# Diageo shifts to selective brand disposals amid tariff pressures and investor doubts



A recent trading update from Diageo, the U.K.-based spirits powerhouse, revealed a notable shift in strategy that has piqued the interest of investors. As part of a broader “Accelerate” initiative aimed at enhancing performance, the company announced plans for “appropriate and selective disposals” of certain brands. This pivot marks a significant departure from Diageo's historical approach of maintaining a robust core portfolio, comprising stalwarts like Johnnie Walker, Captain Morgan, Smirnoff, and Guinness, while also investing in niche brands that have shown rapid growth.

The motivation behind this strategic change remains somewhat unclear, with Diageo executives offering vague explanations. CEO Debra Crew referenced the company’s prior asset sales, such as the 2018 divestment of 19 brands, including Seagram’s whiskey, for a substantial $400 million. In prior years, Diageo wisely exited the wine business—a sector that has since faced numerous challenges. More recently, the company has adopted an “asset-light” model, reducing stakes in African breweries to streamline operations.

Yet, the rationale for divesting brands, particularly given the lack of major sell-offs in over two decades, speaks to deeper concerns. Analysts suggest that pressure from ongoing U.S.-China trade tensions has intensified Diageo’s financial challenges, with estimates projecting that current tariffs could impact earnings by approximately $150 million annually. This comes at a time when inflation is affecting developed markets, and Diageo has seen its share prices drop to an eight-year low, raising alarm among investors accustomed to consistent growth.

Further complicating the landscape for Diageo are the cyclical preferences of investors, who often shift focus between size and agility within the industry. As major alcohol firms contend with evolving consumer preferences, particularly among younger demographics showing a potential pivot away from traditional spirits, Diageo must navigate these challenges adeptly. The company's historical performance, which had consistently outstripped industry averages until recent years, now draws parallels with the woes facing American packaged food companies. These companies, too, have grappled with declining consumer interest not just towards specific brands, but entire categories.

As they have sought to recalibrate their portfolios, well-known brands from companies like J.M. Smucker and Kraft Heinz have been sold off in attempts to fortify their overall business profiles. However, buyers for underperforming brands are increasingly aware of the challenges, complicating attempts to secure satisfactory sale prices. Diageo’s own stock performance suggests that investor confidence is wavering, with skepticism surrounding the potential success of planned disposals.

The ongoing tariff situation has created an environment fraught with uncertainty. Various reports indicate that significant tariffs on imports from Mexico, Canada, and China could increase costs for established brands like Johnnie Walker and Smirnoff. In light of these tariffs, major players in the alcohol industry have begun lobbying against such measures, emphasising the detrimental effects on both consumers and employment within hospitality sectors.

Diageo's latest sale strategy also comes amid a broader trend where companies in the sector are increasingly shedding weaker brands or those with stagnant growth to refocus on more profitable ventures. The apprehension surrounding Diageo's ability to effectively execute this strategy is palpable; as CEO Crew highlighted, the company cannot guard against additional escalations in tariffs or retaliatory actions, which could further stymie growth.

Industry observers note that the measures Diageo plans to employ—including advancing inventory shipments prior to tariff implementations—are tactical attempts at mitigating potential losses. However, as market conditions continue to shift, the spirits giant will need to remain agile and responsive to emerging challenges in an ever-competitive landscape.

As Diageo embarks on this transformative journey, the coming months will be crucial in determining whether its strategy will stabilise its market presence or lead to deeper ramifications in a precarious economic environment.

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* Paragraph 1 – [[1]](https://foodinstitute.com/focus/diageo-considers-american-brand-selling-strategy/)
* Paragraph 2 – [[1]](https://foodinstitute.com/focus/diageo-considers-american-brand-selling-strategy/), [[2]](https://www.reuters.com/business/retail-consumer/johnnie-walker-corona-beer-major-alcohol-firms-could-face-tariff-hit-2025-02-04/), [[5]](https://www.ft.com/content/7e7f2f1b-6d21-4929-85bf-4e5fc6ac30f0)
* Paragraph 3 – [[3]](https://www.ft.com/content/eabbaf00-fed4-416e-b86c-9b5f86fbed50), [[6]](https://www.ft.com/content/3aa077ac-3947-4e50-a753-d0890dc5f133)
* Paragraph 4 – [[4]](https://www.reuters.com/business/retail-consumer/trumps-proposed-tariffs-may-mean-higher-costs-canadian-whisky-us-2025-02-03/), [[7]](https://money.usnews.com/investing/news/articles/2025-02-04/tariffs-could-deal-200-million-blow-to-diageo-in-second-half)

