the past five years, Pernod Ricard Portugal's financial performance has been shaped by external disruptions and strategic initiatives, as evidenced by the sales data.

From 2018-2019 sales decreased from €44.2 million to €32.7 million, reflecting a significant contraction of 26%. This decline it's the first big impact of COVID-19, mostly justified by the company's high dependency on the on-trade channel, which faced a complete shutdown when the pandemic started.

Although 2020 was a challenging year globally, Pernod Ricard Portugal managed to adapt to the new reality a went from being a On-trade focus company to being substantially more present in the Off-trade channel and stared to give their first steps in e-commerce. These strategies allowed the company to avoid a greater loss in sales, so despite the small decrease when comparing to 2019, PRPT had really interesting results that showed substantial promise for the future.

In 2021, with the gradual reopening of the on-trade channel and the so-called "revenge spend" effect, sales rebounded significantly to €45.2 million, showing a 42% increase compared to 2020. Customers stayed almost 2 years without being able to spend money, so when the restaurants, bars, and clubs started opening again, consumers wanted to spend their money, and that effect really helped the company to bounce back. PRPT showed great resilience, and by diversifying its portfolio and leveraging consumer preferences for at-home drinking experiences, they were able to capitalize on re-open of the market.

Already recovering from the impact of COVID-19, In 2022 the company launched a series of innovative products like Macieira Cream (elected product of the year in 2023 for the cream liquor category), which boosted substantially domestic and export sales (Appendix 3). Sales reached €50.8 million in 2022, marking a 12% growth from 2021.

This trajectory shows PRPT's ability to adapt to the impact of external disruptions and capitalize on emerging opportunities, maintaining a competitive edge in a volatile market. See Appendix 4 to see some of the main products of Pernod Ricard Portugal.

III.III. COVID-19 in the Spirits Industry

Impacts of Covid-19

The COVID-19 pandemic profoundly disrupted the global spirits industry. With the closure of bars, restaurants, and entertainment venues worldwide, the sector saw significant declines in on-site sales, which traditionally account for a substantial portion of spirits consumption. In the U.S., for example, on-site sales initially plummeted, but innovative measures such as "cocktails-to-go" and expanded delivery services helped mitigate losses. These changes, alongside a surge in e-commerce, allowed spirits companies to pivot toward off-site sales and direct-to-consumer strategies, which are now expected to have a lasting impact on the industry's business models. Globally, spirits companies also experienced disruptions in supply chains and production schedules, compounded by logistical challenges like port congestion and labor shortages. Despite these setbacks, some sectors of the spirits market, such as ready-to-drink (RTD) cocktails, experienced growth due to increased at-home consumption. For example, companies like Beam Suntory leveraged this trend by investing in RTD brands.

In Portugal, the pandemic had a similarly disruptive impact on the wine and spirits market, particularly due to restrictions on tourism and the hospitality sector. These industries play a critical role in driving demand for premium spirits, and their slowdown led to decreased sales in these categories. Overall, the spirits market in Portugal experienced a contraction, with shifts toward home consumption driving a rise in supermarket and online sales.

Consumer preferences also shifted, with increased interest in local and craft spirits. However, the economic consequences of the pandemic, such as reduced disposable incomes, caused many Portuguese consumers to opt for more affordable options. As the economy recovered, spirits producers in Portugal began to focus on innovation, leveraging digital sales channels, and introducing new products tailored to evolving consumer demands. By 2022, the market showed signs of recovery, bolstered by the reopening of the hospitality sector and a gradual return of international tourism.

Globally, the spirits industry demonstrated resilience by embracing digital transformation, diversifying sales channels, and adapting to new consumer habits. In Portugal, the market recovery has been underpinned by investments in e-commerce, marketing campaigns targeting at-home drinkers, and the gradual return of traditional consumption patterns as public health restrictions eased. The shift toward online platforms and home-based consumption is likely to remain a significant trend in the post-pandemic era.

Pernod Ricard Portugal Response to Covid-19

The COVID-19 pandemic profoundly disrupted Pernod Ricard's operations, forcing the company to adapt quickly to unprecedented challenges. The initial impact was significantly negative, as the company's primary revenue channel, On-Trade (bars, restaurants, hotels, and clubs) was decimated by global lockdowns and restrictions. This led to a complete halt in volumes in this channel, prompting Pernod Ricard to cancel pending purchase orders to mitigate excess stock. However, the pandemic also triggered a shift in consumer behavior, with increased home consumption. Pernod Ricard strategically pivoted its focus to Off-Trade channels (supermarkets and grocery stores), which traditionally accounted for a smaller share of its revenue. This shift proved successful, with sustained increases in at-home consumption levels even post-pandemic.

