

# Risk and Opportunity of Diageo: PESTEL and SWOT Analysis

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## Abstract:

This research talks about Diageo, the world-famous wine factory, and analyses the risks and opportunities through PESTEL Analysis and SWOT Analysis. The market capitalization, the timing and results of new projects, and the number of brands and revenue are collected from Yahoo finance and the company's 2024 annual financial report. According to these analysis methods, this research believes that Diageo still possesses a strong power to keep going toward long-term prosperity as the world economy improves, even though there are some legal disputations. Diageo's huge number of brands and complete production chain can help Diageo avoid risks to a large extent or stop the risk from expanding further. These capabilities result from Diageo's long-term accumulation and strong management capabilities. This research provides an investment recommendation to investors interested in Diageo and provides a useful method to evaluate the business's performance and the risks and opportunities it faces.

**Keywords:** Diageo, Risk and Opportunity, PESTEL Analysis, SWOT Analysis

## 1. Introduction

This research analyses the risks and opportunities of Diageo, the world's leading multinational wine factory. In contemporary society, people will chase mental satisfaction rather than physical satisfaction. Festivals, celebrations, parties, ceremonies, and scenes in the extensive collections represent connections between human spirits. Historically, people have often celebrated with alcohol. According to Kolleen M. Guy, associate professor of history at the University of Texas at San Antonio and author of *When Champagne Became Champagne* in France light-colored sparkling wine has long been associated with luxury and the gatherings of European nobility and royal courts [1]. According to her, the drink was traditionally opened at religious ceremonies like as weddings and christenings. Therefore, the demand for alcohol springs up as time passes. Diageo catches this opportunity and merges two companies to build up Diageo. Diageo, a global leader in the alcoholic beverage industry, is renowned for its diverse portfolio of iconic brands, including Johnnie Walker, Smirnoff, Guinness, and Baileys. Established in 1997 through the merger of Guinness and Met-Met, Diageo operates in nearly 180 countries and offers an extensive selection of spirits, beers, and wines. With over 200 brands, the company's presence in the global market is significant, making it a prominent player in the luxury spirits sector. This research will explore Diageo's business landscape using PESTEL and SWOT analyses to assess

the macroeconomic factors and competitive dynamics shaping its operations. These tools will explore the political, economic, sociocultural, technological, environmental, and legal influences on Diageo while also evaluating its internal strengths and weaknesses alongside the external opportunities and threats it faces [2]. By comprehensively analysing these factors, this report aims to provide strategic insights into Diageo's position in the global market and the future opportunities that could enhance its growth and competitive advantage.

## 2. Diageo introduction

Diageo is one of the world's leading multinational wine groups, with a portfolio of outstanding brands, including spirits and beers. Diageo was formed in 1997 by merging two companies, Met-Met and Guinness. The company brings together a range of outstanding brands, including Johnnie Walker, J&B, Windsor and other whisky collections; Vodka series such as Smirnoff, Cîroc, and KetelOne; as well as Baileys, Captain Morgan, Tanqueray, Guinness and Shuijingfang. With more than 200 brands sold in almost 180 countries, Diageo offers something for every taste and celebration.

## 3. Method

The methods used in this analysis are PESTEL analysis and SWOT analysis.

Marketers use the PESTEL framework or tool to examine

and monitor macro-environmental (external marketing environment) factors that have an impact on companies, industries, or organizations [3]. It studies the political, economic, social, technological, environmental, and legal aspects of the external environment. PESTEL stands for political, economic, sociocultural, technological, environmental, and legal analysis. It is used to examine a company's PESTELs. In addition, how these elements affect business and strengthen business in the market. Based on this analysis, people can better understand the external elements of enterprises, and due to the research results, managers may make better decisions about the company's future, including organizational structure and product development.

SWOT represents Strengths, Weaknesses, Opportunities, and Threats. SWOT analysis is a framework that organizations can utilize to assess and comprehend internal and external aspects that might bring about opportunities or risks [4]. The internal and external competitive environments form the foundation of SWOT analysis. In a competitive context, the major internal pros and cons, external opportunities and threats directly related to the research subject are enumerated in the situation analysis through investigation. They are arranged in a matrix format and then combined with the concept of system analysis. Various factors are matched with each other for analysis, and some corresponding conclusions are drawn. Generally, the investigation results lead to definite decisions. In this way, a comprehensive, systematic and accurate study of the situation in which the research object is located can be conducted. Based on the research results, corresponding development strategies, plans and countermeasures can be formulated. S stands for strength, W for weakness, O for opportunity, and T for threat.

