IWSR
the Source for Wine & Spirits Analysis
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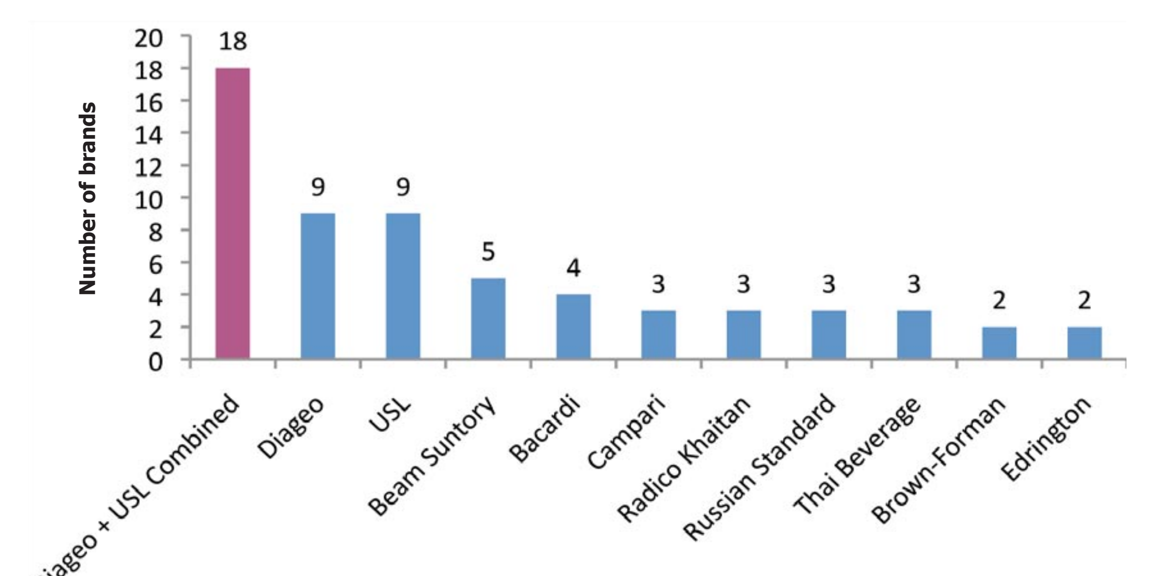
Emerging-market brands show strength in Real 100

Number of brands major companies have in the Real 100



Source: The IWSR Database 2014 ©

International Emerging-market brands continue to make their presence felt in the IWSR's Real 100 rankings. Growth of global spirits slowed to 0.1% last year, reaching 3.09bn nine-litre cases. This softening of the global market was largely due to a slowdown in emerging economies, which in turn led to a big slowdown in consumption growth in China, India and Russia, among others.

Local spirits – with sales largely confined to their domestic market – once again represent the Real 100's biggest hitters. Of the top 100 brands, 63 derived over 90% of their sales in their home market. The top 10 is dominated by local brands. In fact the only international – or at least perceived international – brands to appear in the top 10 were Diageo's Smirnoff and Johnnie Walker at fourth and eighth respectively.

Filipino brand Emperador, owned by Alliance, the new owner of Scotch whisky firm Whyte & Mackay, grew a further 6.5% to reach just short of 32m cases. The company's CEO Winston Co put this rise down to the continued development of the Philippines market, as well as trading up. Its robust performance shows continued pockets of dynamism and opportunity, despite the generally modest outlook.

The strong growth of Officer's Choice, McDowell's and Imperial Blue reflect the continued growth of the whisk(e)y category in India. Here the market expanded a further 2.7% in 2013. All three brands each enjoyed growth of over 20% last year.

The Real 100 also reflects global trends at a category level. Whisk(e)y added almost 8m cases to 361.5m in total. Leading international players Johnnie Walker, Jack Daniel's, Jim Beam and Jameson all fared solidly. This was bolstered by the strong performance of local brands. Officer's Choice, ranked fifth, grew 5.5m cases, thereby becoming the world's leading whisk(e)y. The overwhelming majority of its volumes come through home market India.

Vodka was not far off whisk(e)y with growth of 2.3m cases. Category leader Smirnoff fell back -1.4% having taken a hit in leading markets the US and Brazil. This was generally due to the vodka category slowing down in both markets – considerably in Brazil – with increased competition from rival categories and the rise of flavours in both markets.

As for white spirits, Smirnoff and Bacardi appear in the top 15, but both incurred losses last year. Pernod Ricard's Absolut came in at 21st in the ranking with marginal growth of 0.3% on the previous year.

THE ORIGINAL

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this **Issue**

Comment

Alexander Smith
The IWSR Magazine
Editor-in-Chief

This month we publish our annual Real 100 list of the largest brands in the global marketplace. We believe that it is the definitive list because it is based upon real primary research – the best in the industry – using our unique and painstaking methodology.

The IWSR visits over 110 countries every year, where our researchers interview more than 1,500 companies. Our annual reports reveal a picture of the market that shipment figures and retail audits cannot provide. The IWSR aims to measure consumption rather than official sales, and we try to take into account cross-border sales, home production and smuggled products. By talking to producers and distributors and building our sales figures country by country, from the bottom up, our global totals may differ from the global shipment figures released by other companies.

We run a number of benchmarking lists over the course of the year. The Real 100 list is unusual in that it contains a mix of mass-market national brands and the more premium international brands. For a long time these local and international brands operated almost in parallel universes and the respective companies tended to give the other little consideration, at least until recently. Now, the two universes are gradually coming together.

The relative advantage the multinationals once had – in terms of product quality, marketing and aspirational appeal – is diminishing. Most national producers are now building premium tiers to their leading brands. There has also been an expansion of well-managed local companies with a greater willingness to invest in brand building.

"Most national producers are now building premium tiers to their leading brands"

Some of these big local players are also looking to convert their domestic success into export success. The leading Indian producers have already enjoyed considerable success exporting their mass-market brands to sub-Saharan Africa and south-east Asia. It is not just sub-premium national brands that are expanding internationally either. Russian Standard has succeeded in Western markets at premium prices. Suntory has used its vast domestic base as a springboard to acquire a major multinational, Beam Inc.

Conversely, the multinationals have come to recognise the value of a portfolio of local brands and companies. Diageo, for instance, which for a long period preferred to focus exclusively on its international brands, has been on an emerging-market buying spree and, last month, seems to have gained a majority shareholding in India's USL. Not only do these local operations help to serve as a hedge during economic downturns, they provide the necessary route-to-market for the group's international brands. Diageo and the other multinationals' marketing nous and expertise will help to further close the quality gap between the local and international products and accelerate premiumisation.

These developments also correlate to, and are driven by, the well-documented growth of the aspirational middle class in the developing economies. The improved product quality and premium tier is partially in response to their demands and expectations. In many emerging markets the premium tiers of local categories are outpacing the broader spirits market. It all heralds a dramatic expansion in the value pool for the international drinks industry in the coming years.

Editor-in-Chief
Alexander T Smith
Email: al@theiwsr.com

Production Editor
Eluned Woollven

Editorial Assistant
Thalia Fourie
Email: thalia@theiwsr.com

Publishers
Val Smith
Alastair Smith

PR & Brand
Helen Windle
Email: helen@theiwsr.com

Subscriptions
Justyna Bednarska
Email: justyna@theiwsr.com

Advertising
Rina Maiden
Email: rina@@theiwsr.com

Researchers
Agata Andrzejczak
Ania Zymelka
Daniel Mettyear
Giles Gough
Helen Windle
Humphrey Serjeantson
José Luis Hermoso
Konstanze Kugler
Piotr Poznanski
Sandra Newman
Simon Molony
Sophia Holliday
Tim Simmons
Tommy Keeling

News
Please send us your news, views, photos and comments

To contact us
The IWSR Magazine
39 Moreland Street, Floor C
London EC1V 8BB, UK

Tel
+44 (0)20 7689 6841

Fax
+44 (0)20 7689 6827

Email
magazine@theiwsr.com
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in brief

Trend to lower alcohol seen in Asian markets

Asia Drinks with a lower alcohol volume have been performing well in South Korea and Japan. White spirits mixed with juice have been growing well in these markets, as opposed to more traditional neat spirits drinks.

In South Korea soju brands have also been lowering their alcohol content. The younger generation of Koreans are becoming more fickle; new products and fashions are entering and leaving the market at a much faster pace than before.

Following the success of low-strength brandy in the Philippines, most other spirits categories have now introduced lower abv brand line extensions, which are rapidly growing in popularity.

Illicit alcohol grows in South Africa

South Africa The consumption of illicit alcohol is a growing problem in South Africa. Some of the worst affected categories are cane (estimated at 10% of formal volumes) and brandy (estimated at 2.5% of formal volumes). The industry body SALBA calculated the lowest possible legal production cost at ZAR75.11 ($7.09) and ZAR82.87 ($7.82) for a litre bottle of cane spirit and brandy respectively; a whole host of brands are sold at below these prices in both the formal and informal off-trade.

While clandestine production in South Africa is on the up, it is thought that the bulk of illegal volumes (largely in the form of neutral cane spirit) are smuggled in from Swaziland, which is then sold as cane, vodka, brandy or whisky (with flavours and colours added).

Got spirits or beer news? Please send it to al@theiwsr.com

Oz sees fall in flavour

Australia Following strong gains in 2012 as a result of the influx of flavoured brand extensions, the US whiskey category fell back in 2013. It was the failure of flavoured extensions – more precisely honey-flavoured extensions – to gain traction that led to this return to more normal consumption levels. Honey's strong growth in 2012 is largely attributed to novelty and its subsequent fall-off, due to the fact that the honey-cola pairing does not fit the Australian palate.

The slowdown in 2013 is a concern as there is currently a debate within the industry as to whether the growth of flavoured whiskey is a fad or something more sustainable. The concern is that if it is the former, it can damage hard-earned brand equities.

Underlying factors in the US whiskey category remain positive, though, such as premiumisation. 2013 also saw strong nascent interest in unaged Bourbon and rye whiskey, particularly in the on-trade, but suppliers are not sure how sustainable this is.

Overall spirits consumption in Australia declined last year. Although, by volume, spirits consumption was down, value was up, as premium brands continued to become more accessible and consumers sought to trade up. Whisk(e)y is the dominant full-strength spirit in Australia. There was growth at the premium end of the blended Scotch category in 2013, while standard volumes were flat as a result of aggressive pricing on the part of the largest suppliers. Otherwise, volumes could have fallen back, as was the case for value brands. There is interest in single malt Scotch, with growth at the super-premium-and-above end.

The much smaller Irish and Canadian whisk(e)y categories continue to see solid growth from much lower levels.

Super-premium gin slows in Spain

USA The crisis-defying super-premium gin phenomenon has been a key feature of the Spanish market in recent years. It has penetrated every point of sale, occupied every consumption occasion and revolutionised attitudes towards spirits among consumers and the trade alike. However, super-premium gin's growth slowed in 2013 as signs of fatigue started to show; the market is rapidly approaching saturation.

Despite continued efforts to introduce yet more SKUs, the top end of the market is starting to consolidate under the major brands. Martin Miller's was the star performer (although a serious parallel problem meant that it was sold cheaply into the trade), while leading brand Hendrick's declined after consumers reacted poorly to a large price increase.

The year's main theme, however, was the trickling down of the trend to the premium and standard segments where Seagram's (+50%), Tanqueray (+10%), MG Masters (+75%) and Bulldog (+15%) stood out above the rest. Growth in standard and premium gin is expected to set the tone as the category enters a new phase.

Number of outlets in Asia increases

Asia New bars, restaurants and lounges have been opening throughout Asia, particularly in major cities.

India has seen strong on-premise expansion in Gurgaon, New Delhi, Mumbai and Bangalore, while Jakarta and other cities in Indonesia are seeing an increasing number of KTV (karaoke) outlets, gastro pubs and lounges. New KTVs have also been opening in Cambodia.

Lounges have become particularly fashionable and have been appearing in a number of other smaller markets, including Vietnam and Malaysia. Speakeasy-style bars are also gaining popularity in Indonesia and Malaysia. Meanwhile, a number of new on-trade concepts, ranging from lounges to beer walls, are developing in South Korea. Here, student union groups and bars have become particularly important in setting the agenda for other bar and lounge drinks menus.

More specialised on-trade outlets are emerging in other markets. Hong Kong has seen new Spanish bars opening while in Thailand, sake and wine bars have also appeared on the market.

a brief round-up of news from across the industry

Market trends

Asia Local whisky brands in Thailand and Burma are becoming increasingly competitive. In Burma the largest local whisky producer launched two new premium brand-line extensions with some success. These are now competing against Johnnie Walker Black and other imported brands. Meanwhile, in Thailand consumers are switching from Scotch to more affordable brands such as locally produced Blend 285.

Consumers in India are also drifting back to local whisky following the end of the vodka boom. However, the mid-tiers of Indian whisky are losing volumes as producers have been strongly encouraging consumers to trade up to more premium brands, while many consumers are also trading down.

CIS Many consumers across the CIS are moving away from the traditional vodka category in search of more fashionable drinks. The move from vodka to whisk(e)y and other categories is continuing in Georgia, Russia, Ukraine, Azerbaijan and Kazakhstan.

Governmental pressure on the vodka industry in Russia has seen official production drop significantly year on year, although some of this loss in volume is filled with vodka from the black market.

Meanwhile, imported vodkas are losing share to the much cheaper local segment in Turkmenistan and Uzbekistan.

As the standard and value segments of the vodka market in Russia are squeezed by ever-increasing excise taxes and minimum pricing, the jump to premium vodka has narrowed, encouraging consumers to trade up.

Similarly, consumers in Georgia and Uzbekistan are also moving to premium-and-above vodka brands, with value brands declining as a result. New premium local vodkas such as Syabry and Dobra Shklanka are also entering the market in Belarus. Once again wealthy Russians are thought to be driving the growth of this segment.

Flavoured vodkas are growing strongly in Belarus and Kazakhstan, and are increasingly used in cocktails or served as shots. Meanwhile, in Armenia consumers are increasingly mixing their own drinks at home, giving the category a boost, particularly in the summer months.

People

France Rémy Cointreau has appointed Valérie Chapoulaud-Floquet as CEO. She will join the group in mid-September 2014 and will report to François Hériard Dubreuil, chairman of the Rémy Cointreau Group.

Valérie Chapoulaud-Floquet spent more than 20 years with the L'Oréal Group, where she successively held various executive positions in Asia, Europe and North America. After heading the luxury products division at L'Oréal in the US, she joined Louis Vuitton in 2008 where, having been entrusted with the development of Taiwan and the creation of the Southern Europe region, she was subsequently appointed president and CEO of the Americas region.

USA Southern Wine & Spirits of America, the leading wine and spirits distributor in the US, has appointed John Trainer as executive VP, general manager – American Liberty Wine & Spirits, effective 1 July. Trainer comes to Southern from Pernod Ricard USA (PR USA), where he currently serves as VP and general manager for the Control Markets division.

Trainer will also take on the sales and marketing responsibilities of current Southern VP, supplier executive for the PR USA portfolio, BJ Vorderer — who will return to PR USA as general manager, Control Markets division.

Trainer will report to Southern executive VP and COO Brad Vassar.

Canada/USA Wirtz Beverage has appointed Maggie Lapcewich to its national leadership team in the newly created position of senior VP of commercial strategy and business development, effective 1 July 2014. In this role, Lapcewich will be charged with overseeing commercial strategy and integration for Wirtz Beverage Group. Most recently, she was president of Diageo Canada.

Australia Ian Hongell will step up to the role of chief winemaker at Peter Lehmann Wines (PLW) in January 2015 following the retirement of founding winemaker Andrew Wigan at the end of this year.

PLW CEO Jeff Bond said the appointment was a natural evolution in the winemaking team, building on Wigan's achievements at the winery over the past 35 years.

"Andrew and Ian have worked together for 16 years, and taken winemaking to new levels," Bond said. "This followed the formidable working partnership of Andrew and Peter Lehmann which began years before our winery was established in 1979.

"Ian is looking forward to pursuing the continued development into vineyards and greater diversification of varieties we've seen in recent years."

Finance

France Rémy Cointreau reported that operating profit totalled €150.2m ($204.7m), a decline of -38.8% (down -40.8% organically). Apart from high comparatives (+18.1% growth over the 2012/2013 financial year), the company said the decrease reflected the destocking effort in China, an unfavourable geographical mix and a continuing policy of sustained investment in both the brands and in strengthening the distribution network. Rémy Cointreau's sales for the financial year ended 31 March 2014 totalled €1.03bn ($1.4m), an organic decrease of -10.7% compared with the previous year. This decline primarily reflects the group's decision to reduce inventory levels in Chinese distribution networks against a backdrop of weaker consumption. Conversely, the group maintained strong momentum in the US as well as sales growth in Europe.

USA Beam Suntory announced it will begin distribution of the Suntory Japanese and Scotch whiskies and Midori liqueur in the US and Germany beginning 1 July. The brands were previously distributed by Campari in both markets. As the company's brands are already distributed together in Japan, the Beam Suntory portfolio will now be combined in markets representing more than 70% of the company's total net sales. The US and Germany mark the first route-to-market transitions since the acquisition of Beam by Suntory Holdings, which was completed on 30 April. Further route-to-market integration is expected to be completed later this year.