As restrictions eased, Pernod Ricard experienced a phenomenon known as “revenge spending,” where consumers indulged in both On-Trade and Off-Trade consumption, driving a significant recovery. Notably, some of Pernod Ricard’s best global sales years followed the pandemic, fueled by pent-up demand.

Globally, the pandemic created supply chain challenges, including shortages of glass, cardboard, and other dry goods, as well as supplier bankruptcies and skyrocketing costs. Pernod Ricard responded by mapping critical suppliers, identifying alternatives, and increasing safety stock levels to secure supply chain continuity. The company optimized production by standardizing bottle designs, reducing the weight of glass bottles, and minimizing cardboard in packaging, achieving both cost reductions and sustainability benefits.

Additionally, the pandemic accelerated internal digital transformation, introducing new IT tools that improved forecasting accuracy and increased supply chain resilience. By leveraging stock reinforcements and maintaining higher-than-normal inventory levels, Pernod Ricard met market demands during the recovery phase, outperforming competitors who struggled with de-stocking issues early in the crisis.

III.IV. War in Ukraine in the Spirits Industry

Impacts of the War in Ukraine

The Russia-Ukraine conflict has significantly disrupted the global spirits industry, with far-reaching consequences on production, supply chains, and market dynamics. Russia and Ukraine are crucial players in the spirits sector, particularly in vodka production, a market dominated by Russia, and as export markets for global spirits brands. The imposition of sanctions on Russia, including bans on imports of spirits from the country, and retaliatory trade restrictions disrupted the flow of goods, leading to both market contractions and shifts in consumer preferences. For instance, vodka sales in Europe and the U.S. saw a decline in Russian brands but experienced increased demand for locally produced alternatives.

Global supply chains faced significant strain due to the conflict. Ukraine, a key producer of grain and other raw materials used in spirit production, experienced significant production shortfalls. This scarcity, combined with export restrictions, caused spikes in prices for grains and energy. These increased costs have trickled down to spirits producers, with higher production expenses leading to price increases for end consumers.

In Portugal, the war's effects were acutely felt through rising production and logistical costs. The industry, heavily reliant on imported raw materials, faced steep increases in the cost of essential ingredients such as grain and glass bottles. Additionally, the energy crisis, exacerbated by Europe's dependence on Russian oil and gas, significantly raised operational costs for distillers and distributors in Portugal.

The Portuguese market, which is already recovering from the pandemic, faced another challenge in adapting to fluctuating consumer demand amidst inflationary pressures. These dynamics influenced the affordability of premium spirits, pushing some consumers toward more affordable brands or reducing overall consumption. However, local producers capitalized on the situation by marketing regional and artisanal products, which gained popularity during the supply chain disruptions.

The war highlighted vulnerabilities in the global supply chain, emphasizing the need for resilience and adaptability. Port closures in the Black Sea, disruptions to rail transport, and limited access to raw materials from Eastern Europe created bottlenecks for global shipments. Furthermore, energy shortages and surging fuel prices increased shipping costs, impacting the distribution of spirits worldwide, including in Portugal.

The industry demonstrated resilience, on the path to recovery, adapting by diversifying sourcing strategies and investing in regional supply chains. Globally, major players have shifted to alternative markets for raw materials, such as North and South America, while also increasing investment in renewable energy to mitigate future energy shocks.

In Portugal, the spirits market has been gradually focused on innovation, introducing new products tailored to changing consumer preferences, such as lower-alcohol spirits and ready-to-drink cocktails. Moreover, the emphasis on digital sales channels has continued to grow, helping brands reach consumers directly despite ongoing disruptions.

The war in Ukraine has served as a wake-up call for the spirit's industry showing the importance of supply chain diversification, operational efficiency, and adaptability in navigating geopolitical challenges. These lessons are likely to shape the industry's strategies for years to come.

Pernod Ricard Portugal's Response to the War in Ukraine

Although the impacts of the war in Ukraine were less severe compared to COVID-19, Pernod Ricard faced significant challenges, particularly in cost escalation. The war disrupted global markets, leading to spikes in energy, fuel, transport costs, and container prices—some reaching record highs. The primary response was passing these costs onto consumers through price increases, which remarkably did not affect overall consumption levels.

Supply chain bottlenecks became another critical issue, with transport delays and shortages of truck drivers further complicating operations. To mitigate these impacts, Pernod Ricard doubled down on supplier mapping, long-term contract negotiations, and fostering partnerships with local suppliers to reduce reliance on vulnerable regions. The company also simplified production by standardizing packaging materials, such as adopting a universal bottle design for miniatures and reducing excess material in Value Added Packs (VAPs). These measures not only lowered production costs but also aligned with the company's sustainability goals.