## 4. PESTEL Analysis

Diageo's possible external factors are trade regulation, geopolitical volatility, climate change, supply chain, new technology, product quality and transformation. Then, this report will analyse these macro-environment factors through PESTEL Analysis and summarise the risks and opportunities of Diageo from political, economic, sociocultural, technological, environmental and legal aspects.

### 4.1 Political

Diageo should face geopolitical challenges with over 200 brands and sales in 180 countries [5]. The war or increases of indirect tax may result in financial loss. The 2024 financial report of Diageo points out the dangers related to continued conflicts in the Middle East and Europe, global inflation, debt crises, and energy price increases, all of which put a strain on public finances and necessitate the

need for additional tax revenue. A volatile world landscape will make importation and exportation challenging, and an unstable country cannot provide a profitable trade policy. Therefore, this country may increase its tax, which not only has a destructive impact on import and export trades but also limits the generation of products if Diageo has plants and assembly lines. In addition, regulations in significant markets may also prohibit or restrict the marketing or sale of alcohol due to public health concerns. Additionally, introducing additional trade barriers and/or disproportionate tax increases may be prompted by trade tensions and/or fiscal pressures, which could cause financial loss. These are political factors that influence Diageo.

### 4.2 Economics

From an economic aspect, Diageo is affected by inflation, GDP growth rate, unemployment, and global trade tensions. Furthermore, the supply chain is one of the most important economic factors that Diageo is likely to be affected. The disruption of the supply chain due to severe weather, global trade tensions or geopolitical tensions can result in extended transportation durations, supplier bankruptcy, and scarcity of materials, potentially impeding business and fiscal outcomes [6].

### 4.3 Sociocultural

The sociocultural aspect of the world has had a significant influence on Diageo's sales. People's acceptance of alcohol determines whether the products of Diageo will be popular in this country. For example, people may choose to celebrate with spirit as a way of celebration at parties, festive banquets, farewell parties, and ceremonies [7]. The way people choose to use Diageo's products, which is based on their traditions, level of education and customs, influences Diageo's performance [8].

### 4.4 Technological

Diageo must rely on new, efficient technology for spirit-making, spirit-saving, and transformation as a manufacturing company. So, relative technology development has a significant impact on Diageo's production. Furthermore, cyber and IT security can influence Diageo because of personal and consumer data loss. When there is the new technology of spirit-making, saving, and transformation, this is a new opportunity for Diageo. New tech always means high efficiency and high productivity, which can bring Diageo more profit.

### 4.5 Environmental

The environmental factors have a significant impact on Diageo's performance. Factors such as climate change, droughts and floods will influence production. Cereals and fruits are the raw material of the spirit, and their growth

depends on the natural environment. Any extreme weather or destruction caused by nature can destroy these raw materials, so the spirit production must stop or be dragged. Therefore, Diageo should stand financial loss.

## 4.6 Legal

Relative laws and policies can limit some decisions made by Diageo. Different countries' trade policies influence Diageo's decisions when choosing to export [9]. Policies usually include public health, mode of transportation, tariffs, and method of sale. These are all legal factors that affect the sale and production of Diageo.

According to the PESTEL analysis, this research considers Diageo to have many growth opportunities in the global market because "Peace and Development" is the central theme of the contemporary world. So, Diageo does not need to worry about the world becoming unstable, which influences Diageo's performance in the long term. Furthermore, Diageo has to insist on developing new techniques for making and storing wine. These new techniques can increase Diageo's productivity, and high productivity usually means lower goods prices and greater demand.

## 5. SWOT Analysis

### 5.1 Strength

#### 5.2 Brand effect

Diageo's strength is the brand effect. Diageo is one of the most popular and effective brands of spirit. As a premium brand of spirits, Diageo represents "luxury", "tasteful", and "honourable" When people buy spirits which Diageo produces, they often believe that they are tasteful and that Diageo satisfies their self-esteem. Therefore, Diageo's brands, such as Johnnie, Walker, and Baileys, do not need extra advertisement [10]. People's education of these brands is successful, so Diageo does not need extra advertising on its brand, and the cost could decrease.

Moreover, people will still stick to the spirits produced by Diageo, even if Diageo does not advertise it too much. When people think of whisky, they think of Johnnie Walker. This is one of Diageo's advantages as a premium spirits brand, with far-reaching benefits.