Diageo launches Nola vodka spritz RTD Diageo's new vodka spritz brand Nola is an easy-to-drink range aimed at women in their late 20s and 30s and designed to better meet female consumers' expectations in occasions where they traditionally default to wine. Nola Raspberry & Elderflower and Nola Watermelon & Strawberry are bottled at 6.4% abv and have 35% fewer calories than a standard glass of pinot grigio. Launched in UK retailer Tesco in June, the brand will roll out to Asda in July and nationwide in January 2015.

Alice Ponti, Diageo senior innovation manager for Western Europe, said: "We created Nola after realising how little choice women have for a great-tasting, lighter alternative to wine. A 12% abv drink is not ideal on all occasions. Nola has been researched extensively and the consumer response has been consistently phenomenal."

In other news, Diageo GTME has launched Smirnoff White exclusive to global travel retail. What Diageo bills as an exceptionally smooth vodka is the result of a distillation process which includes the liquid being freeze filtered at -6°, then passed through charcoal filters. Inspired by arctic ice formations, the Smirnoff White bottle has a clear cut-glass base that transforms into a smooth, white finish towards the neck of the bottle where the Smirnoff White logo appears as if etched into a block of solid ice. Smirnoff White (41.3% abv) is best served neat straight from the freezer, or over ice or as part of a cocktail.

Brand: Nola Vodka Spritz – £2.99/$5.10 RRP per 25cl can/£7.99/$13.63 RRP per 70cl bottle
Brand: Smirnoff White – £21/$35.80 RRP (1L)

German TR launch for Jim Beam Signature Craft 12yo The ultra-premium small-batch Jim Beam Signature Craft 12yo Bourbon is now available in airports across Germany. Following an extensive ageing process, this 43% abv whiskey is already available throughout the US, as well as in the UK and German on-trade.

Beam Global travel retail marketing director Michael Cockram said: "European travel retail is an important showcase for Jim Beam and Germany is our most important market. We are committed to adding value to this market and are proud to provide our partners with this exceptional handcrafted Bourbon, extending the chance for shoppers to discover new variants."

Brand: Jim Beam Signature Craft 12yo – €33/$44.90 RRP (1L)

Introducing the Echo Falls Fruit Fusion wine range The new Echo Falls Fruit Fusion wine range will be launched in the UK this month, exclusively available to Asda for three months. The range includes red wine with raspberry & cassis (11% abv), rosé wine with summer berries (9.5% abv) and white wine with white peach & mango (9.5% abv). The colourful bottle designs showcase the fruit flavours and are aimed at ensuring on-shelf stand-out. A 'how to serve' sticker will also appear on the front label.

The range is aimed at new wine consumers and Echo Falls' core audience of females aged 18-34. Echo Falls marketing controller Amy White explained: "Through research conducted with our flavour house partner, we know that new consumers are eager to experiment with

new flavours and generally have a sweeter tooth, which can make dry wines unappealing to them. In the UK we've also seen, through switching analysis, newbie consumers shying away from the wine category and choosing sweeter styles of drinks, such as flavoured cider and beer, for example.

"We firmly believe our innovative fruit fusion wines will attract a new audience to the brand Echo Falls and the wider wine category as a whole. It's from here that we then hope to take these consumers on a wine journey to discover the more traditional and complex wine styles, as their tastes and preferences develop and change."

Brand: Echo Falls Fruit Fusion – £5/$8.53 RRP (75cl)

& marketing

By Thalia Fourie

Foncalieu showcases new 2013 rosé collection
Les Vignobles Foncalieu introduced its new 2013 rosé collection at the London Wine Fair.

Le Rose de la Marquise 2013 (AOC Corbières) is dominated by fresh red fruit scents. Vallée des Pins 2013 (AOC Côteaux d'Aix en Provence) has both red fruit and exotic fruits like guava on the nose, while the palate emphasises strawberries and balanced acidity.

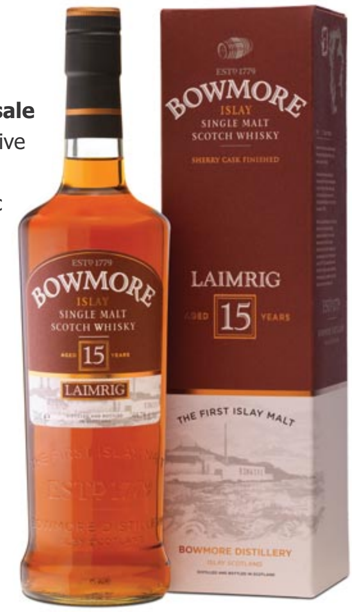
Le Versant Grenache Rosé 2014 (IGP Pays d'Oc) is a crisp, summery wine with notes of strawberries and cream and a hint of redcurrants.

Domaine Haut-Gléon 2012 (Vallée du Paradis, IGP) has a delicately fruity nose with prominent floral notes and aromas of red berries.

Les Vignobles Foncalieu is a cooperative of 1,200 winegrowers that spans several regions of southern France (Languedoc-Roussillon, Provence, Gascony and the Rhône Valley), and farms more than 5,000 hectares of vines across France's Le Grand Sud.

Brand: Le Rose de la Marquise 2013 – £15/$25.60 RRP (75cl)
Brand: Vallée des Pins 2013 – £9.99/$17.04 RRP (75cl)
Brand: Le Versant Grenache Rosé 2014 – £7.99/$13.63 RRP (75cl)
Brand: Domaine Haut-Gleon 2012 – £13.95/$23.80 RRP (75cl)

Limited Bowmore Laimrig goes on sale
The Whisky Shop in the UK is the exclusive retailer for Bowmore Laimrig, a limited-edition whisky from Islay. Scottish Gaelic for 'pier', Laimrig is named after Bowmore's ancient stone pier where the distillery's barley would once have been unloaded and where the single malt would have set sail to go around the world. Bowmore Laimrig (53.7% abv) is a cask-strength, non-chill filtered 15yo single malt whisky that has been finished in Spanish sherry butts.
Brand: Bowmore Laimrig – £70/$119.34 RRP (70cl)



Taylor's releases 1863 Single Harvest Port The very rare Taylor's 1863 Single Harvest Port is now available on an allocation basis only. Taylor's 1863 has been drawn from the firm's collection of very rare and valuable cask-aged ports; 1863 is regarded as the last great port harvest before the spread of phylloxera in the Douro.

Taylor's 1863, matured in oak casks for over a century-and-a-half, is presented in a bespoke crystal decanter in a wooden presentation box finished in maple burl veneer. Each box contains a certificate signed by Adrian Bridge, Taylor's managing director.
Brand: Taylor's 1863 Single Harvest Port – £3,000/$5,116 RRP

Les Réserves Grand Siècle makes travel-retail debut Laurent-Perrier's rare Les Réserves Grand Siècle is now available at Le Clos in Dubai International Airport for the first time.

Originally created to mark the bicentenary of the house and as a tribute to Bernard de Nonacourt, who created the first cuvée Grand Siècle, this prestige cuvée is a blend of wines from three of Laurent-Perrier's 'vintages of the century' (1990, 1993 and 1995), fusing the best years, the best grape varietals and the best crus.

Le Clos general manager Ben Odgers said: "We are proud to be the only duty-free outlet in the world offering Les Réserves Grand Siècle. To be given something so unique and special by Laurent-Perrier demonstrates our commitment to our customers and our ambition to be at the forefront of fine wine and luxury spirit retail."
Brand: Laurent-Perrier Les Réserves Grand Siècle – AED8,000/$2,178 (1.5L) and AED20,000/$5,445 (3L)

Laphroaig Select unveiled
Maxxium has revealed Laphroaig Select, "an exciting and unique expression that brings together the best of Laphroaig's flavour profile", according to master distiller John Campbell. Representing a subtle blending of peat, oak and sweetness, Campbell selected spirit from Laphroaig Quarter Cask, PX Cask, Triple Wood (European oak casks) and final addition of 10yo to create Laphroaig Select (40% abv). The heart of the spirit is drawn from a final maturation in new American oak casks, rarely used for Scotch whisky.
Brand: Laphroaig Select – £34.99/$59.67 RRP (70cl)

Emerging-market force in Real 100

Alexander Smith points to the power of some emerging-market brands in the list of the top 100 spirits worldwide

This month the IWSR publishes its annual Real 100 list of the top global spirits brands by volume. As always, the list throws up an interesting and generally disparate mix of local and international brands at widely varying price points. Ultimately the Real 100 list tends to reflect the complexities and trends within the global market.

Certainly the macro environment was less favourable in 2013. The economic slowdown in some of the emerging-market economies and tax and regulatory issues in others, such as Russia, took a toll last year.

Global spirits sales increased by a marginal 0.1% to 3.09bn nine-litre cases in 2013 over 2012, according to the latest IWSR research. This represents a dramatic slowdown from the 6.5% compound annual growth (CAGR) seen between 2007 and 2012. This was chiefly attributable to a big slowdown in the growth of local spirits across a gamut of major emerging markets, such as China, India, South Korea, Thailand, Russia, the Philippines and Poland. In India, for instance, local spirits rose by just 1.2% in 2013 over 2012, whereas the CAGR between 2007 and 2011 was 17%.

On a top line level, local spirits fell by a very marginal -0.1% to 2.73bn in 2013 over 2012. This compares with a CAGR of 7% between 2007 and 2012. The rate of growth for global import sales in 2013 was roughly unchanged at 2.3% as markets such as the US helped to offset slowing sales within the emerging markets. In many cases, this slowdown in local spirits sales and relatively healthier import picture was reflected in the performances of many of the top 100 brands.

What immediately jumps out from the list is the sheer number of brands hailing from the so-called emerging markets. What also stands out is how many are chiefly single market brands. Sixty-three out of the 100 brands on the list derive 90% or more of their sales from the domestic market and seven more derive at least 80%.

The volume growth that some of these local emerging-market brands have been able to generate has been phenomenal, even in the current environment. That really highlights the dynamism of these markets. Markets such as India, Russia, Brazil, China, Japan, South Korea, China, Thailand and the Philippines are large enough to rapidly generate and then sustain mega-brands.

Soju brand Jinro is more than twice as large as its nearest competitor in the Real 100 list

Second-ranked Emperador brandy, owned by Alliance Global, which is owned by billionaire businessman Andrew Tan, has added a staggering 24.8m cases since 2009 to reach close to 32m cases. Virtually all of that is derived from the Philippines. Emperador CEO Winston Co explains the basis of the brand's dramatic growth. "Emperador has always been the brandy category leader in the Phillippines. The improving economy and consumer spending have contributed to the growth of the brand. It is a case of consumer preference and a flight to better-quality products."

He adds: "The demographic profile in the Philippines is youthful and Emperador

Top 100 spirits brands worldwide: 1-25*

Rank/Brand		Category	Owner	Volume 2009	Volume 2012	Volume 2013	% change 2013 on '12
1	**Jinro Soju**	Shochu/Soju	Hite-Bobae	67,361.6	67,710.1	65,660.0	-3.0
2	**Emperador**	Other brandy	Alliance Global	7,100.0	30,000.0	31,950.0	6.5
3	**Ruang Kao**	Other spirits	Thai Beverage	31,900.0	31,500.0	30,870.0	-2.0
4	**Smirnoff**	Vodka	Diageo	23,909.7	26,117.6	25,751.3	-1.4
5	**Officer's Choice**	Other whisk(e)y	ABD	12,277.0	18,705.3	24,164.3	29.2
6	**McDowell's**	Other whisk(e)y	USL/Diageo	13,040.0	19,273.3	23,291.3	20.8
7	**Chum Churum**	Shochu/Soju	Lotte	16,773.0	21,273.0	21,814.0	2.5
8	**Johnnie Walker**	Scotch whisky	Diageo	14,879.8	18,847.1	19,288.3	2.3
9	**Celebration**	Rum	USL/Diageo	11,156.8	17,657.3	18,904.0	7.1
10	**Hong Tong 'Liquor'**	Other spirits	Thai Beverage	6,500.0	16,375.0	18,500.0	13.0
11	**Bacardi**	Rum	Bacardi	17,574.6	18,408.8	18,232.0	-1.0
12	**Cachaça '51'**	Cane	Müller de Bebidas	19,639.5	18,639.4	17,738.8	-4.8
13	**Muhak**	Shochu/Soju	Muhak	11,089.0	16,800.0	16,128.0	-4.0
14	**Royal Stag**	Other whisk(e)y	Pernod Ricard	8,425.0	13,882.3	14,660.5	5.6
15	**Jack Daniel's**	US whiskey	Brown-Forman	9,889.9	12,284.1	13,186.7	7.3
16	**Jun/Legend**	Shochu/Soju	Takara Shuzo	13,567.0	12,778.0	12,406.0	-2.9
17	**Tanduay**	Rum	Tanduay	13,070.0	14,130.0	11,725.0	-17.0
18	**Bagpiper**	Other whisk(e)y	USL/Diageo	16,092.5	14,033.0	11,614.3	-17.2
19	**Old Tavern**	Other whisk(e)y	USL/Diageo	6,600.0	11,610.0	11,510.0	-0.9
20	**McDowell's**	Other brandy	USL/Diageo	9,143.6	12,805.5	11,471.8	-10.4
21	**Absolut**	Vodka	Pernod Ricard	10,430.4	11,293.9	11,333.2	0.3
22	**Imperial Blue**	Other whisk(e)y	Pernod Ricard	4,995.0	8,840.0	10,960.0	24.0
23	**Captain Morgan**	Rum	Diageo	8,541.3	9,905.0	10,596.3	7.0
24	**Kumbokju**	Shochu/Soju	Kumbokju	11,634.0	11,000.0	10,560.0	-4.0
25	**Pitú**	Cane	Pitú	9,341.5	10,445.5	10,483.2	0.4

***Excludes Chinese brands. All volumes in '000s of 9-litre cases**

Source: The IWSR Database 2014 ©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The Real 100 cont'd

shares a youthful and vibrant imagery. Moreover, premiumisation is developing in the Philippines."

It is a classic emerging-market story. As consumers become more affluent they move from local unbranded spirits into more recognisable brands such as Emperador. The favourable demographics in many emerging-market economies, such as the Philippines, India and sub-Saharan Africa, mean that every year millions more consumers are reaching legal drinking age. Urbanisation is another aspect of this growth. As people move from the countryside into the urban centres, they become more susceptible to marketing influences.

These emerging-market consumers are also inclined to drink for status and that can mean moving from unbranded products into brands, or, for those branded consumers, it can mean moving up the ladder and drinking more premium expressions. Many of the big national producers within the Real 100 list have successfully introduced more premium extensions of their existing brands to capture this impulse to trade up. Within India's IMFL category, for instance, higher-quality brand segments have outpaced the market in recent years. This premiumisation creates a virtuous circle too as the improved margins allow producers to plough more back into marketing and brand investment.

As emerging-market consumers become more affluent they move from local unbranded spirits into more recognisable brands such as Emperador

"Emperador shares a vibrant imagery, which ties into the country's youthful demographic"
– Winston Co, CEO, Emperador

Another good example of the dynamism within these vast emerging markets is the recent performance in India of ABD's Officer's Choice, which added 5.5m cases in 2013 alone to become the largest whisk(e)y brand in the world. Officer's Choice surpassed USL's McDowell's whisky, a brand that itself added 4m cases in India in 2013.

One result of the economic growth and greater stability in these emerging-market countries in recent years, despite the setback of the recent slowdown, has been the growth of well-managed companies with a greater willingness to stay the course and invest in their brands' future, in terms of product quality, presentation and brand marketing. This has led to the development of large, powerful groups, such as Russian Standard, Synergy, USL, Wuliangye Yibin, Alliance Global, Thai Beverage and Hite Jinro, to name just a few.

