

Constellation Brands: Where Should the Next Investment Go?

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Decision setting: Hypothetical executive resource-allocation exercise

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Teaching convention: The executive review and the alternatives below are fictional. They are not a disclosed Constellation Brands meeting or management proposal. Company plans and reported results are historical public information available by the cutoff.

A portfolio at a resource crossroads

Constellation Brands had built a fast-growing Beer business around Mexican brands including Modelo, Corona, and Pacifico, while continuing to operate Wine and Spirits brands such as Meiomi, Kim Crawford, Robert Mondavi, High West, and SVEDKA. On 23 April 2024, its fiscal-year 2024 Form 10-K described a company allocating resources across two businesses with different trajectories.

Beer net sales had increased 9% to \$8.16 billion, and shipment equivalents had risen 7.4%. The company attributed most of the sales increase to higher volume, which it linked to continued demand for its Mexican beer portfolio, and to selected price increases. Wine and Spirits net sales had fallen 9% to \$1.80 billion. Management attributed the decline to lower branded shipment volume, reflecting weakness in the broader wine market and in its mainstream and premium brands; price and mix partially offset the decline. It described the category slowdown as temporary, while noting muted gains in fine wine and craft spirits and growth in direct-to-consumer channels. These are the company's explanations and beliefs, not independent forecasts. [S1]

Now assume, for classroom purposes, that senior leaders are asked to review the next several years of capital allocation. This hypothetical review is not described in the company's filing. The question is not whether to abandon Beer or sell Wine and Spirits. It is how to prioritize future, potentially discretionary investment while protecting the company from both underinvestment in a growth engine and overconfidence in a forecast.

The investment choice

Constellation said its FY2025 capital expenditure plan was \$1.4-\$1.5 billion, including approximately \$1.2 billion for Beer, primarily Mexico Beer Projects. It expected to spend approximately \$3 billion on Mexico expansion, optimization, and construction across FY2025-FY2028. In FY2024, it spent over \$900 million on Mexico capacity and optimization, raising capacity from about 42 million to 48 million hectoliters. Management said Beer had adequate capacity for current needs but was adding capacity to address anticipated future demand. It said Wine and Spirits had adequate capacity for the foreseeable future. [S1]

The company also disclosed \$572.5 million in capital-expenditure purchase obligations as of 29 February 2024, primarily for equipment and services related to the Mexico Beer Projects. Management said it periodically reviews and modifies the capital program to meet current and projected needs. The public filing does not specify which future project increments remain uncommitted, what cancellation or delay would cost, or how much of the announced program could be rescheduled. [S1]

The proposed review is therefore about future allocation choices at the margin. It should not treat the full Beer plan as freely cancellable, nor assume every dollar already planned must be spent regardless of new evidence.

Exhibit 1. Selected segment evidence

Measure	Beer	Wine and Spirits
FY2024 net sales	\$8,162.6 million	\$1,799.2 million
FY2023 net sales	\$7,465.0 million	\$1,987.6 million
Year-over-year change	+9%	−9%
FY2024 shipment equivalents	418.1 million	23.8 million
FY2023 shipment equivalents	389.2 million	27.1 million
Shipment change	+7.4%	−12.2%
FY2024 gross profit	\$4,214.2 million	\$836.1 million
FY2023 gross profit	\$3,937.8 million	\$927.2 million
FY2024 segment operating income	\$1,119.8 million	\$437.4 million
FY2023 segment operating income	\$1,076.3 million	\$474.1 million

Source: [S1], FY2024 Form 10-K, Item 7, pp. 39-42. Beer shipment equivalents are branded 24-pack, 12-ounce case equivalents; Wine and Spirits shipment equivalents are branded 9-liter case equivalents. The units are not directly comparable. Segment operating income is not a project return or a measure of incremental return on invested capital.

For Beer, the company attributed \$564.5 million of the FY2024 sales increase to shipment volume and \$147.6 million to pricing, partly offset by an \$11.5 million decline from craft beer divestitures. For Wine and Spirits, the \$188.4 million reported sales decline included \$149.9 million of organic decline and \$38.5 million related to the Wine Divestiture. Organic sales reflected a \$175.2 million decline in branded shipment volume, partly offset by \$21.4 million

from pricing and \$4.3 million from favorable product mix. [S1]

The comparison gives the Beer case momentum, but not a full project appraisal. Segment revenue and operating income do not show whether the next brewery module will earn an attractive return, how quickly it will be utilized, or what share of volume growth depends on capacity. Nor do Wine and Spirits' declines reveal whether the cause is temporary category weakness, execution, brand mix, or some combination.