Pernod Ricard also capitalized on changes in consumer demand during the crisis. The demand shifted from specific brands to broader categories, allowing Pernod Ricard to leverage its diverse portfolio to meet market needs when competitors faced supply shortages. Additionally, investments in stockpiling and safety stocks proved instrumental, as markets increasingly placed frequent and larger orders to avoid disruptions.

Internally, the war heightened the strategic importance of supply chain management within the company. Enhanced information flow and regular scenario planning became critical tools for responding to volatile conditions. These efforts ensured Pernod Ricard maintained its market leadership in Portugal and continued driving innovation, such as introducing locally tailored products like Macieira Cream and standardizing processes to further improve resilience.

By combining innovative strategies, sustainability initiatives, and a commitment to operational excellence, Pernod Ricard emerged from the Ukraine crisis with a more resilient and efficient supply chain.

III.V. The Competition

Diageo

During the COVID-19 pandemic, both Pernod Ricard Portugal and Diageo Portugal faced significant challenges due to widespread closures of bars and restaurants, which are critical channels for their products.

As PRPT did, Diageo aimed to enhance its supply chain's flexibility to adapt to fluctuating demand and mitigate disruptions. When multiple constraints of dry goods such as cardboard and glass hit the market, it generated a lack of stock in multiple high-profile references of Diageo's portfolio, creating market opportunities for PRPT. So when customers couldn't acquire the brands that they were accustomed to acquiring from Diageo, they turned to Pernod Ricard because the company had stock in-house to supply those categories in need.

Like Diageo, Pernod Ricard suffered from a lot of categories being out of stock, but some of the measures taken by the company like reducing the amount of cardboard used in the packaging of VAPs, creating a unique bottle reference for all the miniature SKUs of the portfolio, and in some cases reduce the amount of glass used in the bottles, helped Pernod to be able to secure stock faster.

So basically when the market opened the winners were the ones that had products to sell, to be able to keep up with the massive increase in demand.

Post-COVID era, Pernod Ricard Portugal started to enter categories that they weren't present before, especially in the cream licor category, which was completely dominated by Baileys (Product from Diageo). In September 2022, Macieira Cream had 0% market share, in a matured category, and between July 2023 and June 2024, accumulated 19.7% market share, most of that shares were direct losses of the market share of Baileys. Some of Diageo's products can be seen in Appendix 5.

III.VI. Expectations and Outlooks for the Future

The Portuguese spirits market is predicted to steady growth at a steady rate for the next couple of years, with projections indicating an increase from approximately €105 million in 2023 to nearly €120 million by 2028, reflecting an annual growth rate of 2.1%. This growth is driven by a growing burgeoning cocktail culture in urban centers like Lisbon and Porto, where consumers are increasingly seeking premium spirits and tailored-made experiences.

This year 2024, Pernod Ricard Portugal was able to overthrow their direct competition, Diageo, as the #1 wine and spirits company in Portugal, and it's looking to maintain that position. PRPT will keep focusing on premiumization and innovation to meet the evolving consumer trends.

The company will continue to capitalize on the rebranding made to their “home brand” Macieira, following up the launch of Macieira Cream which has been instrumental in boosting export and domestic sales gaining already 20% market share in its category. This year they launched Macieira Salty Caramel which has already surpassed initial expectations.

PRPT will continue to invest as well in their two main battlegrounds, Jameson and Beefeater. Jameson with a more personalized approach using digital tools and marketing strategies to promote the brand, pushing on increasing the visibility that the brand already has, as well as keeping a strong presence in the main festivals and events in Portugal. With the beefeater battleground, they will continue to explore the flavored gin market and at the same time the low-alcohol and health-conscious references such as Beefeater Light. Both of these battlegrounds will continue to grow in the RTD category to respond to the consumer's need to have easy and practical forms to consume.

In alignment with global sustainability trends, Pernod Ricard will continue to invest in sustainable practices across its operations. This commitment will not only enhance brand reputation but also resonate with environmentally conscious consumers, thereby strengthening the company's market position.

Furthermore, the company is integrating advanced technologies, including artificial intelligence, to optimize its supply chain and enhance operational efficiency. This technological adoption is expected to improve responsiveness to market changes and consumer demands.

IV. Teaching Notes

IV.I Overview

This case study focuses on Pernod Ricard Portugal, a major player in the wine and spirits industry, and explores how the company successfully navigated the disruptive impacts of the COVID-19 pandemic and the war in Ukraine. The study delves into the strategic responses adopted by Pernod Ricard Portugal, emphasizing supply chain adaptability, innovation, and market responsiveness, which ultimately allowed the company to surpass its competitors and become the market leader in Portugal in 2024.