Most multinational drinks companies and analysts tend to share a fairly bifurcated view of the spirits market. They split it between the mass-market national spirits brands and

Top 100 spirits brands worldwide: 26-50*

Rank/Brand	Category	Owner	Volume 2009	Volume 2012	Volume 2013	% change 2013 on '12
26 Original Choice	Other whisk(e)y	John Distillers	10,215.0	10,850.0	10,010.0	-7.7
27 Jagatjit Aristocrat	Other whisk(e)y	Jagatjit	6,550.0	9,000.0	9,845.0	9.4
28 Haywards	Other whisk(e)y	USL/Diageo	3,980.0	7,050.0	9,180.0	30.2
29 San Miguel	Gin	San Miguel	17,600.0	9,350.0	8,410.0	-10.1
30 Kirishima	Shochu/Soju	Kirishima Shuzo	7,355.0	8,437.0	8,310.4	-1.5
31 Lichiko	Shochu/Soju	Sanwa Shurui	8,758.0	8,217.0	8,093.7	-1.5
32 Velho Barreiro	Cane	Tatuzinho	5,967.1	7,037.6	7,497.1	6.5
33 Jägermeister	Bitters/Spirit aperitifs	Mast-Jägermeister	6,370.7	7,028.0	7,146.8	1.7
34 Jim Beam	US whiskey	Beam Suntory	5,260.3	6,434.4	7,120.6	10.7
35 Blend 285	Ersatz whisky	Thai Beverage	4,000.0	7,800.0	7,020.0	-10.0
36 Bohae	Shochu/Soju	Bobae Brewery Co	8,028.0	7,300.0	7,008.0	-4.0
37 Director's Special	Other whisky	USL/Diageo	6,346.5	7,199.2	6,725.8	-6.6
38 Baileys	Liqueurs	Diageo	6,489.6	6,566.8	6,463.6	-1.6
39 Żołądkowa Gorzka	Vodka	Stock	7,173.3	5,681.1	6,385.1	12.4
40 Khortytsa	Vodka	Global Spirits	7,524.7	5,195.6	6,308.4	21.4
41 Pyat Ozer	Vodka	Alcohol Siberian Group	6,072.3	6,778.8	6,050.0	-10.8
42 Belenkaya	Vodka	Sygroup	2,866.0	7,251.6	5,983.5	-17.5
43 Ballantine's	Scotch whisky	Pernod Ricard	5,876.6	5,911.3	5,936.2	0.4
44 Dist. of Sri Lanka Arrack	Other spirits	Distillers of Sri Lanka	5,695.0	6,400.0	5,600.0	-12.5
45 Cuervo Tequila	Tequila	Cuervo	5,612.4	5,631.0	5,598.1	-0.6
46 Ypióca	Cane	Diageo	4,504.9	5,195.7	5,535.5	6.5
47 Green Mark	Vodka	Russian Standard	11,240.3	6,848.0	5,525.9	-19.3
48 Crown Royal	Canadian whisky	Diageo	4,961.3	5,135.1	5,455.9	6.2
49 Suntory	Other whisk(e)y	Beam Suntory	4,820.7	5,282.7	5,366.0	1.6
50 Hennessy	Cognac/Armagnac	LVMH	4,244.0	5,109.0	5,178.8	1.4

*Excludes Chinese brands. All volumes in '000s of 9-litre cases

Source: The IWSR Database 2014 ©


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The Real 100 cont'd

companies on the one side, and the more premium international brands and companies on the other. Each tends to operate in its own sphere and the respective companies historically tended to give the other little consideration, at least until recently.

Yet this traditional demarcation is no longer as clear as before. The relative advantage the multinationals once had – in terms of product quality, marketing and aspirational appeal – is diminishing. Fully competitive national luxury brands have been developed in China, Russia, Japan and Mexico, with other markets, such as India, now following. The assumption has been that, when these markets reach a certain point of evolution, consumers will naturally gravitate towards premium imports. Many certainly will, but local companies are also capturing much of this premium and mid-priced growth. This has the potential to inhibit the development of the import sector.

International springboard

Some of these groups are using this domestic market success as a springboard to international prominence. Russian Standard is a good example. Owner Roustam Tariko and his Roust holding company has led the consolidation of the Russian vodka market, notably acquiring CEDC (the owner of Russian Alcohol Group and leading Polish brands) in 2013. The company has invested heavily and established Russian Standard vodka in an array of international markets. Russian Standard makes the Real 100 list at number 95 and today the brand derives 70% of its sales from export markets.

Alliance Global Group, the producer of the aforementioned Emperador brand, is another company that is now parlaying domestic success into international expansion. In May, Alliance agreed to acquire the Whyte & Mackay Scotch whisky business from India's United Spirits (USL) for £430m ($729m). The acquisition by Emperador Distillers has surprised many within the industry given that it is largely a local brandy player in the Philippines. Tan also

Russian Standard, which derives 70% of its sales overseas, makes the Real 100 list at number 95

notes that he plans to leverage the Whyte & Mackay distribution network to build Emperador outside the Philippines.

Tan's ambitions may seem far-fetched, but it should be remembered that products such as Bacardi and Smirnoff are essentially mass-market brands, built in the booming Western economies of the 1960s and '70s. Pernod Ricard was initially built selling mass-market pastis to French consumers. Ricard is still a significant brand, selling some 4.9m cases and ranked number 56 in the Real 100 list. A similar process is under way in these emerging markets – one that will throw up many more international brands in coming years.

The question of what is an international brand is also open to interpretation. Some of the international brands on the list, such as Smirnoff and Bacardi, are actually only international in image and perception.

Top 100 spirits brands worldwide: 51-75*

Rank/Brand	Category	Owner	Volume 2009	Volume 2012	Volume 2013	% change 2013 on '12
51 Juhyo	Shochu/Soju	Beam Suntory	6,189.0	5,333.0	5,178.3	-2.9
52 Fernet-Branca	Bitters/Spirit aperitifs	Branca	2,610.9	4,366.4	5,156.8	18.1
53 GSM Blue	Gin	San Miguel		5,700.0	5,100.0	-10.5
54 Mansion House	Other brandy	Tilaknagar	4,900.0	5,300.0	4,900.0	-7.5
55 Daesun	Shochu/Soju	Daesun	9,723.0	5,100.0	4,896.0	-4.0
56 Ricard	Aniseed	Pernod Ricard	5,419.9	4,922.4	4,886.9	-0.7
57 Grand Royal Burmese	Other whisk(e)y	Int'l Beverages Trading	3,250.0	4,500.0	4,810.0	6.9
58 Chivas Regal	Scotch whisky	Pernod Ricard	4,231.7	4,909.3	4,785.1	-2.5
59 8PM	Other whisk(e)y	Radico Khaitan	3,505.0	4,870.0	4,760.0	-2.3
60 Grant's	Scotch whisky	Wm Grant & Sons	4,815.3	4,736.4	4,656.4	-1.7
61 Jameson	Irish whiskey	Pernod Ricard	2,722.6	4,034.6	4,425.6	9.7
62 Antioqueño	Cane	Fabrica Licorera de Antioquia	3,482.7	4,297.8	4,411.1	2.6
63 Krupnik	Vodka	Belvédère		5,050.5	4,400.4	-12.9
64 Gordon's	Gin	Diageo	4,445.9	4,411.7	4,390.7	-0.5
65 Khlibniy Dar	Vodka	Bayadera	7,953.0	5,916.5	4,282.9	-27.6
66 Nemiroff	Vodka	Nemiroff	8,946.7	6,055.5	4,276.9	-29.4
67 Old Monk	Rum	Mohan Meakin	6,556.5	4,331.4	4,231.8	-2.3
68 Blender's Pride	Other whisk(e)y	Pernod Ricard	2,395.4	3,955.3	4,209.7	6.4
69 Żubrówka	Vodka	Russian Standard	1,183.0	3,948.2	4,132.1	4.7
70 Stolichnaya	Vodka	SPI	3,434.3	4,260.0	4,020.7	-5.6
71 Svedka	Vodka	Constellation	2,897.8	3,851.6	3,973.2	3.2
72 Havana Club	Rum	Pernod Ricard	3,313.4	3,831.0	3,944.5	3.0
73 Old Admiral	Other brandy	Radico Khaitan	2,250.0	3,575.0	3,925.0	9.8
74 Grey Goose	Vodka	Bacardi	3,456.7	3,810.1	3,851.6	1.1
75 Skyy	Vodka	Campari	3,176.1	3,665.7	3,801.1	3.7

*Excludes Chinese brands. All volumes in '000s of 9-litre cases

Source: The IWSR Database 2014 ©

The Real 100 cont'd

Johnnie Walker could pass the 20m-case mark this year

Diageo's Smirnoff is produced locally in eight out of its top 10 markets, and Bacardi in five out of its top 10.

So one of the main issues facing the multinationals in these developing markets is whether to partake in this local brand market, or focus solely on their international brands. Until recently, Diageo has tended to oscillate between these two approaches. For a period it largely eschewed local brands and preferred to focus on its big international brands. Over the past five years, however, the company has undergone something of a Damascene conversion and is again recognising the strategic importance that local brands can play. In recent years, Diageo has acquired major national producers such as Mey Içki in Turkey, Ypióca in Brazil, Shui Jing Fang in China, Halico in Vietnam and, of course, most recently a controlling shareholding in USL in India. A USL spokesperson says: "Diageo's acquisition will provide a fillip to USL's premiumisation agenda."

Pernod Ricard has been more consistent and has tended to fully embrace this local brand strategy in tandem with its international portfolio. The French company reasoned that premium national brands can provide a ladder to its own international portfolio and permits the company to play in a much broader marketplace. Local brands or lower-priced international brands should provide the critical mass and access to distribution on the back of which they can develop their premium brands. This can help sustain the local operation in times of economic downturn. Some of these brands are becoming significant profit centres in their own right. Pernod Ricard's local Indian portfolio includes three brands in the Real 100 list – Royal Stag, Imperial Blue and Blender's Pride – and is now the most profitable company in the Indian market.

Consolidation

The Real 100 list also mirrors the relentless industry consolidation that has taken place over the years. Suntory's recent $16bn acquisition of Beam Inc, is perhaps a more dramatic example of a big Asian producer (albeit not an emerging-market company) using that big domestic base to fund a push into international markets. Beam Suntory has five brands within the Real 100 list. Diageo's acquisition of a controlling shareholding in USL in 2013 has had even more impact. The combined entity has 18 brands in the list. Pernod Ricard, which of course has been enlarged through a series of deals (Irish Distillers, Seagram, Allied Domecq and Vin & Sprit) has 11 brands. Other major players with multiple entrants in the Real 100 include Bacardi with four, Campari, Radico Khaitan, Russian Standard and Thai Bev with three, and Brown-Forman, Edrington, Global Spirits, Hite-Bobae, Industria de Bebidas Pirassununga and San Miguel.

Top 100 spirits brands worldwide: 76-100*

Rank/Brand	Category	Owner	Volume 2009	Volume 2012	Volume 2013	% change 2013 on '12
76 J&B	Scotch whisky	Diageo	4,858.4	4,121.1	3,710.5	-10.0
77 Kyogetsu	Shochu/Soju	Beam Suntory	3,750.0	3,650.0	3,613.5	-1.0
78 Finlandia	Vodka	Brown-Forman	2,975.8	3,252.4	3,498.1	7.6
79 Yeni	Aniseed	Diageo	3,644.6	3,637.2	3,477.9	-4.4
80 Malibu	Liqueurs	Pernod Ricard	3,289.2	3,538.3	3,457.6	-2.3
81 Villa Velha	Cane	Industria de Bebidas Pirassununga	3,022.0	3,450.0	3,445.0	-0.1
82 Kanoka Koh	Shochu/Soju	Asahi		3,000.0	3,438.0	14.6
83 Honey Bee	Other brandy	USL/Diageo	3,550.0	4,945.0	3,365.0	-32.0
84 Brugal	Rum	Edrington	4,091.7	3,861.8	3,341.2	-13.5
85 Shiranami	Shochu/Soju	Satsuma Shuzo	4,349.0	3,421.0	3,321.8	-2.9
86 Dreher	Other brandy	Campari	3,450.8	3,260.0	3,305.5	1.4
87 Rancho Escondido	Cane	Grupo Corona	1,900.0	3,100.0	3,300.0	6.5
88 Morosha	Vodka	Global Spirits		2,085.0	3,220.1	54.4
89 Famous Grouse	Scotch whisky	Edrington	2,878.8	3,242.2	3,177.2	-2.0
90 E&J	Other brandy	E&J Gallo	3,011.2	3,042.1	3,074.9	1.1
91 Cachaça '21'	Cane	Industria de Bebidas Pirassununga	2,627.4	3,025.8	3,051.0	0.8
92 Dewar's	Scotch whisky	Bacardi	3,290.5	3,002.9	3,037.4	1.1
93 Magic Moments	Vodka	Radico Khaitan	1,200.0	2,520.0	2,910.0	15.5
94 Mens Club	Other brandy	USL/Diageo	30.0	250.0	2,875.0	1,050.0
95 Russian Standard	Vodka	Russian Standard	1,934.9	2,651.6	2,865.6	8.1
96 Unkai Shuzo	Shochu/Soju	Unkai Shuzo	3,307.0	2,876.0	2,832.9	-1.5
97 Hakata-No-Hana	Shochu/Soju	Fokutokunaga Shurai	3,407.0	2,860.0	2,817.1	-1.5
98 Pinnacle	Vodka	Beam Suntory	1,019.8	2,758.1	2,809.9	1.9
99 Bombay	Gin	Bacardi	1,951.1	2,610.3	2,759.0	5.7
100 Seagram's	Gin	Pernod Ricard	3,023.6	2,764.6	2,758.8	-0.2

*Excludes Chinese brands. All volumes in '000s of 9-litre cases

Source: The IWSR Database 2014 ©

Viewed by category

The Real 100 list also reflects general market trends in other ways. Last month, the IWSR reported that whisk(e)y was the largest-growing spirits category in 2013, both globally and in each of the major regions. Whisk(e)y added just under 8m cases in 2013 to 361m cases. Vodka was close behind, growing by 2.3m cases globally in 2013 to 496.3m. Rum did not fare as well as it had in past years and fell by some 4.5m cases to 145.6m. The major whisk(e)y brands in the Real 100 list tended to perform well in 2013. In particular, a number of leading international brands – such as Johnnie Walker, Jack Daniel's, Jim Beam and Jameson – had very solid performances.

This year Johnnie Walker could become the first Scotch whisky brand to surpass the 20m-case mark. Global sales rose 2.3%, which is about the rate of its 2007-2012 CAGR, due chiefly to the slowdown in China and Mexico. Scotch sales within the emerging markets are very closely linked with GDP growth. Johnnie Walker still posted a very respectable 4% growth in Brazil despite the slowdown there. It also gained by more than 20% in both India and South Africa.

Leading US whiskey brands Jack Daniel's and Jim Beam both enjoyed very high growth on the back of the whisk(e)y revival in the US and elsewhere. Brown-Forman senior VP and managing director Jack Daniel's John Hayes explains that the brand's current success is tied into the larger growing popularity of whisk(e)y. "Globally, whisk(e)y is doing very well and has been a big driver of the total distilled spirits category. It is growing everywhere and, within that, US whiskey is growing faster than whisk(e)y overall, and Jack Daniel's is growing faster than US whiskey. Jack Daniel's is by far the leader in the US whiskey category outside the US. It is a good time to be in the US whiskey category and a good time to be at Jack Daniel's."

The growth of leading US whiskey brands is also driven by the explosive growth of flavoured variants. Jack Daniel's Tennessee Honey, for instance, surpassed the 1m-case mark. The flavours are helping to recruit non-traditional consumers into the category, particularly females and vodka drinkers. According to Hayes, it is part of what is happening in the larger food and drinks market. "It is not just within spirits. It is evident in beer, soft drinks or food. People are being brought up now in this flavour world, so it almost becomes an expectation. I don't see it as being a fad."

Pernod Ricard's Jameson enjoyed double-digit growth in the US. In fact, the brand saw double-digit growth in all 50 US states. To date, Jameson hasn't been a Pernod Ricard priority within the emerging markets (apart from in South Africa and Russia), but that is now changing and the group has begun investing behind the brand in markets such as China, India and Brazil. Pernod Ricard believes that Jameson is well-placed to deliver strong growth in the years ahead. "By 2020, Jameson will be an iconic global brand, generating sales of €1bn (US$1.36bn). This equates to double the level of sales today," said CEO-designate Alex Ricard when speaking at a Capital Markets Day presentation.

Cachaça producers are responding to consumer trade-up by introducing premium expressions

Despite the success of whisk(e)y, the leading white spirits catgories dominate the list: vodka has 20 entrants, soju/shochu and cane-based spirits (cachaça) eight.

Soju/shochu also provided the single largest brand on the list in South Korean giant Jinro with sales of 65.7m nine-litre cases. The Hite-owned Jinro is more than twice as large as the next largest brand – Emperador brandy from the Philippines at just under 32m cases. Despite that enormous volume, it wasn't the easiest year for the brand. Jinro soju sales volume fell by 3% in 2013 following a near 8% price increase at the end of 2012. Turnover fell -9% to KRW50.1bn ($49.4m) and net profit by -56% to KRW5.7bn ($5.6m). Jinro is also down from the 77m cases it sold in 2006, the brand's recent high-water mark.

Jinro isn't completely a one-market brand, but also derives 3.2m cases, or 5% of its volume from the Japanese market. Sales have also been growing rapidly in Vietnam from a small base. The company is also pushing into the US where it has partnered with the Los Angeles Dodgers baseball team and has started selling soju cocktails at games. Nevertheless, brand and category recognition outside Korea and Japan remains low and this is unlikely to change in the near future.

Brazilian cachaça is also well represented on the list and boasts five brands within the IWSR's Real 100 spirits brands, including 12th-ranked Cachaça 51 (owned by Müller de Bebidas), 22nd-ranked Pitú (Pitú), 32nd-ranked Velho Barreiro (Tatuzinho), 46th-ranked Ypióca (Diageo), and 91st-ranked Cachaça 21 (Industria de Bebidas Pirassununga). Cachaça has been under pressure within its domestic market from growing beer and vodka consumption. Middle-class Brazilians are also increasingly opting for imported whisk(e)y and cachaça volumes have been steadily declining, although the market remains vast. These leading cachaça brands are seeking to tap into this trading-up trend by adding premium and super-premium tiers to what has historically been a relatively low-priced market. Some producers are also looking to branch out into international markets, and Diageo's acquisition of Ypióca (in May 2012) may eventually provide some impetus.