#### 5.2.1 Broad producing and sale network

Diageo possesses a vast production and sales network; it has 132 production sites and sells to more than 180 countries. Diageo owns a broad assembly line that includes planting, generating, manufacturing, transportation, and selling. The corporation does business with more than 132 production sites. It also runs a brewery and distillery in Dublin and thirty distilleries in Scotland. Additionally, it

ran ten production facilities and twelve breweries throughout Africa that offered bottling, blending, and malting services. It ran twelve production facilities in North America. In addition, it ran twelve production plants in Guatemala, Brazil, and Mexico.

Diageo also oversees 12 facilities that offer bottling, malting, and mixing services. In India, fifteen industrial facilities are run. It oversees and runs several leased or licensed manufacturing sites. This huge network enables Diageo to maintain a robust supply chain, which helps the company reduce risks in importing local goods and storage.

#### 5.2.2 Weakness

As the main product of Diageo, alcohol is so sensitive that several countries have issued special laws on alcohol [11]. "Minors are not allowed to drink alcohol", "Alcohol is not allowed under the age of 21", "Drunk driving is prohibited". All of these laws represent that alcohol is regarded as a regulated product. Therefore, while Diageo possesses a completed supply chain and sell chain, trades about spirit are still regulated by local government and laws. If people violate laws when they drink spirits from Diageo, it will influence the brand's reputation. Diageo is trapped in a legal dispute. Business mogul Sean 'Diddy' Combs filed a lawsuit against the British beverage company that co-owns his spirits brands, alleging that Diageo, the world's largest spirits company, 'kneecapped' the sales growth of his Ciroc and DeLeon labels for nearly ten years, depriving them of resources in the process while better marketing its other brands, like Don Julio and Casamigos. In a racial discrimination lawsuit filed on Wednesday in Manhattan's New York Supreme Court, Diddy's Combs Wines and Spirits LLC claims that Diageo treated its DeLeon tequila and Ciroc vodka as inferior "Black brands" or "ethnic brands" that should be marketed to "urban" consumers. This will affect Diageo's sales and trade among people of colour.

### 5.3 Opportunity

According to the PESTEL Analysis mentioned in this research, agriculture is an essential factor that may influence the production of spirits. In 2021, Diageo invested 500 million to build a carbon-neutral whisky distillery in China, and now the distillery is completed and can work. It is said that Chinese land is full of plant nutrition and has lots of fertile soil, so China is the most suitable country for growing malt and other raw materials needed for brewing. The carbon-neutral whisky distillery in China could help Diageo double the crop yield. Furthermore, this carbon-neutral whisky distillery matches the mainstream of the world "Environmentally friendly". So, this is an excellent opportunity for Diageo.

## 5.4 Threat

Due to its wide range of products and services and its presence in several markets, Diageo is up against fierce competition from local and foreign businesses. A company's business could be threatened by the entry of new competitors into the market and by increased pressure to offer innovative products and use different package formats in different locations. This could also impede the company's plans for future growth and expansion. Anheuser-Busch InBev NV/SA, Carlsberg AS, Pernod Ricard SA, and Heineken are some of its closest rivals. Competitive rivalry may intensify due to product introductions, alliance formation, and industry consolidation.

It seems that Diageo is currently facing more opportunities. Even today, when economic development is stagnant due to the global epidemic, Diageo has successfully alleviated the economic downturn caused by the epidemic by relying on its vast and independent supply chain, which has accumulated in the past. From the market value, it can be found that Diageo's stock value has fallen sharply in 2020 and 2021. Although the current stock value is still low, this research believes that, due to Diageo's policies and its strong supply chain, Diageo's stock value will slowly recover.

## 6. Conclusion

In summary, Diageo is a major player in the worldwide spirits and alcohol market, possessing a robust portfolio of well-known brands and a wide-ranging global reach. This research has identified the main internal and external factors influencing the organisation using SWOT and PESTEL assessments. Diageo has to deal with issues like trade restrictions, tax laws, and geopolitical unrest from a political and economic standpoint. It also has to deal with supply chain interruptions and worldwide inflation. Social acceptance of alcohol, consumer preferences, and regional variations in these factors all contribute to the company's success. Technological developments offer industrial potential for efficiency, security, and creativity. Climate change is one major environmental issue affecting raw material supply. Legal factors that influence business operations include alcohol-related regulations and the potential for legal disputes. Diageo has a robust internal brand and a comprehensive production network, which provide it a competitive edge and allow it to take advantage of growth prospects, especially in growing areas like China. There are still difficulties, though, such as resolving legal issues and navigating a more cutthroat environment. How-

ever, Diageo's robust supply chain, thoughtful technological investments, and emphasis on sustainability present encouraging prospects for future expansion. Diageo is in a solid position to use its advantages, reduce risks, and keep going toward long-term prosperity as the world economy improves.

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