The topics discussed include the challenges faced by multinational companies in volatile environments, the role of dynamic capabilities and strategic foresight in overcoming disruptions, and the critical importance of innovation and sustainability in maintaining competitive advantage. Students are invited to analyze Pernod Ricard Portugal's response to these disruptions through various lenses, including risk management, supply chain optimization, and strategic innovation.

As a result, the key learning objectives derived from this case study are:

- Understand the challenges posed by external disruptions to supply chains and market dynamics.
- Examine the application of dynamic capabilities and strategic foresight in crisis management.
- Evaluate the significance of innovation and sustainability in achieving competitive advantage.
- Analyze the role of market trends and consumer behavior in shaping strategic decisions.
- Compare and contrast different approaches to disruption management, using Diageo as a benchmark competitor.
- Make recommendations for future-proofing multinational supply chains against uncertainty.

Students should prepare by reading the case and reviewing relevant theoretical frameworks such as the Resource-Based View (RBV), Dynamic Capabilities View, and Strategic Foresight. This case study offers a unique perspective on the highly competitive wine and spirits industry in Portugal and invites students to engage in practical, data-driven discussions about managing crises and driving strategic innovation. By engaging with this case, students can develop actionable insights and recommendations for multinational companies operating in uncertain and complex environments.

IV.I Case Questions

1) ***What measures were taken by Pernod Ricard, to mitigate the impacts in their supply chain caused by COVID-19 and the war in Ukraine?***

Students are expected to identify and analyze the measures Pernod Ricard implemented to counteract the disruptions caused by these external crises. They should focus on supply chain adaptations such as supplier mapping, inventory optimization, sustainable sourcing, and logistics diversification. Using supply chain management frameworks, students should explain how these measures helped the company address challenges like raw material shortages, shipping delays, and cost increases while maintaining operational continuity.

The dual crises of COVID-19 and the war in Ukraine created significant challenges to global supply chains. These disruptions affected raw material availability, logistics, and production timelines. Pernod Ricard implemented a comprehensive set of measures to ensure operational continuity, mitigate risks, and capitalize on emerging opportunities in a volatile market environment. Below is an analysis of these measures, aligned with key supply chain management frameworks:

Measures for Suppliers:

Mapping Critical Suppliers: Pernod Ricard identified critical suppliers and raw materials that were most at risk of disruption. By analyzing geographic and geopolitical vulnerabilities, such as suppliers based in conflict zones or heavily impacted by COVID-19, the company ensured a detailed understanding of potential bottlenecks.

Supplier Diversification: The company diversified its supplier base to reduce dependency on any single source or region. For instance, raw materials like grains and sugarcane, which are essential for spirits production, were sourced from multiple regions to buffer against localized disruptions.

Strengthened Relationships: Pernod Ricard deepened collaboration with suppliers through long-term contracts and joint risk mitigation strategies, enhancing supply chain resilience.

Measures for Inventory:

Safety Stock Management: To address shipping delays and raw material shortages, Pernod Ricard strategically increased safety stock levels for high-demand products and critical inputs. This approach balanced the need for inventory security with the cost implications of holding additional stock.

Demand Forecasting and Scenario Planning: Using advanced analytics, Pernod Ricard improved demand forecasting accuracy, enabling them to adjust inventory levels dynamically and reduce excesses or shortages in different market conditions.

Measures for flexibility:

Alternative Transportation Routes: Disruptions in logistics due to the war in Ukraine and pandemic restrictions necessitated the use of alternative shipping routes and modes. For example, Pernod Ricard leveraged multimodal transportation (combining sea, rail, and road) to ensure timely delivery.

Local Sourcing for Distribution: In markets like Portugal, the company relied more heavily on local sourcing for secondary packaging materials and ingredients, reducing dependence on global logistics.

Enhanced Communication: Real-time communication with logistics partners allowed Pernod Ricard to respond quickly to delays or changes in shipping conditions, ensuring smoother operations.

Increased Branch Autonomy: Pernod Ricard's decentralized management structure empowered regional hubs like Pernod Ricard Portugal to make swift, localized decisions, adapting global strategies to specific market conditions.

Cross-Functional Coordination: Enhanced coordination between production, procurement, and logistics teams ensured that supply chain adjustments were seamless and well-integrated.

Sustainable Sourcing Initiatives:

Reduction of Glass Consumption: Pernod Ricard implemented measures such as a single reference of a glass bottle for all their 20cl SKU's, in order to be more sustainable but at the same time decrease the need for glass in a moment where there was an increased shortage of these dry material.