Smirnoff, at number four, and Bacardi, at number 11, are perhaps the two most recognisable white spirits brands and are those with the largest global spread. Both, however, incurred modest -1% declines in 2013. For Bacardi it is a continuation of a long-term trend. Diageo will hope that it is not the beginning of one for Smirnoff. Smirnoff's global decline was largely attributable to a near -3% decline in the highly competitive US market and a near -7% decline in Brazil.

Bacardi fell in seven out of its top 10 largest markets, including its four largest markets, indicating that the brand may be in crisis – even if it currently sells 18m cases. To some extent Bacardi may be suffering from its past success. It was one of the first international brands and, today, would be considered a mature brand in most markets. Becoming a mega brand is one challenge; maintaining that position is another. ■

Blurring the boundaries

Despite Latin America's diversity, drinking trends and habits are beginning to cross borders. Sophia Holliday reports

Latin America's drinks market is almost as diverse as its geographical landscape – from caipirinhas on Brazil's beaches, tequila in Mexico's heartland and warm singani (brandy) and milk in Bolivia's mountains, each country – and indeed region – has its own local spirits and drinking customs. However, with the rapid modernisation and internationalisation much of the region is currently experiencing, drinking trends and habits are beginning to creep across borders, spreading into new territory and to wider audiences.

Cachaça's expanding reach, for example, means it has become a common sight on many European cocktail menus, but has been slow to penetrate Brazil's neighbouring South American markets. The spirit's top five global markets remain Brazil, Germany, Portugal, the US and France, but recently cachaça brands have also been making inroads in two of Brazil's bordering countries, Paraguay and Uruguay. In these markets cachaça competes against other local cane spirits, but strong growth from brands such as Velho Barreiro and Cachaça 61, as well as the growing popularity of the caipirinha, have been pushing the category forwards. Between 2010 and 2013 cachaça expanded with a compound annual growth rate (CAGR) of 132.1% in Paraguay and 16.3% in Uruguay. While volumes still remain small, particularly when compared to the vast 78.6m-case market in Brazil, these are positive signs for brands looking to extend their reach beyond the slowing domestic market. Companhia Müller de Bebidas export manager Darleize Barbosa comments: "When we talk about the cachaça sector we are really talking about the domestic market. Looking at last year's figures, sales volume is becoming smaller, but it is still a huge market."

Barbosa continues: "More producers are now focusing on exports to a greater extent, but unfortunately it is a fact that cachaça is still relatively small in export markets. This year we have launched new packing for Brazil and the international market. Developed by Claessens International, the well-known designer agency in the UK, the new design of Cachaça 51 aims to appeal to our existing consumers' desire for new things as well as conquer new consumers."

Fernet boom

Fernet is another trend that is slowly starting to gain traction in certain markets across Latin America. The category has been something of a phenomenon for a number of years in Argentina, growing year on year with a CAGR of 18% over the last five years and reaching 5.7m cases in total in 2013. This exceptional growth has been spearheaded by Fernet-Branca which accounts for 78.5% of the overall fernet market in Argentina and which has gained a huge, almost cult-like following with consumers of all ages and genders. Fernet is typically mixed with cola and the long drink is so popular that it has almost gained status as Argentina's national cocktail. However, until recently the category was little-known throughout the rest of the region. Only in the past three years has fernet made any significant advances among Argentina's neighbouring markets. Once seen as exclusively for Argentinian tourists, the fernet-and-cola phenomenon has now well and truly taken hold among young Bolivians and Uruguayans, many of whom go to study in Argentina and bring back the taste for the drink with them. Between 2012 and 2013 the category jumped by 42.1% in Bolivia, while in Uruguay it grew by 32.7%. As the number of middle-class consumers in these markets expands and many start to travel more, the rate at which trends such as this will spread across the region is only set to increase.

The drinks market in Latin America is almost as diverse as its geographical landscape

> "More cachaça producers are now focusing on exports to a greater extent"
> – Darleize Barbosa, export manager, Companhia Müller de Bebidas

International brand growth

Similar cross-country trends within international drinks categories such as Scotch, vodka and gin are also being seen across the Latin American region. Within Scotch there has been a strong trend towards premiumisation over the last year with consumers trading up from local or standard brands to the premium-and-above segment. Many of the largest Scotch markets in the region including Brazil, Colombia, Chile and Peru saw double-digit growth in the premium Scotch category, outperforming the value and standard segments. In smaller Central American markets such as Panama, increased immigration from traditional whisk(e)y-drinking countries, particularly Venezuela and Colombia, is helping to spread this trend and encouraging consumers to migrate from other categories to premium Scotch.

Some Scotch markets are struggling, however. Venezuela and Ecuador saw volumes plummet by -25.8% and -76.6% respectively over the last year as both markets were hit by increased trade restrictions. In Venezuela the government has severely restricted access to foreign currency to import products, particularly those of a non-primary need, while in Ecuador a number of protectionist tariff barriers have been implemented in a bid to reduce the country's high trade deficit. Both of these measures have had a significant impact on Scotch imports, although demand in both markets certainly remains high.

Mexico saw the largest increase in Scotch consumption over the last year, with the market growing by over 330,000 cases. Much of this was driven by Bacardi-owned William Lawson's which saw a 66.9% rise in consumption over the year. Passport and Black & White also experienced significant volume increases.

Bacardi regional president Latin America & Caribbean Paolo Perego remarks: "William Lawson's is very much a success story in Mexico and it has resonated well with consumers across the region too. Consumers find William Lawson's irreverence appealing. Our strategy leverages hitting the right price points by channel, coupled with a great-tasting liquid and a 'No Rules' marketing campaign. Consumers love that the brand breaks all the stuffy, traditions associated with Scotch. It's not their father's whisky at all. It's more contemporary and relevant."

Meanwhile, strong growth throughout 2013 in Colombia and Brazil saw Old Parr overtake Buchanan's, both Diageo brands, to become the second-largest Scotch brand in Latin America behind Johnnie Walker Red. Old Parr saw its volumes increase by 9.2% to reach almost 1.2m cases across the region, while Buchanan's suffered declines in both its leading markets, Mexico and Venezuela, and fell by 150,000 cases in total. As a whole the Scotch category remained largely stable throughout 2013 with volumes across Central and South America increasing by 1% over the year.

Dynamic gin sector

The gin category, on the other hand, has become one of the most dynamic categories within the region. The small category had been in gradual decline almost year on year since 2007, but the revival of the category in markets such as Spain and the US has led to a similar uptick in consumption in many Latin American countries. Some of the largest gin markets, including Venezuela, Mexico and Colombia, saw double-digit increases over the year while smaller markets, including Chile, Uruguay and Costa Rica, also recorded healthy volume growth.

For such a small category, gin has been making a lot of unexpected noise and the re-emergence of the gin-and-tonic has been particularly noticeable in bars and hotels throughout the region. Much of this stems from the proliferation of new premium and super-premium brands entering the market and the growing enthusiasm by both bartenders and consumers to experiment with fashionable brands such as Hendrick's, London Number 1 and Fifty Pounds gin in cocktails. Hendrick's has cemented its position as the most important super-premium brand in the region with volumes more than doubling over the last year. In Mexico top cocktail bars are driving the growth of the brand, while tourists have also helped boost volumes in other Central American markets such as Costa Rica and Guatemala.

> "We see this trend of being more open to international spirits brands continuing throughout the entire region"
>
> – Paolo Perego, regional president, Latin America & Caribbean, Bacardi

However, it will not necessarily be easy sailing for gin brands in the lower quality segments. In some markets in Latin America gin struggles against a perception that drinking the spirit has health risks, including causing impotency and blindness. Furthermore, in all markets, with the exception of Panama, the gin category accounts for less than 2.5% of the total spirits market. Total gin consumption throughout Latin America reached just 750,000 cases in 2013, although this reflected an 8% increase from 2012. For optimists this may be a sign that there is plenty of room for the growth of the category, but it also serves as an indicator that there is a significant lack of knowledge and education about the category throughout much of the region.

Vodka enjoys regional increase

Vodka, on the other hand, continues to play a much larger role in the Latin American spirits market. In Brazil alone consumption grew to more than 8.5m cases last year, while Ecuador was the only country in South America to register a decline in volume. Once again premiumisation has played a significant role in the category's development and the top end has been fuelling much of its growth. Overall, premium and super-premium vodka saw the largest percentage growth over the year, increasing by 10.3% and 15.2% respectively, while at the lower end value vodka saw volumes decline by -2.3%.

Throughout Latin America show-off brands such as Cîroc and Grey Goose are becoming more and more appealing to the growing number of middle-class consumers. These brands have helped raise the category's profile and, by and large, the category continues to rank as one of the most fashionable throughout the region.

Perego of Bacardi comments: "Because of improvements in many economies, there is an increase in disposable income in the region. This translates into people buying better, more expensive things – including drinks. These people, who recently acquired a better lifestyle, now want to buy products that convey more status. We see this trend of being more open to international spirits brands continuing throughout the entire

Improvements in many economies have resulted in an increase in disposable income with consumers buying better, more expensive things – including drinks

Latin America cont'd

region. There are no signs it's slowing down. The tastes and experiences of consumers are more global and they are willing to trade up to more premium brands and better drinking occasions."

Smirnoff remains the largest vodka brand in Latin America despite losing share to number two brand Balalaika in 2013. Meanwhile, Absolut also gained share, growing by 8.6% to surpass 1.1m cases over the year. Flavours, however, have been the big drivers within the vodka category, with total volumes jumping by over 220,000 cases between 2012 and 2013 to reach 700,000 cases overall. In Brazil, for example, while traditional vodka sales stagnated, lemon-flavoured vodka such as Orloff Lemon Mix and Natasha Lemon vodka maintained strong growth, boosting the flavoured segment by 52.5% over the year. Meanwhile, in Chile traditional vodka grew by just 4.2% compared to flavoured vodka's growth of 17.7%. While cocktail culture remains small in the country, consumers are still looking for new flavours and experiences, moving away from the traditional vodka-and-cola mix.

With the FIFA World Cup 2014 in Brazil drawing to an end, it remains to be seen how much of an impact the region's time in the spotlight will have made on the global drinks market. Leblon CEO Steve Luttmann believes that cachaça will emerge as the big winner: "We know that the Mexico City Summer Olympics in 1968 had a big influence on the diffusion of tequila and margaritas and having two major world events back to back (the FIFA World Cup in 2014 and Olympic Games in 2016) will have a huge impact on 'Brand Brazil' and international consumer interest in Brazil's national spirit and cocktail."

Global awareness of cachaça is certainly set to increase, but whether cachaça brands will be able to translate this into significant volume growth outside their domestic market is still uncertain (see related story on Leblon cachaça, page 22).

Meanwhile, a large number of non-cachaça brands have also been taking advantage of 'Brand Brazil' in recent months. Rémy Cointreau launched a new bottle design for Passõa in the colours of the Brazil flag to coincide with the World Cup, while Pernod Ricard launched one of the first Scotch-based spirits earlier in the year with a Brazilian theme; Ballantine's Brasil is a Scotch whisky infused with Brazilian limes, said to be inspired by the way Brazilian consumers drink Scotch. LVMH has also released a limited-edition version of its Ardbeg malt Scotch

Ballantine's Brasil is a Scotch whisky infused with Brazilian limes

brand called Auriverdes, the nickname for the Brazilian national football team. Although the World Cup clearly presents a huge opportunity for brand innovation, there are risks too. The problematic preparations have been well documented and there has been fierce criticism about the cost of hosting the event, which has led to outbreaks of social unrest in Brazil. Such problems can cause harm to the reputation of brands too closely associated with major worldwide events. On the other

> "Having two major world events back to back will have a huge impact on 'Brand Brazil'"
>
> – Steve Luttmann, CEO, Leblon

hand, there are clearly enormous benefits to be had for those able to run smart marketing campaigns, especially those focusing on aspects such as the passion, music or creativity of Brazil.

As the sole official alcohol sponsor of the World Cup, Budweiser has managed this risk by focusing its marketing campaign not just on Brazil, but on bringing football fans together across the world. Its 'Rise as One' campaign includes the global launch of limited-edition gold bottles featuring the World Cup trophy alongside a strong social media campaign encouraging fans to share their best cheers and celebrations online.

Social media's role

Social media is beginning to play a key role in marketing campaigns throughout much of Latin America. Many companies have been starting to grow their online presence in response to the increasing consumer demand for digital interaction and communication with their favourite brands. A recent study by ComScore found that Latin America has with the fastest-growing internet population in the world, increasing by 12% between 2012 and 2013, and that consumers spend an average of 10 hours per month on social media. Furthermore the study also reported that Brazil, Argentina, Peru, Chile and Colombia all rank among the top 10 global markets for time spent on social networks. Perego says: "Social media is becoming more important to our brands and the way we market them throughout the entire region. Internet penetration and mobile access rates are growing every year. Consumers in Latin America are always connected. They expect – and demand – instant access and connection to the brands they enjoy and in a time and a place of their choosing. Spirits are no exception."

Perego continues: "Our digital marketing campaign goals are to be where the consumers are and available 24/7 – Twitter, Facebook and Instagram among others. This relevance drives engagement, allowing the Bacardi brands to build greater relationships with our consumers."

As well as brand interaction through social media platforms, investment in online advertising in the region is also soaring. ComScore reported a 97% increase in online advertising in Brazil in 2013. Perego remarks: "With mainstream media becoming increasingly less relevant, and the various restrictions on alcohol advertising, digital marketing will play an even more important role in the future." ■

Bitters hit some sweet notes

The global bitters revival is showing real staying power and signs of broadening. Giles Gough reports

Global consumption of bitters has grown at a compound annual growth rate (CAGR) of 2.9% since 2009, although last year represented a marked improvement on the five-year trend, with an increase of 5.4%.

This resurgence was driven by Fernet-Branca and Ramazzotti, while the world's largest bitter brand, Jägermeister, saw steadier progress. The category continues to rise in Argentina and, last year, it overtook Germany to become the world's largest bitters market.

Argentinian boom continues

The bitters boom in Argentina has accelerated over the past five years and, in 2013, volumes were up a further 16.1% to reach 5.8m cases. This came despite sluggish market development amid ever-increasing inflation rates and with consumer purchasing power hampered by a lack of disposable income. The overwhelming majority of this volume increase has come through locally produced Fernet-Branca, owned by Italy's Fratelli Branca. Having reached 5.2m cases globally last year, of which 4.4m cases were sold in Argentina, it is second only to Jägermeister in the bitters world and gaining market share. Branca's success is due in no small part to its popularity among younger consumers. It is informally seen as a rite of passage among young legal-drinking-age Argentinians and is commonly mixed with cola or energy drinks. The former is the typical mixer of choice, but the latter is increasingly popular.

Although Fernet-Branca's position in Argentina is unrivalled, there are signs of growing interest in the wider category. Other brands have been launched in recent years, while the country's second-largest brand, Vittone, has grown by more than 10% each year for the past five. There is also premiumisation from low levels. Given the category's pull over younger consumers during the last decade, other categories are seeking to profit from the maturing bitters drinker. Spirits aperitif Campari saw strong gains last year and is looking to build on this to provide a more sophisticated bitters proposition to the discerning Argentinian drinker. Bitter sparkling wine aperitif Aperol Spritz has also recently entered the market and is making some inroads. Provisional forecasts point to a slowdown in future growth, with this due to the category's size. Nonetheless, if the category sees another 10%-plus gain, Argentina's position as the world's leading market for bitters will be strengthened.

PHOTO COURTESY OF HANNA LEE COMMUNICATIONS

Bar manager Jack McGarry believes the cocktail scene in New York is all about bitters

Jägermeister passes 7m cases

The world's leading bitter, Jägermeister, enjoyed another year of growth in 2013 and saw global volumes rise 1.7% to reach 7.1m cases. The US has long been the Wolfenbüttel-based brand's leading market and accounts for around one-third of global volumes. Bitters in the US are actually in decline, and have been for a number of years. This is largely due to the rapid growth of rival shooter Fireball. The cinnamon-flavoured creation from Sazerac has become the shooter of choice for Millennials and last year reached 2m cases, over double its volume the previous year. Jägermeister is reacting though, as Michael Eichel, director of corporate communications, explains: "The market and Jägermeister are facing fiercer competition in relation to both price and innovation. The key on-premise channel is still slow in certain segments. So Jägermeister's marketing programs have been galvanised with new and innovative ideas, which are now being rolled out." Such innovation includes the targeted launch of Jägermeister Winterkräuter – known internationally as Jägermeister SPICE – which is available between autumn and Christmas. The limited edition has cinnamon and vanilla notes and lower alcohol content than the original. Where launched, it has proved successful and buoyed volumes in Austria, Germany, Hungary, Slovenia and also the US.