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## Bibliography

1. <https://foodinstitute.com/focus/diageo-considers-american-brand-selling-strategy/> - Please view link - unable to able to access data
2. <https://www.reuters.com/business/retail-consumer/johnnie-walker-corona-beer-major-alcohol-firms-could-face-tariff-hit-2025-02-04/> - Major alcohol firms, including Diageo's Johnnie Walker and other well-known beverage brands, could face significant impacts due to new tariffs imposed by U.S. President Donald Trump on goods from Mexico, Canada, and China. Although tariffs on Canada and Mexico were paused for 30 days, a 10% levy on Chinese imports has prompted retaliatory tariffs, leading to potential risks for various companies. Diageo, Pernod Ricard, Campari, Anheuser-Busch InBev, Brown-Forman, Constellation Brands, Molson Coors, Heineken, and Becle could all experience sales and profit reductions. Key brands affected include Johnnie Walker, Smirnoff, Aperol, Budweiser, and Jack Daniel's, with exposure differing based on the company's production locations and reliance on imports. As the tariffs come into effect, these companies are expected to take measures to mitigate the financial impact.
3. <https://www.ft.com/content/eabbaf00-fed4-416e-b86c-9b5f86fbed50> - Trade tariffs are likely to cause significant disruptions in the drinks industry following the unraveling of the pandemic-era cocktail boom. President-elect Donald Trump has proposed tariffs of 25% on imports from Mexico and Canada, while China has implemented duties of up to 39% on EU brandy in retaliation to EU tariffs on Chinese electric vehicles. These tariffs would adversely affect major drinks companies including Diageo, Campari, Rémy Cointreau, and Pernod Ricard, potentially reducing earnings per share for Diageo and Campari by 8%, and for Rémy by 19%, as projected by Deutsche Bank. The industry is actively lobbying against these tariffs, emphasizing their negative impact on consumers and jobs in hospitality. Some companies, like Hennessy, sought to mitigate impact by bottling in China but faced worker strikes. Despite potential tariff hikes, some investors remain cautiously optimistic amidst early signs of market stabilization in the US.
4. <https://www.reuters.com/business/retail-consumer/trumps-proposed-tariffs-may-mean-higher-costs-canadian-whisky-us-2025-02-03/> - President Donald Trump's proposed 25% tariffs on Canada and Mexico could increase costs for Canadian whisky and other alcoholic drinks in the U.S., causing higher prices for consumers. Although these tariffs have been postponed for a month following discussions with Canadian and Mexican leaders, retaliatory measures were initially planned by Canada, including a 25% levy on U.S. imports like bourbon. Products from companies like Diageo and Brown-Forman might see price hikes, with analysts estimating up to a 10% increase in prices for brands such as Crown Royal Canadian whisky. This comes at a time when the alcohol industry is already facing declining sales, making it challenging for companies to absorb additional costs. Financially-stretched consumers may shift to cheaper alternatives, further impacting sales. The tariffs could also hinder U.S. whiskey exports due to potential retaliatory tariffs, leading to supply gluts and price wars domestically. The trade tensions threaten alcohol sales across the U.S., Canada, and Mexico, adversely affecting both the stock market and industry growth plans.
5. <https://www.ft.com/content/7e7f2f1b-6d21-4929-85bf-4e5fc6ac30f0> - Diageo has abandoned its longstanding sales growth target due to uncertainties surrounding US tariffs and weak demand in key markets. The company's sales for the six months to December fell by 0.6% to $10.9 billion, with operating profit down 4.9% to $3.2 billion. Facing pressure from investors to enhance performance, Diageo is concerned about a potential $200 million hit to operating profit if 25% US tariffs on Mexican and Canadian imports proceed. The company plans to mitigate the impact by shipping additional inventory to the US and implementing cost-cutting measures. Diageo is also selling smaller underperforming brands and considering the sale of well-known brands like Guinness to reduce debt and encourage growth. Despite recent challenges, including slumping Latin American sales and a year-over-year share price decline of 20%, CEO Debra Crew remains confident in the long-term industry outlook and Diageo's ability to outperform competitors.
6. <https://www.ft.com/content/3aa077ac-3947-4e50-a753-d0890dc5f133> - Pernod Ricard, facing uncertainty due to tariffs and slowed demand in China, has revised its sales forecast, anticipating a "low single-digit" fall in organic sales this year instead of the previously expected growth. The French spirits group, which includes brands like Absolut Vodka and Havana Club rum, has been impacted significantly by US President Donald Trump's proposed tariffs and China's new taxes on EU brandy imports related to anti-dumping measures. The measures are viewed as retaliation against higher tariffs on Chinese electric vehicles by the EU. Pernod CFO Hélène de Tissot revealed the company could face a €200 million hit in 2025 due to these tariff issues, despite efforts to mitigate some of the financial impact by altering supply chains. Related to these challenges, Pernod Ricard's sales in China dropped by 25% in the first half of the year, mainly affecting the Martell cognac brand. Long-term growth targets have also been adjusted, with expected sales increases now projected at 3-6% between 2027 and 2029, down from the previous 4-7%.
7. <https://money.usnews.com/investing/news/articles/2025-02-04/tariffs-could-deal-200-million-blow-to-diageo-in-second-half> - If the tariffs are enforced, Jhangiani said Diageo anticipates a gross impact on operating profit for the remainder of its financial year, running to June 30, of around $200 million, but has plans in place to mitigate the impact. "We feel today that we could cover around 40% of that before any pricing actions," he told journalists on a call for Diageo's interim results. CEO Debra Crew said the estimated hit was based on the current scenario and did not take into account further escalations or retaliatory actions. "We're planning for all scenarios," she said. Executives said Diageo's options to mitigate the effect of tariffs included re-allocating resources, changes to its supply chain and pricing, as well as ongoing engagement with the Trump administration. It has already implemented initiatives around "inventory management," they said, with approaches such as shipping stock into a country before duties come into force. The impending tariffs would be on the input cost, not the retail price, they added. Diageo said uncertainty around tariffs prevented it from giving clearer guidance on its future earnings on Tuesday.