Limitations for the use of cardboard: Measures such as the limitation on VAPs production, in order to reduce the amount of cardboard use and at the same time reduce dependency on this dry good.

Measures for Digital Transformation:

Supply Chain Visibility: Pernod Ricard invested in digital tools to gain end-to-end visibility across its supply chain. This allowed the company to anticipate and address disruptions proactively, ensuring smoother operations.

Automation in Production: Automation technologies were used to streamline production processes, compensating for labor shortages caused by COVID-19 restrictions.

Measures for Consumer Behaviour shifts:

Local Brand Focus: In Portugal, the emphasis on the Macieira brand and its innovative variants (e.g., Macieira Cream) allowed the company to maintain relevance and profitability despite supply chain challenges, targeting categories that the company wasn't present before, and prioritizing local produced products due to market proximity.

Selection of Main References: To manage resource constraints, Pernod Ricard prioritized high-margin products and premium brands, aligning production and distribution efforts with consumer demand trends.

Impact of These Measures

By employing these strategies, Pernod Ricard successfully addressed challenges like:

- **Raw Material Shortages:** Supplier diversification and sustainable sourcing mitigated risks related to raw material availability.
- **Shipping Delays:** Logistics flexibility and decentralized warehousing reduced the impact of transportation bottlenecks.
- **Cost Increases:** Enhanced efficiency through automation and digital tools helped offset rising costs.
- **Market Responsiveness:** A focus on premiumization and localized operations ensured that consumer demand was met effectively.

These measures not only safeguarded Pernod Ricard's operations during crises but also strengthened the company's supply chain resilience, positioning it for sustainable growth in the post-crisis period. The successful navigation of these disruptions contributed to Pernod Ricard Portugal becoming the #1 company in the Portuguese wines and spirits market.

2) ***What role did innovation play in helping Pernod Ricard Portugal maintain a competitive advantage during periods of supply chain volatility and demand uncertainty?***

In this question, students should evaluate how Pernod Ricard utilized innovation to adapt to volatile market conditions and maintain its market position. They should highlight specific examples, such as the development of new products like Macieira Cream, the adoption of digital tools for supply chain monitoring, or innovative marketing strategies to address shifting consumer behavior. Students are expected to apply theories such as the Dynamic Capabilities View to explain how these practices enhanced Pernod Ricard's resilience, efficiency, and ability to meet consumer demand.

Innovation was central to Pernod Ricard Portugal's strategy for navigating supply chain disruptions and demand fluctuations caused by the COVID-19 pandemic and the war in

Ukraine. By adopting a forward-thinking approach, the company leveraged product, process, and marketing innovations to strengthen its resilience, enhance efficiency, and sustain its competitive edge. Using frameworks such as the Dynamic Capabilities View (DCV) and Innovation Management, we can analyze how innovation facilitated Pernod Ricard's success in these challenging periods.

Product Innovation

Development of New Products: Pernod Ricard Portugal introduced innovative products like Macieira Cream, a cream-based variant of its iconic Macieira brandy. This product catered to changing consumer preferences for indulgent, at-home experiences during the pandemic, demonstrating responsiveness to demand uncertainty. The company also focused on premiumization, developing high-end variants that appealed to consumers willing to invest in quality spirits despite economic challenges.

Consumer-Centric Design: Product innovations were aligned with local consumer tastes and preferences. Macieira Cream, for instance, was tailored to Portuguese consumers who sought accessible, novel flavors.

Dynamic Capabilities View: Product innovation reflects the company's ability to sense changing market conditions, seize opportunities, and reconfigure resources to address evolving consumer needs effectively.

Process Innovation

Adoption of Digital Tools for Supply Chain Monitoring: Pernod Ricard implemented advanced digital tools to enhance visibility and agility in its supply chain. These tools enabled real-time tracking of raw materials, production, and distribution, allowing the company to proactively address disruptions. By integrating predictive analytics, the company optimized inventory management and demand forecasting, reducing costs and ensuring timely delivery.

Automation in Production: Automation technologies were deployed to streamline production processes, compensating for labor shortages and improving efficiency. These innovations not only mitigated supply chain risks but also positioned Pernod Ricard for long-term operational scalability.

Marketing and Consumer Engagement Innovation

Digital Marketing and E-Commerce Expansion: During the pandemic, Pernod Ricard pivoted to digital platforms to reach consumers, leveraging e-commerce and online marketing campaigns to boost sales. In particular the creation of social media pages like "Cocktails at home" to promote at-home consumption and boost proximity with customers. This strategy was especially effective in engaging consumers who shifted to at-home consumption. The company also utilized data-driven insights to personalize marketing efforts, strengthening customer loyalty and ensuring its brands remained top-of-mind.