Since its explosion in the US around the turn of the Millennium, Jägermeister continued to grow until 2009. During this time the brand's European heartland – mainly Germany – expanded steadily. It is this continued steady expansion in Europe which has offset decline in the US. Germany continues to grow, in part

Bitters: top 5 markets

Country	Volume 2009	Volume 2012	Volume 2013	% change '13 on '12	% CAGR 2008-'13
Argentina	2,985.5	5,004.8	5,810.0	16.1	17.4
Germany	5,493.0	5,020.0	5,180.0	3.2	-1.9
USA	2,705.0	2,497.5	2,377.0	-4.8	-4.1
Italy	2,296.3	2,115.0	2,113.5	-0.1	-2.8
Czech Republic	1,610.3	1,043.0	1,064.3	2.0	-4.6
Others	6,546.1	7,362.2	7,736.8	5.1	4.1
Total	**21,636.1**	**23,042.5**	**24,281.6**	**5.4**	**2.6**

All volumes in '000s of 9-litre cases — Source: The IWSR Database 2014 ©

Bitters cont'd

due to the limited-edition launch, and remains by far the leading European market for the brand, selling 1.5m cases in 2013. Although other major markets such as the UK, Italy and Hungary are in decline, the Czech Republic, Spain and France are growing strongly. Last year consumption in France doubled, with this success the culmination of years of activation in the night on-trade. Meanwhile the brand's success in Spain, having traditionally been a tipple for visiting tourists, is increasingly driven by local consumers.

Consumption occasions

The bitters category is diverse and ranges from cocktail flavouring such as Angostura to 'herbal' shooters. Recently bitter aperitifs, largely Aperol, have grown strongly, taking share from bitters. Thus lines between the different categories have become somewhat blurred. Jägermeister largely wears the mantle of premium shooter, which remains the most popular mode of consumption. However, it cannot be ignored that a large part of the brand's success in recent years has been due to the Jägerbomb. Mixed with an energy drink and drunk as a shooter, the Jägerbomb has featured in many a night out, particularly among younger groups. Consumption of Jägermeister as part of a 'bomb' is not supported by the company, which prefers to focus for the time being on serving it as an ice cold shot. Eichel says: "The ice cold shot represents the biggest growth opportunity and our internal research has shown that consumers who have tried Jägermeister served ice cold are more likely to repeat purchase. However, Jägermeister is also enjoying increasing attention from global mixologists developing very creative and great-tasting cocktails with the brand."

It is not just Jägermeister that has seen this trend. Nicolaus Fehling, director of international sales at Germany's Hardenberg-Wilthen, whose Schwartzhog brand is growing in a number of international markets, sees

Pernod Ricard-owned Ramazzotti exceeded 1m cases in 2013

"large increases in consumption of Schwartzhog in cocktails as mixologists experiment with the brand and create new and unique consumer experiences".

He adds: "Bartenders and mixologists in particular have taken to the brand due to its 300-year heritage, provenance and unique product

> "The ice cold shot represents the biggest growth opportunity"
> – Michael Eichel, director of corporate communications, Jägermeister

story around 'Hog Root' and 'Wormwood'." More commonly, though, Schwartzhog is drunk in a Hog Bomb (Schwartzhog and energy drink) and the Schwartzhog Mule (Schwartzhog, lime, ginger ale, cucumber and ice)."

Spirits trends

Eichel says: "We currently see three main trends driving spirits innovation… premiumisation, flavour extensions and crafted specialities. All three are relevant for the bitters category, but have not been fully exploited yet."

On the one hand, the bitters category is very traditional. Jack McGarry, Tales of the Cocktail International Bartender of the Year 2013, has conducted research dating back to the 17th century, which testifies to that. On Hardenberg-Wilthen's Gebirgskräuter, which means 'mountain herbs', Fehling explains: "Various herbs and spices of our regions are used in the recipe. Our marketing campaign is positioned towards this natural, authentic and down-to-earth, less mainstream appearance." In 2013 the traditional brand grew by a double-digit percentage with this attributed to "the new natural positioning, new distribution points as well as the increased marketing support". Naturally this marketing is heavily geared towards the great outdoors.

On the other hand, the category has managed to recruit younger consumers through brands such as Jägermeister and Fernet-Branca. Both are in excess of 5m cases worldwide and stand out compared to the rest of the category, given their vast global success. Ramazzotti, the Pernod Ricard-owned brand, can also be added to this list, having exceeded 1m cases in 2013. But while the former have attracted younger consumers to the category, the latter remains buoyant, targeting a more experienced drinker. And now with line extensions and new flavour launches, bitters brands are entering another phase of recruiting new consumers.

Last year consumption of Ramazzotti increased by almost 20%. This followed a lacklustre 2012 due to a decline in its leading market Germany. 2013's success was partly driven by Germany's love of Italy and the 'Italian lifestyle', which has been harnessed by Pernod Ricard's marketing activities. Ramazzotti is not the only brand to capitalise on this; a number of grappa and wine brands have also benefited. It also fits nicely with the current trend for bitter aperitifs, as Roberto Fiorello, Ramazzotti brand and export director explains: "The aperitif occasion is growing globally due to the appeal of the 'Italian lifestyle'. Up to now this has been driven by

Bitters: top 5 brands

Brand	Volume 2009	Volume 2012	Volume 2013	% change '13 on '12	% CAGR 2008-'13
Jägermeister	6,370.7	7,028.0	7,146.8	1.7	1.9
Fernet-Branca	2,610.9	4,366.4	5,156.8	18.1	16.7
Ramazzotti	1,088.5	918.8	1,100.0	19.7	-2.3
Stock	1,079.2	550.9	660.5	19.9	-7.6
Becherovka	796.0	687.9	653.6	-5.0	-3.0
Others	9,690.9	9,490.5	9,563.8	0.8	0.1
Total	**21,636.1**	**23,042.5**	**24,281.6**	**5.4**	**2.6**

All volumes in '000s of 9-litre cases — Source: The IWSR Database 2014 ©

Aperol (Aperol Spritz), but there is also a trend towards lighter drinks and lower alcohol content." This year the Italian company launched Ramazzotti Rosato, following the successful launch of Ramazzotti Naturale two years ago and Ramazzotti Limone in Germany. Both Naturale and Rosato are lighter-style aperitifs of 15% abv and flavoured with fruit and herbs – Naturale is flavoured with orange and Rosato with orange and hibiscus. To coincide with the release Pernod Ricard has launched the Ramazzotti Rosato Mio, a sparkling wine cocktail specifically targeted at women. Far from taking away from the parent brand, such new launches seem to have acted to its benefit. "When we launched Ramazzotti Limone we expected to see some cannibalisation from the regular bitter, but in fact we noticed only 20% of Limone drinkers came from Ramazzotti Amaro. That means 80% were new recruits."

Fiorello is also a believer in the potential of the US market: "We see a great opportunity in the expanding aperitif occasion, particularly in the Italian on-trade over there. There is also a strong trend for mixology in the US, particularly around Italian brands and liqueurs."

Jack McGarry, who is also bar manager at New York's award-winning The Dead Rabbit Grocery and Grog, is a convert to bitters' potential. While the current vogue in New York is for fresh fruit drinks, bitters cocktails certainly have plenty of legs: "The cocktail scene in New York is all about bitters. If you aren't well stocked with both, your beverage programme won't be taken too seriously. A consumer who digs bitters is someone who has had a long relationship with drinking cocktails. It's natural for a consumer to migrate that way. I think it goes full circle. Bitters drinkers are cocktail connoisseurs."

For McGarry bitters are "like salt for cocktails and they work well on a variety of cocktail platforms". Indeed, The Dead Rabbit has launched its own brand, Orinoco Bitters, in conjunction with consultant Dr Adam Elmegirab. Designed solely for cocktail flavouring, Orinoco is based on a traditional style, as McGarry following his researches into Angostura "wanted the classic Angostura bark to be reintroduced, but still possess the beautiful Christmas spices that the current [Angostura bitters] has." At $25 per 100ml this craft bitter is unlikely to sell huge volumes – as a cocktail flavouring it is unlikely to do so anyway; however, it does reflect the current interest among high-profile mixologists in the bitters category and how this interest is being manifested.

A sweet outlook

Opportunities seem to be increasing rather than decreasing, even for established brands. As Eichel reflects, "Many markets still have huge potential. For Jägermeister, countries such as France, Spain and Russia remain our short-term opportunities in addition to the other emerging markets."

Competitors remain equally optimistic; Hardenberg-Wilthen's Fehling says: "We are experiencing constant growth in all markets… The USA remains a very strong market opportunity for Schwartzhog as do emerging markets such as South Korea."

Although still dominated by Jägermeister and Fernet-Branca, the bitters category is diversifying – be it through opening up new markets, premiumisation, craft bitters or expanding the bitters occasion. A cause for optimism, then, summarised nicely by Fehling: "The taste profile and experience of bitters is accepted by consumers across the world and has a strength in the fact it has female and male appeal while being a natural product. We do not see any limits to expansion and look forward to playing our role in growing the category across international markets." ■

Cachaça eyes its sporting chance

Steve Luttman talks about premium cachaça Leblon's strategy for profiting from the FIFA World Cup in Brazil

The attention focused on Brazil thanks to the World Cup and Olympics has provided the national spirit, cachaça, with a unique opportunity to raise its profile on the international stage. Premium cachaça producer, Leblon is at the forefront of this effort. Steve Luttman explains: "The World Cup is an excellent opportunity to create awareness and interest in Brazil as a culture and 'destination'. Like other wine and spirits categories, such as tequila, chianti and Champagne, the consumer is not only drinking the functional characteristics of the liquid, but the underlying cultures themselves. For many, it is subconsciously a cheaper, more convenient form of 'transportation' for the evening. Just grab a Caipirinha and you're in Rio."

He points out: "The 1968 Mexico City Olympics were a huge catalyst of interest in Mexico, Mexican food and tequila in the US, while the 2000 Sydney Summer Olympics had a big impact on Australian wine in the US, with volumes growing by 500% from 1999 to 2001. The events become more than the sporting events themselves – they become celebrations of the host countries and advertisements for the cultures themselves.

"Now, with the World Cup, consumers and the trade are open to learning about Brazil and it is up to us to bring Brazil to them. Our goal is simple: to be the drink of choice for any World Cup viewing occasion, whether it's at the bar, house party, or just relaxing on the couch."

To that end, Leblon will have cocktail feature placements in the on-premise sector, which will be managed directly by its 20-plus full-time brand ambassadors in various cities. The company will help the account promote and host their own World Cup viewing parties, providing them with tools to attract and entertain consumers in their venues. Leblon has created its own 15-person international team of World Cup bartenders, whom we will host in Brazil during the World Cup. These bartenders participated in an extensive contest in 2013 to secure a slot, and they will go as a team to Brazil to apprentice at its distillery in Minas Gerais.

To support the home consumer, Leblon has created a 'Brazil in a Box' co-pack, featuring Leblon and a bottle of 100% Natural Leblon Caipirinha Mix. Luttman says the firm has launched a book, *How To Be A Brazilian*, which it will be giving out free copies of. This covers 10 topics, from 'O Jeito Brasileiro' (the Brazilian Way) and 'praia' (the beach), to 'futebol' and 'namorar' (love). There is a chapter about cachaça, with cocktail recipes, along with recipes for great Brazilian food (pão de queijo, churrasco and feijoada) and a three-hour Spotify music playlist to accompany the party.

Leblon has invested $3m in a campaign for the brand in the US, focusing on aspirational lifestyle

To support all this 'on the ground' activity, Leblon has launched the first-ever advertising campaign for cachaça in the US, in Miami and New York City, with over $3m invested in billboards, taxi tops, subway and street posters, and aerial banners. Shot by Brazilian fashion photographer, Calé, it focuses on the aspirational lifestyle, inviting consumers to 'Be Brazilian, Be Leblon'.

US target

Cracking the US market is key to cachaça's success, but so far this has not been an easy task, as Luttman explains.

"Cachaça's success is 100% dependent upon the growth in relevance and interest amongst consumers in Brazil as a culture. Without question, Brazil has been on a steady climb over the past two decades, both economically and in terms of cultural relevance worldwide. Global exposure to Brazil, and the consistent increase of exports such as churrascarias (which continue to expand in the US), Brazilian fashion (Osklen, Havaianas, Melissa Shoes, Carlos Miele, Natura), and Brazilian tourists everywhere (#1 tourist in Miami and NYC in 2013) are having a long-term impact.

"The issue, of course, is the speed, and how long it takes for an emerging country to emerge globally. Like tequila, which took decades to become established outside markets such as the south-west US, the development of cachaça will take time. The good news is that beachheads have been established," he says.

He adds that, especially in Miami in the US, Caipirinhas and other cachaça cocktails are ubiquitous in the on-premise sector, and off-premise establishments now prominently display cachaça 'on the floor' with a wide-assortment of brand offerings on the shelf. It requires education, both about the product and the country behind it, as it is a sophisticated product that cannot be absorbed as quickly by the human brain as, for example, a new-fangled vodka flavour.

"In terms of recent breakthroughs, we have seen a consistent growth in cachaça and Caipirinha awareness since Leblon launched in 2005 outside of Brazil. In the US there was zero awareness of cachaça and the Caipirinha in the in 2005 outside Brazilian restaurants. Not even Latin restaurants carried cachaça, and few bartenders knew what a Caipirinha was – let alone how to pronounce it. Now, awareness among influential bartenders is nearly 100% and we are seeing cachaça appear on cocktail menus beyond the Caipirinha. This may not be an overnight breakthrough, but it is a significant accomplishment in a little over eight years."

The recent recognition of cachaça by the US Tax and Trade Bureau was also a major development, not only because it gives the category and the country the respect it deserves, but it has been a major catalyst for retailers to set up separate sections in their stores for cachaça, separating the spirits into their own labelled section. You see this also in the distributor price books and listings for control states – all of which increases the understanding of the category. In general, the 'Legalize Cachaça' movement was a very helpful tool in creating awareness and understanding in the trade in the US.

"Leblon's biggest breakthrough happened last year, where we started to see significant merchandising in retail in some of our key markets for the first time," says Luttman. "In the main markets, such as Miami, Leblon now has major displays at retail, indicating that consumer interest is transferring from the on-premise to the at-home occasion, which is very big news for us."

Besides the US, Brazil and Western Europe are the two interesting opportunities for premium cachaça growth, and where Leblon has started to see particular success.

In Brazil the opportunity lies in the rise in income levels and the demand for 'better quality' across the board. Brazilian consumers had been leaving cachaça for other categories, such as vodka and beer, due to a poor quality perception of the cachaças offered. "Brazilians are mainly familiar with industrial cachaça, and many are not aware of the difference between a low-cost industrially produced cachaça and an artisan alambique cachaça. Tasting is the easiest way to demonstrate the difference, along with better presentation and marketing," says Luttman. "We are encouraging consumers to try a Caipirinha with Leblon, instead of vodka, with our 'Save The Caipirinha' campaign. We have an outreach program with bartenders and consumers, demonstrating the multitude of cocktails and drinks that can be made with a higher-quality alambique cachaça. For example, one of our simplest, most successful drinks in São Paulo has been the Leblon-and-tonic with a twist of lime."

In Western Europe, the situation is similar. In Germany, cachaça and the Caipirinha are well established, but the same perception about the spirit exists – i.e. it's a poorly distilled spirit that gives you a headache and can only make a Caipirinha. As such, the firrn's objective for Western Europe markets is to educate consumers and bartenders about the difference between Leblon and the cheap industrial cachaças and to demonstrate that with a higher quality alambique cachaça, cocktail creation opportunities are limitless. With particular emphasis on Germany, France, Spain, Italy, Portugal and England, Leblon is seeing significant success from this strategy, growing 35% in 2013 in these markets, claims Luttman.

In Brazil the past three years have seen increased interest in premium 'artisanal' alambique cachaças, particularly from the younger generations, in tandem with the emergence of the craft beer movement. "The Caipirinha is a great authentic entry point," says Luttman. "For a category to have a drink with such broad appeal is very fortunate and should not be discounted, especially in the US, where the top cocktail is the Caipirinha's sensorial cousin, the Margarita. But it would be a shame to stop there as it's really the 'big toe' of cachaça's great drink-usage 'footprint,' and we are very keen on encouraging consumers to create and discover uses that they like beyond the Caipirinha. Batidas are the obvious next step, since it is an established Brazilian usage that works well in the various frozen machines on-premise. We've also had great success with the simplest of uses such as the Leblon-and-tonic, which has been our biggest hit, twists on some classic cocktails such as Brazilian Margaritas and Mojitos and, of course, creative mixology. Try the 'Baseado' cocktail by Tobin Ellis in the *How To Be Brazilian* book – it's delicious."

Need for innovation

Innovation is key to raising the profile of cachaças and creating new profit opportunities, and is occurring both at the top and bottom end of the market.

Luttman says: "Reserva Especial has been very well received – it won Top Cachaça/Double Gold in last year's SF World Spirits Competition and Gold Outstanding in the IWSC competition. We present the product initially neat and on the rocks, and it also makes a delicious Old Fashioned, and can 'travel' really well in various mixology creations."

The reason Leblon introduced Reserva Especial was two-fold: to continue the journey of discovery for the early adopter consumers; and to plant the seeds long-term for the category. "We believed it was critically important to continue to show what cachaça was capable of and enter the important aged cachaça segment in Brazil. Although currently not a huge opportunity outside Brazil, we expect the segment's profile to increase considerably over the next 10 years."