Different businesses, possible connections

Constellation's strategy emphasized higher-end brands, consumer-led innovation, advantaged routes to market, and disciplined capital deployment. It described Beer and Wine and Spirits as separate commercial teams and said the businesses generally use separate U.S. distribution networks. These distinctions may limit direct selling-cost synergies. They do not establish that the businesses cannot share useful capabilities in consumer research, data, procurement, digital commerce, talent, or brand development. [S1]

The company's recent portfolio actions also point in more than one direction. It divested Four Corners and Funky Buddha and sold its Daleville facility, describing those choices as supporting focus on higher-end imported Beer. It also acquired Domaine Curry, describing that investment as supporting Wine and Spirits premiumization. The disclosed rationales show management has made selective portfolio choices; they do not resolve how the next incremental dollar should be used. [S1]

Competition complicates the Beer outlook. Molson Coors reported that U.S. volume growth in 2023 was partly driven by a shift in consumer purchasing behavior within the premium beer segment. It also reported higher material and manufacturing costs, partly offset by savings and volume leverage. This competitor filing suggests premium demand is contested and that cost execution matters, but it cannot validate Constellation-specific growth assumptions. [S3]

What research says-and does not say

Research on diversification offers no universal rule to expand or refocus. Schommer, Richter, and Karna's meta-analysis combined 267 studies, 387 effect sizes, and more than 150,000 firm observations. Their meta-regression found a positive coefficient for related diversification ($\beta = 0.060$, $p < .01$) and a negative coefficient for unrelated diversification ($\beta = -0.050$, $p < .01$). The relationship for unrelated diversification improved over time (time interaction $\beta = 0.112$, $p < .01$); the related-diversification time effect was not significant. The authors discuss resource-sharing benefits and coordination costs and caution that firm capabilities differ. These are broad, heterogeneous associations; they do not estimate Constellation's returns or establish whether Beer and Wine and Spirits are related in ways that create value. [A1]

A beer-industry study adds a narrower operating mechanism. Blundell and Wilson used U.S. retail scanner data and difference-in-differences methods to examine 23 acquisitions of craft breweries by macrobreweries from 2008 to 2017. In acquired firms' previously served stores, the preferred matched estimate showed product variety fell about 12.6%-14.0%; acquired products reached 163% more stores and 145% more counties. An illustrative calculation found net variety rose by 1,388 store-product pairs on average, with substantial variation among acquisitions. The study concerns acquired craft breweries, not Constellation's Mexico capacity projects; it does not estimate project returns or consumer welfare. It suggests distribution reach and portfolio pruning can coexist, with context-dependent results. [A2]

Three plausible approaches

The hypothetical review can choose among three starting positions:

1. **Continue the announced Beer-led plan.** Preserve the planned pace of modular Beer capacity expansion, while pursuing Wine and Spirits recovery mainly through brand, channel, and efficiency initiatives.
2. **Rebalance discretionary investment.** Protect commitments and Beer capacity with demonstrable strategic value, but direct more future discretionary resources toward Wine and Spirits commercial execution, premium brands, and channels.
3. **Stage both portfolios against common gates.** Commit only the next Beer increments that clear defined demand, utilization, cost, and return conditions; support Wine and Spirits initiatives when brand or channel evidence clears comparable tests; reassess on a set schedule.

The options are not claims about actual management plans. Any recommendation should say what evidence would cause leaders to speed up, slow down, or reverse course. Existing purchase obligations, distributor relationships, construction timing, brand health, and customer demand may affect how quickly resources can shift.

Discussion questions

1. Which approach would you recommend for future discretionary investment? What is the strongest argument against it?
2. What evidence would show whether Beer capacity, rather than brand demand, distribution, or execution, is the binding growth constraint?
3. How should management distinguish a temporary Wine and Spirits downturn from a lasting change in consumer demand or brand competitiveness?
4. What specific capabilities, if any, can the two businesses share? What would count as evidence of a real synergy?
5. What obligations and decision rights must be clarified before leaders treat planned Beer capex as flexible?
6. What measures and review triggers should be used across both businesses? Which measures should remain segment-specific?

Sources and cutoff

The case uses information available by 23 April 2024. It contains no later company results or outcomes.

- **[S1]** Constellation Brands, FY2024 Form 10-K, filed 23 April 2024. [SEC filing](#)
- **[S3]** Molson Coors Beverage Company, FY2023 Form 10-K, filed 20 February 2024. [SEC filing](#)
- **[A1]** Schommer M, Richter A, Karna A. "Does the Diversification-Firm Performance Relationship Change Over Time? A Meta-Analytical Review." *Journal of Management Studies*. 2019;56(1):270-298. [Full text and DOI](#)
- **[A2]** Blundell W, Wilson K. "Acquisitions, Product Variety, and Distribution in the U.S. Craft Beer Industry." *Economic Inquiry*. 2023;61(4):1053-1076. [Full text and DOI](#)

The allocation review and alternatives are fictional teaching constructs. The company's reported results and plans are historical. No later investment decisions, financial results, or other outcomes are included.