Localized Branding and Storytelling: Pernod Ricard highlighted the heritage of brands like Macieira, reinforcing their connection to Portuguese culture, which included a change in logo and re-branding to a more modern profile, pivoting the idea that Macieira is a spirit for older generations. This innovative storytelling approach differentiated the brand in a crowded market.

Dynamic Capabilities View: Marketing innovations exemplify the company's ability to reconfigure consumer engagement strategies to address external challenges while capitalizing on shifting behaviors.

Resilience Through Sustainability-Focused Innovation

Sustainable Sourcing and Packaging: Pernod Ricard's focus on sustainability drove innovations such as biodegradable packaging and partnerships with local farmers for eco-friendly raw materials. These efforts aligned with consumer preferences for sustainable products while reducing the impact of raw material shortages.

Long-Term Investment in Biodiversity: The company's agricultural biodiversity projects ensured the resilience of raw material supplies, showcasing innovation as a means of addressing both immediate and long-term risks.

Dynamic Capabilities View: Sustainability-focused innovation illustrates the company's proactive reconfiguration of resources to meet both consumer and operational demands.

Impact of Innovation on Competitive Advantage

By integrating innovation across products, processes, and consumer engagement strategies, Pernod Ricard Portugal was able to:

- **Enhance Resilience:** Digital tools, automation, and supplier collaboration reduced the impact of supply chain disruptions.
- **Boost Market Relevance:** Innovative products like Macieira Cream addressed shifting consumer demands, solidifying market share.
- **Strengthen Operational Efficiency:** Process innovations reduced costs and improved responsiveness to external shocks.
- **Drive Consumer Loyalty:** Personalized marketing and storytelling fostered deep connections with consumers, ensuring brand loyalty in uncertain times.

Pernod Ricard Portugal's commitment to innovation, anchored by the principles of the Dynamic Capabilities View and Innovation Management, allowed the company to adapt to volatile conditions and maintain its competitive advantage. These innovations not only addressed immediate challenges but also set the stage for sustainable growth and market leadership in the Portuguese wines and spirits sector.

3) ***What factors should be considered in designing alternative future scenarios to mitigate issues in Pernod Ricard's supply chain?***

Students are expected to propose a structured approach for creating robust future scenarios that anticipate and mitigate potential supply chain disruptions. They should consider factors like geopolitical risks, climate change, supplier diversification, technological advancements, and consumer behavior shifts. Applying frameworks such as scenario planning and risk management, students should outline key priorities for Pernod Ricard, including flexibility, sustainability, and digital transformation. This analysis should aim to ensure the resilience and adaptability of the supply chain in a rapidly changing global environment.

To prepare for and mitigate potential disruptions in its supply chain, Pernod Ricard must adopt a structured approach to scenario planning and risk management. By considering a broad spectrum of factors: geopolitical risks, technological advancements, consumer behavior shifts, and supplier diversification, PR can enhance supply chain resilience and adaptability.

Geopolitical Risks

- **Factors to Consider:**
  - Continued tensions in regions like Ukraine and other geopolitical flashpoints, like for example the middle east.
  - Trade policy shifts, tariffs, and regulatory changes that could impact raw material sourcing or distribution.
  - Political instability in supplier regions leading to supply constraints.
- **Scenario Planning Approach:**
  - Develop multiple geopolitical scenarios (e.g., escalation, de-escalation, or economic sanctions) and assess their potential impact on raw materials, costs, and logistics.
  - Maintain a diversified supplier base to reduce dependency on any one region.
- **Key Priority:** Create alternative supply chain pathways and establish strong relationships with suppliers in geopolitically stable regions.

Supplier Diversification

- **Factors to Consider:**
  - Heavy reliance on specific suppliers or regions creates vulnerabilities to disruptions.

- Lack of alternative suppliers for critical inputs such as specific grains or packaging materials.
- **Scenario Planning Approach:**
    - Analyze supply chain dependencies and map critical suppliers.
    - Develop dual-sourcing strategies and establish regional supplier hubs to ensure redundancy.
- **Key Priority:** Focus on building a network of local and regional suppliers to balance cost efficiency with risk mitigation.

Technological Advancements

- **Factors to Consider:**
    - Emerging technologies like blockchain for supply chain transparency.
    - Automation and AI for predictive analytics and supply chain optimization.
    - Potential vulnerabilities to cyberattacks in digitized systems.
- **Scenario Planning Approach:**
    - Explore scenarios with varying levels of technological adoption and potential risks (e.g., high digital integration vs. low integration with manual processes).
    - Invest in cybersecurity and backup systems to secure digital supply chain tools.
- **Key Priority:** Leverage advanced digital tools to enhance visibility and responsiveness while ensuring robust cybersecurity.