Although the Brazilian economy has faltered in recent years and Brazil's rise no longer seems as certain, Luttman is confident that cachaça will continue to see strong growth, with Leblon at the helm.

From a business perspective, 2013 was another strong year for the company with 20% net revenue growth overall. Leblon expanded its team significantly in all markets, including Brazil, Europe and North America, growing its on-the-ground sales team by 30% and pushing ahead with the roll-out of Cedilla, its cachaça-based açai liqueur, to new markets worldwide.

"Moving forward, you can expect us to continue our leadership position in the cachaça category, leading the charge in terms of communicating and educating consumers, bartenders, and the trade about the virtues of Brazil and cachaça," he says. "We will continue to innovate at all levels, and expect newcomer brands to enter the market, making the category more vibrant and exciting, like tequila. Overall, we expect the 2014 World Cup and, subsequently, the 2016 Summer Olympics in Rio to be significant catalysts for consumer interest in Brand Brazil throughout the world, and as a result, cachaça will follow." ■

India sees squeeze on middle tier

Despite slowing down markedly, the spirits market in India still saw buoyant performance, as Alastair Smith reports

Long seen as one of the great hopes for the alcohol industry, India has just suffered one of its slowest years. Spirits, which were racing ahead by a compound annual growth rate (CAGR) averaging 7.1% over the past five years, hit the buffers in 2013, rising by just 1.2%. Growth in the previously rocketing beer market slowed considerably. The only bright spot on the surface was wine which showed strong growth. So what's the story?

A key underlying reason has been the well-publicised and well-recognised slowdown in the Indian economy. Having been growing at over 8% for much of the past decade, growth has been dropping since 2010, but fell for the second year running to under 5%. This, combined with the political uncertainty in the run-up to the April/May election and the fear of a hung parliament, made many consumers much more cautious. As a result, many consumers have traded down through the IMFL price points to cheaper brands.

A USL spokesperson said: "A series of sales tax and excise changes in 2011-13 in West Bengal, Maharashtra and Karnataka – contributing to one-fourth of IMFL consumption in the country – coupled with general inflation across the country, led the consumers to hold back their discretionary spends across categories including beverage alcohol."

In addition to the general downbeat conditions, manufacturers found margins being squeezed as the cost of raw materials – especially molasses, but also glass – continued to rise. Part of the pressure on molasses has come from the government pushing the sugar industry to produce ethanol for fuel production. Much of the rise in prices has had to be absorbed by manufacturers, as some key states refuse to allow any price increases to end-consumers. This prompted many manufacturers to place greater emphasis on their more premium lines, de-emphasising their medium-priced brands, and is said to have led some to lower the price of their premium lines to encourage the trade-up. In one extreme case, a local producer withdrew a multi-million-case brand altogether to push volumes on a higher-priced alternative. So the impact of the general conditions and the rising cost of raw materials has severely squeezed the middle-tier brands, often including the largest brands in the market. To round out a rather complicated picture, duties and regulatory changes affected sales in some of the largest states – for example, Karnataka saw a duty increase in August 2013.

If local IMFL was affected by the conditions outlined above, duty-paid imports fared only marginally better. Here the double whammy of unfavourable exchange rates and the Food Safety and Standards Authority (FSSA) labelling requirements have been causing problems for importers. The response has been to focus on fewer imported products, especially by wine importers.

Despite this rather gloomy background, the market still had many bright spots. The huge whisk(e)y market grew by 2.7%. Despite being much lower than both its five-year CAGR at 6.7% and 10-year CAGR at 13.8%, this still translated into over 4.5m additional cases. This is the second-largest growth market of any in the world, with only Chinese baijiu showing a greater rise. The category continues to benefit

India: leading spirits categories

Category	Volume 2008	Volume 2009	Volume 2012	Volume 2013	Volume change 2013 on '12	% change 2013 on '12	% CAGR 2007-'12
Indian whisky	99,749.0	133,830.0	168,435.0	172,800.0	4,365.0	2.6	16.3
Indian brandy	28,750.5	44,282.5	75,485.5	76,452.0	966.5	1.3	27.1
Rum	36,038.3	43,768.5	47,638.5	46,122.8	-1,515.8	-3.2	10.7
Vodka	5,373.0	6,247.5	8,023.0	7,875.0	-148.0	-1.8	14.7
Gin	3,873.5	4,375.0	4,205.0	4,075.0	-130.0	-3.1	2.7
Scotch whisky	1,232.5	1,480.8	2,570.5	2,805.3	234.8	9.1	20.8
Fruit eaux-de-vie	180.0	170.0	190.0	195.0	5.0	2.6	4.8
US whiskey	50.0	58.5	93.5	109.5	16.0	17.1	19.3
Liqueurs	21.8	18.4	84.9	88.3	3.4	4.0	37.9
Cognac/Armagnac	16.3	23.3	48.3	52.5	4.3	8.8	37.0
Others	31.8	33.0	48.0	41.3	-6.7	-14.0	27.0
Total	**175,316.5**	**234,287.4**	**306,822.1**	**310,616.5**	**3,794.5**	**1.2**	**17.1**

All volumes in '000s of 9-litre cases

Source: The IWSR Database 2014 ©


UNITED SPIRITS
THE No.1 CHOICE FOR
CELEBRATING TRUE FRIENDSHIP
McDowell's No.1 is the world's second largest spirits franchise by value*
SINCE 1898
McDowell's
No.1
RESERVE WHISKY
BLENDED WITH SCOTCH AND SELECT INDIAN MALTS
INTERNATIONAL AWARDS WINNER
McDowell
PREMIUM 100% GRAIN
McDowell's
No.1
PLATINUM
100% PREMIUM GRAIN
LUXURY WHISKY
Drink responsibly.
*Source: World's Top 100 Spirits Brands (by Value) listing in the March 1-15 issue, 2014 of Impact Newsletter.
McDowell's No.1 is the world's largest whisky brand by volume (as per February 1—15 issue, 2014 of Shanken's Impact Newsletter).

India cont'd

from the entrenched popularity of whisk(e)y in India, outside the south. The main growth has been driven by four brands, although others have shown a decent performance. The largest growth brand, and according to the IWSR the largest whisk(e)y brand in the world, is ABD's Officer's Choice. The brand notched up considerable success with its premium line extension, Officer's Choice Blue, with volumes more or less trebling in 2013. This success, among others, and the rising costs of production is prompting almost all local players to look at their premium whisk(e)y range and this year and next will see a raft of new launches, including those centred around malt and blended Scotch. Other brands gaining more than 2m cases include USL's McDowell's and Haywards, and Pernod's Imperial Blue. The USL spokesperson said: "A strong and growing franchise of its variants – McDowell's No.1 Platinum – in addition to the upgrades from the popular segments, helped McDowell's No.1 whisky outpace the industry. The growth will be sustainable in the future as result of continued uptrading from popular segments that constitute two-thirds of the IMFL industry."

The imported market continues to gain rapidly and India is now firmly a top 10 Scotch whisky market. The numbers in the IWSR are much higher than the duty-paid volumes as they include carry-back into the market. Johnnie Walker, both Black and Red, remains the brand in greatest demand and it posted the highest growth of any Scotch, but was pushed very hard by Pernod's 100 Pipers. Both brands, as did USL's Black Dog, Diageo's VAT 69 and Black & White, benefited from the internal problems Beam India had in 2013. The other key area of the Scotch market is the surging interest in malt Scotch. Almost all brands have gained, but Pernod's The Glenlivet has been a key driver. Much of the market is fed from duty-free arrivals and carryback from Gulf duty free. This is definitely an area to watch given the backdrop of huge whisk(e)y and Scotch consumption.

Outside whisk(e)y, two other categories are worth commentating on. The first is brandy. Overall, the category had a slow year. Volumes rose by 1.3% compared to 14.6% average over the past five years. This is not surprising given that much growth was driven by the conversion of country liquor into IMFL and that this has largely happened. But two aspects are interesting. The first is that premium and super-premium local brandies are beginning to gain real traction. Volumes surged by over 40% in 2013 to take overall volumes past 1.8m cases. Spearheading this growth is Radico Khaitan's Morpheus, Kyndal's Bols and John's Mont Castle, among others. This looks like an area that will continue to grow as consumers from the vast local market now have a route to trade up. Perhaps more interesting for Western firms is that the trade-up seems to be gaining traction in Cognac. Overall volumes remain small, at only marginally larger than Denmark, but it is growing and gradually attracting greater investment.

Clockwise from above: USL's McDowell's gained more than 2m cases; ABD notched up success wth Officer's Choice Blue; Johnnie Walker (Black and Red) remains the imported brand in greatest demand

The other category worth commenting on is vodka. This was one of the strongest growth areas in the spirits market up to 2012 when, unexpectedly, the category declined. Some assign this decline to the end of a fad and see current consumption as the norm. But what has given renewed optimism is the huge new demand for flavoured vodkas, which have created new interest in the category. Whether this is another passing trend or a key development remains to be seen. Imported vodkas continue to experience double-digit growth as they gain traction in major urban centres and as more outlets open.

Wines recover volume

Still light wine continues to show healthy development, recovering volume lost after the collapse of Chateau Indage. Consumption remains heavily weighted to Mumbai, Delhi, Goa and Bangalore, which between them could account for as much as 90% of total volumes, although smaller, important markets can be found in Punjab and Pune. Consumers are experimenting more with wine due to greater exposure to it through travel, study or media. There is also greater take-up of wine among young urban women and, for many, wine is the only alcohol consumed. Volume is also growing as many new mid-tier hotels continue to open and want to create wine lists for their restaurants. Most, however, are focusing their lists on a much more narrow range of wines than the traditional five-star hotels and this is forcing some importers to slim down their lists to focus on the bigger-volume houses and brands.

Another key driver – and in many ways *the* key driver – of wine has been the significant growth in sales of cheap wine. Sales of these wines have grown strongly. Many are grape juice with added spirits and not necessarily wine in the conventional sense. The price is normally cheap under at INR200 ($3.35), with Goa a key market for these wines. Some see these wines as a positive that will help create a future market for more traditional wine consumption, while others see them as a very bad sign, as they bear little resemblance to wine, being sweet, and that they will in fact put people off. ■

ABD rides the premiumisation trend

ABD vice-president marketing Ahmed Rahimtoola discusses the latest trends in India with Alexander Smith

Mumbai-based Allied Blenders & Distillers (ABD) is a leading player in the Indian spirits market.

The IWSR Magazine: How has the slowing Indian economy impacted the Indian IMFL market? Generally are you seeing lower rates of growth, although the recent performance of Officer's Choice seems to run counter to that trend? Specifically, what is the outlook for the premium and super-premium segments?
Ahmed Rahimtoola: The slowing economy over the past couple of years could have led to a decrease in discretionary spending and consequently the IMFL industry in India has slowed down considerably over the last two to three years. Certain segments are facing stagnant growth and even declining.

The minimal growth that the whisk(e)y category is showing is largely on account of the semi-premium whisk(e)y segment. A large set of consumers is trading up to the semi-premium segment, but considering the huge base of young consumers, we are optimistic that the new consumer recruitment in the regular whisk(e)y segment will be encouraging.

There is now a wave of optimism about the economy going ahead, coupled with improvements on key economic measures. This should also positively impact the alcobev industry in India. Taking into account the growths in the semi-premium-and-above segments, even in the last couple of years, the outlook for the premium and super-premium segment is very positive as a healthy base of the middle-class Indian population and increasing disposable income will be beneficial to these categories.

IWSR: What impact is the rise in input costs (molasses, glass, etc) having? Are suppliers generally passing these costs on to the consumer?
Rahimtoola: The Indian alcobev market is a highly regulated market and prices are controlled by state governments in almost all the states in the country. Getting price increases is not easy. This means companies are not at liberty to increase prices to offset any increase in input costs. Thus, there has been a considerable impact on profitability with the increase in the input costs.

IWSR: What do you see as the key trends within the whisk(e)y market? Do you see malt gaining significant traction? Also, do you anticipate that Scotch imports will take greater share in coming years?

Ahmed Rahimtoola, vice-president marketing, ABD

Rahimtoola: As one of the key defining ingredients of a good whisk(e)y, malt has already established itself in the minds and hearts of consumers across India. With greater awareness, as well as rising disposable incomes, trading-up is a phenomenon that is being witnessed over the past few years and is poised to continue for the long term. As trading-up happens, consumers become more discerning and understand what goes into making a great whisk(e)y. Consumers have also become more demanding and this has resulted in the premiumisation of the alcobev industry in India, especially whisk(e)y. Hence it is evident that malt will gain significant prominence and traction in the coming years which will definitely lead to a higher quantity of Scotch imports.

IWSR: This month we run our annual Real 100 list of the top spirits brands in the global market. ABD's Officer's Choice is now the fifth-largest brand overall after a fairly explosive gain of around 5.5m cases to just over 24m cases. What accounts for the fairly dramatic growth of Officer's Choice in recent years?
Rahimtoola: Officer's Choice whisky enjoys a 25-year-strong bond with consumers across the country and some markets abroad. The heritage of this relationship buffers the brand against any external influences. Officer's Choice whisky has maintained superior blend quality consistently over its lifetime and consumers never have a reason to complain about the blend.

The whisk(e)y category codes center around success, achievement, masculinity, bonding and celebration. The 'Righteousness' positioning of Officer's Choice breaks free of these codes and brings social messaging into play. This has only strengthened our bond with consumers and gives us larger heart share with the consumers of the regular whisk(e)y segment.

Continuous attempts at making the brand contemporary, including changes in packaging and communication, have ensured that we are able to recruit newer and younger consumers to the brand. The launch of premium variants of Officer's Choice – Officer's Choice Black and Officer's Choice Blue – have added to the halo around the brand. This also reassures consumers of the imagery and aspiration cues that the brand exudes in social situations.

IWSR: India is obviously chiefly a whisk(e)y market. What other categories do you see as up and coming? Also, why has vodka lost momentum?
Rahimtoola: Whisk(e)y dominates the Indian palate, with more than 55% salience to the Indian alcobev industry. Vodka has lost momentum in the country as it is now considered primarily a party drink, targeted towards women. However, with increasing acceptance of women drinkers in the country, as well as the rising aspirations of the modern Indian woman, vodka could be a category to watch out for. Even if one were to drill down into the segments, it is only the semi-premium vodka segment that is showing any growth.

The consumption of vodka has seen a dramatic shift over the past decade. It has gone from brown-bag syndrome – whereby its lack of odour and taste was ideal for those who wanted to mask their drink or drinking. That has changed and people are now prepared to flaunt the brand of vodka they drink. This has led to a greater emphasis on packaging design. The other big change is that it has gone from a clear and tasteless product, sold chiefly on product purity and its suitability for cocktails, to something that is now bold and flavourful. It is now sold in a variety of flavours and it is the flavours that are driving the category.

Ready-to-drink (RTD) alcoholic beverages are also a category that shows a positive future outlook. ■

Tough going in Russia

A difficult economy and growing political tensions are taking their toll on the Russian market, finds Helen Windle

The faltering economy in Russia is dampening consumer confidence

PHOTO: HELEN WINDLE

Russia entered a new phase in 2013 as the previously strong economy started to slow halfway through the year.

Consumer confidence started to wane, as the cost of living continued to rise, but incomes failed to keep pace. The International Monetary Fund (IMF) says Russia is now in recession, and growth forecasts have been lowered for 2014 from 1.3% to 0.2%. Meanwhile, credit rating agency Standard & Poor has downgraded its rating to BBB- as investors retreat amid Russia's political tensions with Ukraine. The capital outflow following Russia's invasion of Crimea has had a deflationary impact.

The slowing economy and low consumer confidence was evident in the vodka market, the largest spirit category in Russia. The yearly excise increases have resulted in a dramatic rise in minimum retail prices, making the simple pleasure of a bottle of vodka unattainable for some Russians. When a legal bottle costs a minimum of RUB170 ($4.94) for 50cl, who wouldn't be tempted to pay a third of the price on the black market? On 1 January this year the minimum price rose again to RUB199 ($5.78) for 50cl, widening the gap between the official and grey markets.

Official production fell -12.3% in 2013 versus 2012, whereas consumption is believed to be stable as consumers switched to cheaper black-market products. This carries obvious health risks for consumers and has also led to a predictable loss of tax revenue for the government.

Compared to other countries, Russia has one of the highest duty levels relative to income in Europe. Following pressure from the industry and calls for a halt or slowdown in the tax increases, the government has now agreed to freeze excise. Tax was due to rise by 20% in 2015 to RUB600 ($17.43) per litre of pure alcohol, but in light of a surging black market it has decided to rethink the issue.

The black market is dominant in the regions, where authorities willingly turn a blind eye or are paid to do so. And it is not just affecting local spirits; earlier this year Russian media group RBC reported that the counterfeit whisk(e)y market is estimated to be over 1m nine-litre cases.

The legal whisk(e)y market reached 4.8m cases in 2013, with a slowdown in growth, possibly due to a rise in counterfeit. This mainly affects the leading brands, such as Jack Daniel's, Johnnie Walker, Jameson and Chivas Regal. Fake versions can be purchased for very low prices online at sites such as *http://alcoholreplica.com/* and *http://alcotrast.net/*. But the problem is not just confined to online sales; counterfeit goods are also available in retail. According to local reports some retailers buy a small amount of official produce to get the relevant documentation, then copy these documents and add to their stock with counterfeit goods. Official data showed retail sales of whisk(e)y to be 1.1m cases higher than official imports according to RBC.

Government to tackle black marketeers

One of the key aims over the next four years for government alcohol regulator Rosalkoregulirovanie (RAR) is to attack the illegal market, but it is no small task. It also plans to help official producers of spirits to increase production and to switch consumers back to the legal market, thus theoretically increasing tax revenue. One measure to tackle the illegal market is the proposed introduction of the EGAIS recording system to wholesale and retail, which should then allow the tracking of a bottle from factory to shop floor.

Another proposed measure is the separation of licensing requirements for retail sales of alcohol product below and above 28% abv, which would allow the government to impose stricter regulations on the sales of strong spirits, without attacking the beer and wine sectors.

Many of RAR's goals are supportive of the wine industry and include increasing the use of domestic raw materials for winemaking, reducing the licensing requirements for wine producers and increasing the number of small 'peasant' farms licensed to supply grapes to the wine industry.

Promotion drive

Across the whole market, the majority of consumers are seeking the lowest prices or best-value discounts. In the whisk(e)y category more low-priced brands are entering the market and encouraging new consumers to join the category with low prices and discounts. The increase in vodka prices has served to close the gap between vodka and the lowest-priced whiskies.

Bell's and White Horse were the largest-growing whiskies in Russia in 2013. Gaining over 260,000 cases between them, they appear to have taken sales from other leading value whisk(e)y brands – William Lawson, Black & White and Clan MacGregor.

The ban on advertising, introduced in July 2012, has created an even playing field, but this puts even more focus on the point of sale, shelf positioning and promotions.

It is becoming increasingly difficult to sell significant volumes in the absence of promotions and this can be both expensive and detrimental to brand image. Brand loyalty still remains low, so promotions help increase brand awareness and retain customers. In key retail accounts almost two-thirds of brands can be on promotion at any one time. Some discounts are as deep as -30% off the retail price.

Growing opportunities

Overall, Scotch grew a very modest 1.2% in 2013 compared with 2012's growth of 26.4%. Diageo had the strongest growth in the whisk(e)y category, gaining market share. The strong performance of Bell's and White Horse helped them gain four points to take a 33.7% share of the slowing whisk(e)y market. Diageo's success was not limited to whisk(e)y. Captain Morgan was the third largest-growing non-CIS spirit, behind Bell's and White Horse, adding nearly 70,000 cases to its total to reach 188,350 cases in 2013. Added-value pack promotions with Coca-Cola have helped boost sales and this could be the beginning of a spiced trend in Russia.

Rum in general had another good year as the popularity of the mojito continued to spread and the rise of Captain Morgan drove a movement towards mixing spirits and soft drinks. It is not traditional to mix spirits, but the younger generation are taking note of Western trends and drinking simple mixers. The Bacardi range lost volumes in 2013, due to losses from Bacardi Black and Gold and from Oakheart, which has not managed to enjoy the same success as Captain Morgan. However, Bacardi Superior was the second fastest-growing rum brand line behind Captain Morgan Spiced, rising by more than 25,000 cases. Other growth in the category has come from standard and value brands, as consumers continue to seek low-priced but still good-quality products. Diageo has taken advantage of this trend and introduced a new locally produced rum called Shark Tooth, which sold over 50,000 cases in its first year.

US whiskey is one category in the market where the premium sector is doing very well. The value segment does not really exist and super-brand Jack Daniel's is leading the US whiskey march. It is the largest US whiskey brand and exceeded the 200,000-case mark in 2013. Having seen a smooth transfer of distribution to Coca-Cola, sales are now in full swing, boasting a growth of 46.2% in 2013 versus 2012. Second-largest brand Jim Beam also saw good growth of 43.6% to reach over 79,000 cases. The introduction of its flavoured brand lines are proving successful so far. Honey and cherry are traditional flavours in Russia and make whisk(e)y more accessible to some consumers who don't like strong spirits. The taste of Jim Beam Red

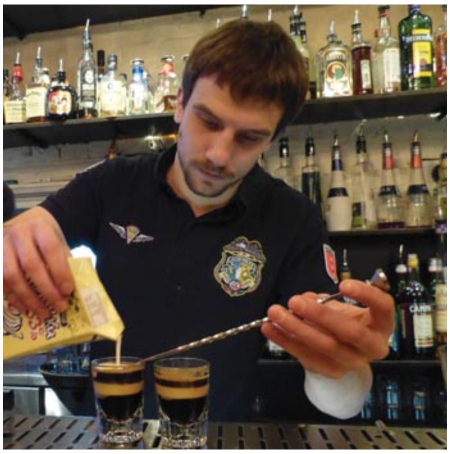


PHOTO: HELEN WINDLE

A trend for cocktails is boosting liqueur sales in the market

Stag appeals to both men and women, but the packaging is also masculine enough that men do not feel like it is a whisk(e)y just for women. Spiced whiskies have been introduced now, but it is still early days to see if this trend will really develop. Spiced drinks such as Captain Morgan work well with cola and the introduction of new spiced spirits could fuel this trend.

Liqueurs was the best-growing category last year, falling just short of 4.4m cases. Local liqueurs grew by 7.7% in 2013 versus 2012 and imported grew by 17.2% to reach 487,000 cases. Baileys is the leading imported liqueur brand, which continued to grow, albeit at a slower rate in 2013 – perhaps an indication of the slowing economy. It is seen as a luxury treat and is often given as a gift.

Fruko Schulz, the Czech liqueur range owned by St Petersburg-based producer Ladoga, and the De Kuyper liqueur range were the fastest-growing imported liqueur brands, indicating a rise, albeit small, in cocktail culture. The on-trade and mixology is most developed in Moscow and St Petersburg, but is spreading to the regions.

Bitters is the fifth-largest growth category in Russia thanks to the development of both local and imported bitters. Jägermeister dominates the imported market as the trend for cold shots of this sweet bitter drink spreads from Europe. It is distributed by Roust, part of Russian Standard, and has an impressive compound annual growth rate (CAGR) from 2009-2013 of 54.7%. The brand tipped the 100,000-case mark in 2013. The other key imported brand in the bitters category is Becherovka, which saw growth of 28.7% in 2013.

Traditional category brandy saw an increase of nearly 200,000 cases in 2013, with most of the development coming from imported brandy. The strongest rise in the category came from Armenian brandy, which is a top-quality product, viewed as comparable, if not better, than French Cognac. Leading brand Ararat, owned by Pernod Ricard, saw the largest growth in 2013. Pernod Ricard Russia managing director Philippe Coutin tells *the IWSR Magazine*: "[Ararat] is a very good-quality product and deserves its premium price. It is doing very well in the regions. The modern off-trade is really growing, I believe it's expanding by around 3,000 shops every year, including into the regions. We are really focusing on the regions now. These towns are really booming in consumption. Ararat is our pull product. It's a big opportunity."

Local brandy declined marginally, while Cognac grew, albeit more slowly than in 2012.

This year will also be slow for some as the economic and political uncertainty continues. However, the outlook for Russia in the long term is still positive and, for many, it is still viewed as a land of opportunity. ■

Russia: spirits sales by category

Category	Volume 2009	Volume 2012	Volume 2013	% change '13 on '12	Vol change '13 on '09
Vodka	236,148.3	219,696.5	219,650.0	Min	-16,498.3
Other spirits	22,570.0	17,014.0	16,513.5	-2.9	-6,056.5
Other brandy	9,981.5	12,244.5	12,437.3	1.6	2,455.8
Liqueurs	4,261.0	4,044.5	4,395.3	8.7	134.3
Scotch whisky	1,342.8	3,955.0	4,001.0	1.2	2,658.3
Rum	335.3	749.0	897.5	19.8	562.3
Bitters/Spirit aperitifs	532.5	740.8	849.5	14.7	317.0
Tequila	191.5	510.6	465.0	-8.9	273.5
Irish whiskey	132.8	366.0	388.0	6.0	255.3
US whiskey	77.3	265.0	387.5	46.2	310.3
Others	382.5	689.4	716.0	3.9	333.5
Total	**275,955.3**	**260,275.3**	**260,700.5**	**0.2**	**-15,254.8**

All volumes in '000s of 9-litre cases

Source: The IWSR Database 2014 ©

in brief

Wine consumption gains across Asia

Asia Interest in and demand for wine continued to grow in India, Japan, South Korea, Thailand and Cambodia. In South Korea consumption has returned to peak levels, while wine is increasingly being seen as an everyday item for Japanese consumers. In India growth has been focused in two key urban areas, Mumbai and New Delhi-Gurgaon, although much of the volume is made up of strong, sweet cheap wine.

The wine markets in Thailand and Cambodia have also been developing well. Major wine companies such as Gallo began entering the markets last year and more are expected to follow and contribute to the category's ongoing expansion. In Thailand still light wine was one of the only categories to see positive growth over the year.

Pre-mix cocktails drive sparkling growth in Germany

Germany Sparkling wine volumes were up last year in Germany, driven by non-Champagne types. These include pre-made sparkling wine cocktails – such as Hugo and Aperol Spritz imitations. Total non-Champagne sparkling wine sales climbed 1.5% to 45.4m cases.

Other traditional sparklers fell back. The decline was partly driven by price rises, but also to a degree due to the switch from drier to sweeter styles, which benefited flavoured variants. One notable exception to this was cava, which, due to its attractive price, continued to make gains. It is important to note that, in Germany, frizzante wines are not subject to excise tax. The latter are either sold in 75cl or 20cl cans and form the base of flavoured sparkling wine aperitif drinks.

Champagne volumes in Germany declined -3.4% to 824,250 cases. This was due to losses at the own- and private-label end of the market as consumers traded away to cheaper crémants. Grandes marques performed relatively well.

Treasury in $260m write-off

Australia Treasury Wine Estates (TWE) announced that it will take a non-cash brand and related-asset write-down of up to $260m in fiscal 2014. The company said the charge reflects the combination of historical prices paid for pre-demerger acquisitions while it was under Foster's and the decline in market growth rates for commercial wine globally. It follows a further $160m cut just 12 months ago, in addition to a $1.3bn write-down in early 2011.

TWE CEO Michael Clarke said the decision "further highlights the need for TWE to do things differently". The company, in a statement, characterised fiscal 2015 as a "reset year" – and noted that that it remained committed to delivering improvements in performance through greater focus and brand prioritisation, structural reform and major marketing initiatives to drive consumer engagement.

As part of that restructuring, TWE will now focus on its Commercial brand portfolio in Australia separately to its Luxury and Masstige portfolio. Clarke said: "The Commercial wine market is markedly different to that of Luxury & Masstige and we need to consider new operating models and ways of working to realise growth and improve profitability across both."

The Australian & New Zealand (ANZ) business will now be jointly run by Angus McPherson, currently GM – Australia, who will lead the team focused on TWE's Australian Commercial portfolio together with Simon Marton, currently CMO, who will also lead the team focused on TWE's Luxury & Masstige portfolio. Both roles will report to Clarke.

In addition to structural changes to its operations in ANZ, the company also intends to manage its Asia and Europe, Middle East & Africa (EMEA) regions separately to ANZ. As a result of this move, Andrew Carter, chief commercial officer APAC & EMEA, has left the company.

Constellation identifies consumer types

USA Three new segments of wine drinkers have been identified in the latest phase of Constellation Brand's ongoing study into wine consumer purchasing motivations.

The report, entitled *Project Genome*, said that that these groups, comprising more than half of the wine-drinking public in the US and Canada, will have a significant influence on the future direction of the industry.

The typologies are based on purchase behaviour, preferences and taste profiles. Today, in addition to the existing Overwhelmed, Image Seekers and Enthusiasts, the three new segments of wine drinkers are: Engaged Newcomers, Everyday Loyals and Price-Driven Consumers.

Constellation Brands VP for strategic insights Dale Stratton explained that the types of wine consumers identified in the current phase of the study are significant because of their collective buying power, and also because they are increasingly engaged in the types of brands they select. Some select wine on price, others become loyal to specific labels, and still others are new to the category, but eager to learn more. But all of them seek a better understanding of wines and the distinctions between them.

Eastern Europe show growing interest in imports: Increased foreign travel is helping to develop wine education across Russia, Ukraine Armenia and Azerbaijan. This trend has had a larger impact on off-trade imported wine sales as prices in the on-trade remain prohibitively high, although importers are working with the on-trade to educate waiters about wine and food pairing. Sales of Riedel glasses are growing in Russia, a sign that consumers are becoming more serious about their wine consumption and making an occasion of drinking at home.

Interest in bottled and imported wines is also increasing in Georgia, Uzbekistan, Turkmenistan and Kazakhstan as consumers begin to experiment beyond local wines. Consumers in Russia and Kazakhstan are increasingly seeking quality wines for a reasonable price. Georgian wines are now back on the Russian market following a ban which had been in place since 2006. Many of the Georgian wines which have recently entered the Russian market are focused on the premium end of the category.

Most consumers in Azerbaijan and Kazakhstan perceive wine as female-only, but this perception is slowly changing and more men are entering the wine market.

A growing number of consumers in both Russia and Ukraine are seeking healthier lifestyle choices. Responsible wine consumption, in particular low-alcohol wines, is regarded to be healthier than spirits consumption and is driving growth of the segment.

Double-digit growth in Japan

Wines continue to grow in Japan, but the mid-priced tier is struggling, as José Luis Hermoso reports

Still light wine consumption continued to grow in Japan in 2013 and the fundamentals of the category remain healthy.

It has taken more than 15 years to return to the consumption levels of the red wine boom in 1997. Low-priced wines, largely from Spain and Chile, are largely responsible for growth, but expensive wines are also doing reasonably well, or at least have stopped their decline of the past few years.

Wines enriched with polyphenol, ecologically produced and non-sulphite wines continue to see strong demand. Japanese wines made of 100% Japanese grapes are also on the rise, with Japanese-only wine bars making their appearance for the first time in Tokyo. On the other hand, the market for Beaujolais Nouveau – with Japan still the biggest market for Beaujolais – continues to shrink.

Large stocks built in 2012 seem to have cleared in 2013 as imports for still-buoyant inexpensive Spanish wines returned and consumption continued to rise. The devaluation of the imported wine market in Japan in recent years continued in 2013, but at a slower pace than in previous years.

The average price of bottled imports grew from last year's ¥457 ($4.49) per litre to ¥570 ($5.60), but both bag-in-box and locally bottled bulk took share from the bottled imports sector, driving down overall value. Most growth continues to come from cheap Chilean and Spanish wines, with more wine now being imported in bulk and bottled locally in order to reduce the tax paid. However, a major change in 2013 saw expensive wines recover, while the mid-range sector seems to be suffering. This trend is continuing in 2014. Tomoyuki Kitagawa, from Sapporo's marketing department, says: "There is still strong demand among entry wine consumers for cheap wines, between ¥500 and ¥800 ($4.91-$7.86), despite the weaker yen compared to 2013."

France continues to be the largest supplier of wine in volume to the Japanese market, but it is losing share year on year. The French wine market in Japan suffered strongly in the aftermath of the financial crisis and has recovered since, but French wine sales are not showing the dynamism of other countries of origin as they cannot compete on price in the now-key price segment of under ¥700 ($6.87), where local, Chilean and Spanish wines reign. Whereas France supplied around 42.5% of all imported still light wine into Japan a decade ago, last year's figure was less than 29%. With Chilean wines' growing popularity as good value for money and European Union-Japan negotiations on a free trade agreement (FTA) stalling, France could lose its first spot as wine supplier to the most relevant imported wine market in Asia within the next five years.

It has taken more than 15 years to return to the consumption levels of 1997

Chilean wines on the rise

Chile has taken full advantage of its FTA with Japan, and its exports to the market continue to boom. Chilean wines pay around ¥43 ($0.42) less tax per bottle on CIF than other countries of origin, and when adding consumption tax and the margins from different sectors (importers, agents, wholesalers and retailers/on premise chains) to the final consumer, this can be a very significant figure. Besides, more and more Chilean wine is now being imported in bulk and bottled locally by major importers and large retail chains, in order to pay even less tax. Finally, the short 2012 vintage volume meant Spain could not supply some wines at the very lowest price segments, and these were supplied by Chile. In 2013 Chilean wines overtook Italian wines as the second-largest supplier into Japan; they were the fifth-largest supplier a decade ago.

Apart from Franzia, Mercian will also be importing bulk from Chile to bottle locally in Japan in 2014 under the brand Ladera Verde, which will be positioned at ¥300-¥400 ($2.95-$3.93) in large retailers.

Italian wine consumption also grew, despite a decline in imports. Stocks from 2012's huge rise in imports – up 23% to just under 4m cases – which were not reflected in that year's consumption, were also cleared. Italian cuisine remains popular in Japan and restaurants serving quality Italian food are doing well. Italian wines also benefit from listings in tapas bars and the growing number of standing-up wine bars, known as 'Tachinomiya', opening in major cities such as metropolitan Tokyo.