Shifts in Consumer Behavior

- **Factors to Consider:**
    - Changing preferences for premium, sustainable, or locally sourced products.
    - Increased e-commerce sales channels.
    - Sensitivity to price fluctuations due to economic conditions.
- **Scenario Planning Approach:**
    - Develop demand scenarios reflecting diverse consumer preferences, including a shift toward sustainability or price sensitivity.
    - Align product offerings and supply chain strategies to address emerging trends.
- **Key Priority:** Integrate consumer insights into supply chain planning and maintain agility to adapt to shifting demand patterns.

Financial and Economic Risks

- **Factors to Consider:**
    - Inflationary pressures leading to increased raw material and logistics costs.
    - Currency fluctuations affecting global operations.

    - Rising taxes on alcohol from local governments.
- **Scenario Planning Approach:**
    - Build financial models to simulate the impact of various economic conditions, from high inflation to recession.
    - Hedge currency risks and negotiate long-term contracts with suppliers to stabilize costs.
- **Key Priority:** Strengthen financial resilience through cost optimization and dynamic pricing strategies.

Strategic Partnerships and Collaboration

- **Factors to Consider:**
    - Dependency on third-party logistics providers or key distributors.
    - Collaboration opportunities to co-develop sustainable solutions.
- **Scenario Planning Approach:**
    - Identify potential partnership scenarios, including co-innovation with suppliers or shared logistics infrastructure.
    - Develop contingency plans for disruptions in partnerships or third-party operations.
- **Key Priority:** Foster a collaborative ecosystem to enhance supply chain flexibility and innovation.

Frameworks for Designing Scenarios

- **Scenario Planning:**
    - Create plausible future scenarios by combining key uncertainties (e.g., climate impact and geopolitical risks).
    - Prioritize scenarios based on likelihood and impact to focus on high-priority mitigation strategies.
- **Risk Management:**
    - Use tools like risk heatmaps to assess vulnerabilities in the supply chain.
    - Implement proactive risk mitigation measures, such as diversification, digitalization, and supplier audits.

To mitigate future supply chain disruptions, Pernod Ricard must design robust alternative scenarios addressing geopolitical, environmental, technological, and consumer-driven factors. By applying scenario planning and risk management frameworks, the company can prioritize flexibility, sustainability, and digital transformation. These measures will ensure Pernod

Ricard's supply chain remains resilient, adaptive, and capable of supporting long-term business growth in an unpredictable global environment.

V. Conclusions and Limitations

The development of this case study, alongside an in-depth analysis of Pernod Ricard's response to supply chain disruptions and innovation practices, has provided valuable insights into the strategies required to navigate volatile global environments. Through this research, I have gained a deeper understanding of how a global organization like Pernod Ricard manages external crises, innovates to maintain competitiveness, and prepares for future uncertainties in a highly competitive and ever-changing industry.

Pernod Ricard Portugal's ability to sustain its market position amidst significant challenges was driven by proactive supply chain measures, including supplier mapping, inventory optimization, and diversification. Moreover, its emphasis on innovation, demonstrated by new product launches such as Macieira Cream and digital advancements in supply chain monitoring, further solidified its resilience and adaptability. These strategies, combined with a strong focus on sustainability and consumer-centric approaches, enabled the company to maintain operational continuity and align with shifting consumer expectations during periods of disruption.

This research also highlighted the importance of scenario planning and risk management in mitigating potential future challenges. By considering factors such as geopolitical risks, climate change, and technological advancements, Pernod Ricard is well-positioned to build a supply chain that is not only resilient but also adaptable to a rapidly evolving global landscape.

However, this study is not without its limitations. While it provides a detailed analysis of Pernod Ricard Portugal, the findings may not fully reflect the practices or challenges faced by other subsidiaries or regions within the Pernod Ricard group. Additionally, the dynamic nature of global crises, such as the COVID-19 pandemic and the **war in Ukraine**, means that the effectiveness of strategies may vary over time and require constant reevaluation.

Future research could explore how other multinational companies in the beverage industry approach similar challenges, particularly those with different business models or supply chain structures. Such studies would contribute to a broader understanding of how companies can sustain competitive advantage while navigating complex global supply chains, ultimately providing valuable insights for the industry at large.

VI. Appendices

Appendix 1: A Practical Approach to Managing Sourcing Risk (Linton, T., & Vakil, B.,2020)

Use revenue impact and risk of supply disruption to prioritize supply-chain-resiliency measures.

HIGH REVENUE IMPACT if supplier or part(s) is lost	• Monitor suppliers 24/7. • Source from two suppliers (75%–25%) rather than one. • Map suppliers’ manufacturing, warehouse, and distribution sites to ensure they’re not all in the same region. • Identify the Tier 2 suppliers that Tier 1 suppliers use for critical parts or materials. • Buy insurance to cover profits lost from a disruptive event at critical suppliers’ sites.	• Monitor suppliers 24/7. • Buy insurance to cover profits lost from a disruptive event at critical suppliers’ sites. • Work with sole-source suppliers to develop alternate source. • Know where suppliers build and store your parts and raw materials. • Ask sole-source suppliers to build and store parts at alternate sites. • Identify and monitor the sub-tier suppliers that your Tier 1 suppliers use for critical parts or materials. • Ensure Tier 1 suppliers have comprehensive risk management programs (i.e., they map and monitor their suppliers, adding alternate sources for their highest-risk suppliers).
LOW REVENUE IMPACT if supplier or part(s) is lost	• Monitor suppliers for shifts that might increase their risk, such as a corporate restructuring, M&A, profit warning, lawsuits, etc. • Know where suppliers’ manufacturing and warehousing sites are located, and seek geographic diversity to avoid total loss of supply in future natural disasters.	• Monitor suppliers 24/7. • Know where suppliers build and store your parts and raw materials. • Identify sub-tier suppliers and sites. • Ask suppliers to build and store parts in multiple sites

	• Identify suppliers that rely on the same sub-tier suppliers for critical materials.		(particularly when an alternate supplier cannot be found). • Ensure Tier 1 suppliers have comprehensive risk management programs (i.e., they map and monitor their suppliers, adding alternate sources for their highest-risk suppliers).	
	Two or more sources are qualified.	Two or more sources are qualified, but all business is routed to one supplier.	Alternate source is available but needs to be qualified before using.	No alternate source is available or possible.
	LOW RISK OF SUPPLY DISRUPTION		HIGH RISK OF SUPPLY DISRUPTION	

Appendix 2: Main Definitions of Dynamic Capabilities (Barreto, 2010)

Study	Definition
Teece & Pisano (1994)	The subset of the competences and capabilities that allow the firm to create new products and processes and respond to changing market circumstances
Teece, Pisano, & Shuen (1997)	The firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments
Eisenhardt & Martin (2000)	The firm's processes that use resources—specifically the processes to integrate, reconfigure, gain, and release resources—to match and even create market change; dynamic capabilities thus are the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve, and die
Teece (2000)	The ability to sense and then seize opportunities quickly and proficiently
Zollo & Winter (2002)	A dynamic capability is a learned and stable pattern of collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness
Winter (2003)	Those (capabilities) that operate to extend, modify, or create ordinary capabilities
Zahra, Sapienza, & Davidsson (2006)	The abilities to reconfigure a firm's resources and routines in the manner envisioned and deemed appropriate by its principal decision maker(s)
Helfat et al. (2007)	The capacity of an organization to purposefully create, extend, or modify its resource base
Teece (2007)	Dynamic capabilities can be disaggregated into the capacity (a) to sense and shape opportunities and threats, (b) to seize opportunities, and (c) to maintain competitiveness through enhancing, combining, protecting, and, when necessary, reconfiguring the business enterprise's intangible and tangible assets

Appendix 3: Geographical distribution of Pernod Ricard Portugal Sales

Distribuição geográfica das vendas e prestação de serviços							
	Mercado	Mercado nacional		Mercado internacional			
	Total	Subtotal	%	Subtotal	%	Comunitário	Extracomunitário
2022	50 845 256,51 €	49 668 557,30 €	97,69%	1 176 699,21 €	2,31%	0,87%	1,44%
2021	45 228 555,51 €	44 346 969,11 €	98,05%	881 586,40 €	1,95%	0,63%	1,32%
2020	31 939 615,18 €	30 939 615,30 €	96,87%	999 999,88 €	3,13%	1,13%	2,00%
2019	32 726 455,62 €	31 940 863,93 €	97,60%	785 591,69 €	2,40%	0,79%	1,61%

Source: InformaDB - PERNOD RICARD PORTUGAL - DISTRIBUIÇÃO, S.A. full report 11/2024

Appendix 4: Pernod Ricard Portugal Products

Jameson

Beefeater

Beefeater Light

Beefeater Flavours

Macieira

Macieira Cream

Macieira Cream Salty Caramel

Appendix 5: Diageo Portugal Products

Gordon's

Gordon's 0.0

Baileys

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