Spanish imports declined, but part of the stock shipped in 2012 (+56% versus 2011) was consumed in 2013, a year in which price at source in Spain soared by 21% from an average of ¥239 ($2.35) to ¥289 ($2.84) per litre, as a

State of the market

Consumer confidence in Japan improved in 2013 after years of deterioration. The economic reforms driven by Prime Minister Shinzo Abe seem to be making an impact and the economic outlook in Japan was better than in previous years, although inflation grew at higher rates than salaries, squeezing disposable income. A strong yen (now weakened) and the consumption tax rise announced for April 2014 – from 5% to 8% initially, then from 8% to 10% in April 2015 – were also factors that drove Japanese imports of wine to record levels in 2013. With an average per capita consumption of just three litres in what remains, after China and the US, the world's third-largest economy, future potential for still light wine remains huge, especially if consumers switch from local categories sake and shochu, which are still large, but in long-term decline.

Wine in Japan cont'd

Japan: still light wines by origin

Origin	Volume 2003	Volume 2012	Volume 2013	% change '13 on '03	% CAGR 2003-'13
Japanese	10,311.0	10,554.0	11,050.0	7.2	0.7
French	6,200.5	6,340.0	6,715.0	8.3	0.8
Chilean	845.0	3,200.0	4,436.0	425.0	18.0
Italian	2,865.0	3,670.0	4,063.0	41.8	3.6
Spanish	706.3	2,465.0	3,258.0	361.3	16.5
US	2,025.5	2,700.0	2,997.0	48.0	4.0
Australian	560.0	897.0	945.0	68.8	5.4
German	875.0	402.0	380.0	-56.6	-8.0
Argentinian	80.0	359.0	348.0	335.0	15.8
South African	165.0	415.0	345.0	109.1	7.7
New Zealand	35.0	124.0	124.0	254.3	13.5
Portuguese	45.0	81.0	96.0	113.3	7.9
Other	205.0	125.0	127.0		
Total	**24,918.3**	**31,332.0**	**34,884.0**	**40.0**	**3.4**

All volumes in '000s of 9-litre cases

shortage in Spain put pressure on supplies of the lowest-priced wines. A large 2013 volume vintage in Spain will drive this average price down again in 2014. Akiko Takano, brand coordinator at Freixenet Japan, confirms: "We expect more cheap Spanish still light wine and cava to be imported in 2014."

Spain remains the cheapest supplier of bottled wine into Japan, but is coming closer to Chile (¥312/$3.06 per litre). The popularity of Spanish tapas bars and Japanese standing-up drinking bars are benefiting the Spanish wine category, but its competitive price in the volume-driven price segments is fuelling most growth. Exports of quality Rioja wines into Japan, for example, have been rather stable in the past three years.

US wines have continued to reap the benefits of Gallo and Suntory's support of the Carlo Rossi brand – through the Rossi Rock slogan – and the growing volume of locally bottled bulk brands, such as Franzia and Yosemite Road. The Japanese market is one of the main destinations worldwide for prestige US wines and are doing well, while the middle range – between ¥1,000 ($9.82) and ¥1,500 ($14.73) RSP – is suffering from competition in lower price segments.

Australian wines struggle

Australian wines continue to underperform expectations as importers are finding it difficult to deal with the strong Australian dollar against the yen and increasing prices at source. Only leading brands, such as [yellow tail] and Jacob's Creek seem to be doing well, but other Australian powerhouses, such as TWE and Accolade, have been struggling in Japan for a long time. It is difficult to understand why a brand like Wolf Blass does a much larger volume in Hong Kong (a much smaller imported wine market) than in Japan. The acquisition of Australian interests by Japanese companies, such as Kirin's purchase of Lion Group a couple of years back, have had only a limited impact on the presence of Australian wines in Japan so far.

Potential threats

There are two major threats to the wine market in Japan in 2014: firstly, the consumer reaction to the 3% consumption tax rise last April, which somehow altered purchasing patterns in the months prior to the tax rise. Takano from Freixenet Japan says: "We think there will be little impact from the consumption tax rise in Japan. Taking into consideration sales of commodities and other products in general retailers in May/June, purchasing trends are expected to exceed the tax increase impact. Moreover, the forecast of a cold summer in Japan is likely to favour wine consumption."

Kiyoshi Yokohama, president of Mercian, one of the leading wine importers in Japan said in a recent presentation: "The consumption tax hike will lead to further demand for lower-priced items among consumers, but signs of economic recovery will also encourage some consumers to look for added-value quality wines."

More importantly, the weakening of the yen, which will have an effect on importers' margins, will finally be felt by the end-consumer as, inevitably, prices will have to rise. For most of 2013 ¥100 ($0.98) was buying €1 or more, while the current exchange rate is €0.70-€0.75 for ¥100. There is no way importers can absorb such an unfavourable exchange rate for long without revising their prices. Takano adds: "We presume a more or less devalued yen will have an effect on wine consumption this year. Some importers are applying price increases in the autumn."

Tomoyuki Kitagawa says: "I think the Japanese wine market will grow this year. The increase in consumption tax this spring did not affect wine. Domestic wine in large PETs, such as 1.5L and 1.8L, were sold in larger quantities than usual prior to the tax rise, as well as expensive wines such as Champagne. But in my personal opinion, rich people don't care about price. The next tax rise from 8% to 10% in 2015 might create a tougher environment." ■

Asia: per capita wine consumption

Country	Volume 2003	Volume 2013	Litres per capita '03	Litres per capita '13
China	39,069.8	158,490.0	0.4	1.4
Japan	24,918.3	34,884.0	2.2	3.0
Hong Kong	1,051.0	3,378.0	1.8	5.1
South Korea	1,656.8	3,234.0	0.4	0.8
Taiwan	574.0	1,632.8	0.3	0.8
Thailand	660.0	1,591.0	0.1	0.3
Philippines	646.8	1,399.5	0.1	0.2
Vietnam	211.3	1,218.8	Min	0.2
India	193.0	1,180.0	Min	Min
Singapore	445.0	899.0	1.2	1.9
Malaysia	307.5	706.8	0.2	0.4
Indonesia	95.0	403.3	Min	Min
Cambodia	25.5	121.8	Min	0.1
Sri Lanka	76.0	121.3	0.1	0.1
Laos	8.3	68.8	Min	0.2
Burma	6.0	56.0	Min	Min

Volumes in '000s of 9-litre cases

Made in Italy

Humphrey Serjeantson looks at the recent development of prosecco on the global stage

The historic cellar at family-owned prosecco group Bisol, in which the Lunelli Group recently took a 50% stake. Below: Mionetto's IL Ugo is probably the best-known brand of the elderflower-and-prosecco creation known as the hugo

Prosecco sparkling wine is made in north-eastern Italy from the glera grape using the metodo italiano (also known as the Charmat method) of fermentation in stainless steel tanks. To be absolutely precise, not all prosecco is sparkling; a very small proportion of the total production consists of still and semi-sparkling wines.

There are two quality levels within prosecco, DOC and DOCG; DOCG is also commonly known as 'prosecco superiore'. The DOC area covers nine provinces: five in the Veneto region (Treviso, Venice, Vicenza, Padua and Belluno) and four in Friuli Venezia Giulia (Gorizia, Pordenone, Trieste and Udine). When the grapes used to make a prosecco are produced exclusively in the province of Treviso or Trieste, the name Treviso or Trieste can be used on the label to signal this fact as these two areas are of particular historical significance in the development of prosecco. And the DOCG area, within the larger DOC area, consists of two parts: the area around Conegliano Valdobbiadene and the lesser-known (and much smaller) area of Colli Asolani (the hills near Asolo). Within the Conegliano Valdobbiadene area there is a further distinction for the area of Cartizze, a small hill held to produce the very finest-quality prosecco; slopes are steeper here and the soil has a high clay content. Another top-end segment within DOCG is Rive, which must be produced from grapes that come from a single *comune* or village therein; there are 43 different Rive, and grapes must be picked by hand.

Prosecco in general is drunk young rather than kept to age in the bottle, but at the higher end of the quality spectrum it is perfectly possible to age it for three, five or even 10 years.

Mixability a key driver

Prosecco is commonly drunk as an aperitif on its own, but a key driver of growth in recent years has been consumption in a spritz, especially with Aperol, one of the key spirits success stories of the last 10+ years. The large glass of orange liquid (Aperol, prosecco and soda water) has become a summer fixture across many markets around the world, starting from Italy and neighbouring markets and spreading out across Europe and beyond. Aperol's recent sponsorship deal with Manchester United is set to take it to more consumers than ever before.

An alternative to the Aperol spritz is also seeing growth across a number of markets, particularly Germany and Italy – the hugo, consisting of elderflower and prosecco. While initially the hugo was largely unbranded, some key players have recently taken steps to create branded versions; a key example is Mionetto, whose IL Ugo brand is probably the best-known.

The appeal of prosecco

There are several factors behind the widespread appeal of prosecco. The first of these is the quality of the wine itself, particularly in relation to the price of a bottle or glass. Prosecco's growth in recent years has come against a backdrop of tough economic times in many markets, but it would be wrong to suggest that this growth is due to consumers trading down from Champagne. Prosecco is light, fruity and easy to drink, and appeals to consumers in circumstances that extend beyond the typical celebration occasion of its more famous French counterpart. Prosecco can be drunk in celebrations, parties and weddings or as an aperitif, but it can also be drunk with a wide range of food. In some markets (Italy among them), even where the on-trade is suffering in general, consumers are still keen to meet for an aperitif, even if they do not then

Prosecco cont'd

go out to dinner. More than likely, prosecco will figure in this context.

In export markets, prosecco benefits from the association consumers have with Italy as a producer of high-quality food and drink, and the style that come from the country's design and fashion traditions.

Ferrari takes a stake in Bisol

A major change in the landscape of prosecco producers came in April 2014 when the Lunelli Group, owner of leading Trento DOC sparkling wine Cantine Ferrari, took a 50% stake in family-owned prosecco producer Bisol. In addition to Trento DOC, Ferrari also produces still light wines, spirits and mineral water, so a prosecco represents a further broadening of its range. Speaking about the deal at Vinitaly, Matteo Lunelli, CEO of the Lunelli Group, said the acquisition was a "coherent" and "very significant" step. "I've been convinced for years it would be right to enter prosecco," he said, "but it was not easy to find a company." Two key factors drew him to the Bisol brand: tradition and strong links with Valdobbiadene and the territory. The purpose of the capital increase is to allow Bisol to continue to expand. "Today in Italian wine the world is our market. We have to be little multinationals," said Lunelli. The challenge is tough, however – a key player needs not only to maintain its roots in Italy but also to look at all other markets, so teaming up is important. "Our ambition is for consumers to have a perception of Bisol as quality in prosecco. Consumers too often just ask for prosecco. Bisol wants to be the brand for prosecco superiore di Valdobbiadene."

Like many of the more premium players, Bisol produces a range of lines across several different price points. The Jeio line – named after the diminutive version of the first name of the company's founder, Desiderio Bisol – is described as a classic DOCG. The Crede line is more premium, produced from grapes made on hills that are harder to reach, and it has a higher acidity. As Desiderio Bisol (grandson of the founder) explains: "The acidity preserves the wine at this level; it's not alcohol that can do that at 11%."

One of the goals at Bisol is to keep the wine as pure as possible. "As soon as you add a substance to this wine, you really notice it, so we try to keep it down to a minimum." The Bisol family do not own all the vineyards they use to produce grapes for their prosecco. "We are owners and tenants," continues Bisol. "The price of vineyards is extremely high [so] we prefer to rent vineyards." He explains the special nature of Cartizze and why it is so prized – and why prices are highest there. "Cartizze is unlike the [other hills] in the direction it faces. There's always a lot of water. Prosecco needs a good amount of water. If you add water to the plants, you dilute the flavour." Cartizze is also in the hands of a large number of producers, each of which has a small area. The hill may be known only to a few at the moment, but this could change. Early in 2014 a cocktail bar opened in London's Mayfair called Cartizze; it features prosecco heavily in its cocktail list.

Vineyards in Cartizze are prized above others for the production of prosecco

Ferrari's investment in Bisol is not the first time a company from outside the world of prosecco has become involved in it. Mionetto, one of the leading brands in volume terms in the Italian domestic market, was purchased by German sparkling wine producer Henkell in 2008. Henkell took steps in 2013 to bring Mionetto to a wider consumer base in the UK with the purchase of a 60% stake in importer Copestick Murray.

A further step was the purchase in 2013 of Gancia by Russian Standard; while it also produces vermouth and still light wines, Gancia is best known for its range of sparkling wines, which includes prosecco.

Prosecco around the world

Interest in prosecco is growing around the world. In China low-priced Italian sparkling wines are beginning to reach smaller cities, and are appealing in particular to female consumers. Japan saw growth in Italian sparkling wine in 2013 mainly thanks to off-premise sales by large retailers. Mexico continues to see growth in Italian sparklers, driven by prosecco, and local sparkling wines are losing out as a result. In Singapore prosecco benefited from the growing popularity of Italian restaurants, but it has been less successful in the off-trade due to consumers' lack of familiarity with the brands. South Korea is more interested in Moscato d'Asti at the moment, while Taiwan saw growth in Italian sparkling wine in general.

For Carpenè Malvolti in 2013 the domestic market was more positive in the off-trade than the on-trade; Italy's economy continued to struggle in 2013 and the on-trade in general had a tough time. Export markets performed better, with Domenico Scimone, global sales and marketing director, highlighting Asia, in particular, as well as Australia and Canada.

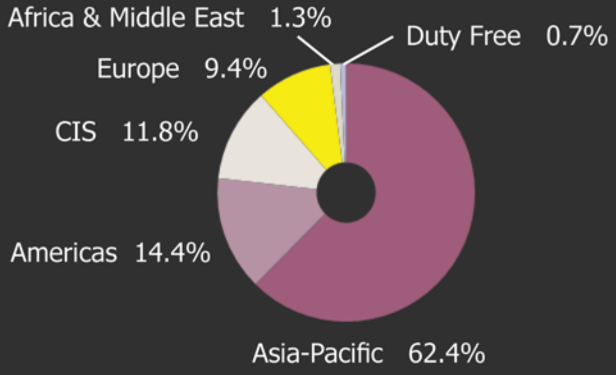
Paolo Oliviero of Valdo reckons that prosecco "is having a very good moment. There is no alternative for now." He does cite one potential threat to growth: an excessive competition in price, leading to low-quality product. But this is partly being mitigated by increasing awareness among drinkers of what is on offer: "Consumers are learning to distinguish prosecco and even brands."

This is the real challenge for the future of prosecco: the ability to build brands with strong recognition among consumers worldwide. For producers to have brands that consumers know and ask for is a key next step; for the moment, the denomination effectively is the brand – and a very strong one at that. ■

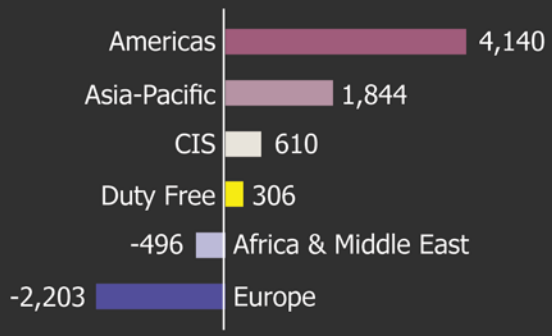
Global Spirits Market – Key Facts

Spirits consumption by region 2013

Regional market share

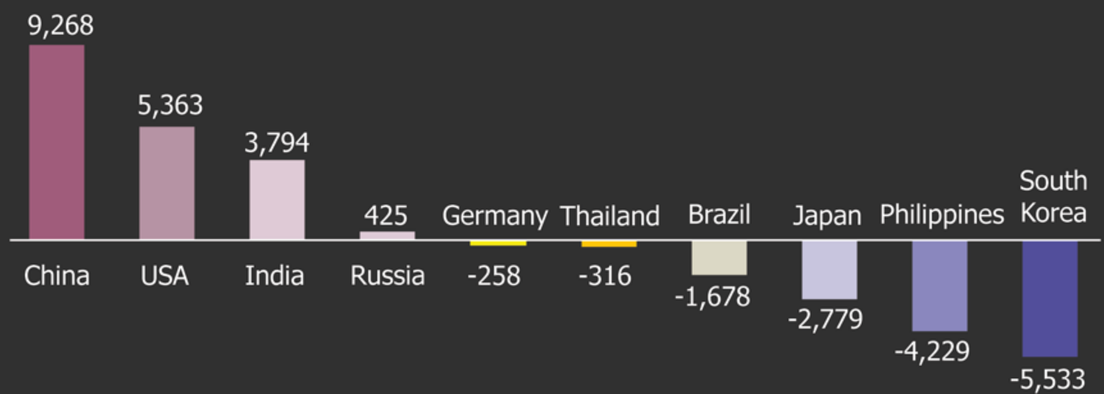


Volume change 2012-2013



Category growth – volume change 2012-2013

Top 10 spirits markets 2012-2013 volume change



Units: 000's nine-litre cases
Source: The IWSR Database 2014

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