

AMERICA'S Favorite SPIRIT

The vodka category continues its dominance, with brands at all price levels surging forward.

BY ROBERT PLOTKIN

As anyone remotely associated with the beverage alcohol industry already knows, vodka has clicked with consumers in a big way. The category dominates the spirits landscape, with vodka consumption now accounting for 26.6% of all distilled spirits sold in the U.S., at more than 44 million 9-liter cases. While interest in other spirits categories are on the rise, vodka clearly remains America's favorite spirit.

The vodka category grew an impressive 6% in 2004, according to *Adams Handbook Advance 2005*, and is expected to maintain this upward spiral for several years. The category did even better in the control states, up 7.1% compared to 2003. Large numbers of new entries still cross our shores in search of those precious few available facings. This steady stream of high-quality brands provides retailers and consumers alike the opportunity to enjoy the hunt for the next hot new vodka.



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Ever wonder why? In a country that loves bold flavors, throaty V-8s and bone-crunching sports, how did something so pristine and subtle as vodka grab the limelight?



Diageo's Smirnoff brand remains the best-selling vodka in the U.S., with sales of more than 7.25 million 9-liter cases. The brand's Twist line of flavors has become particularly popular.

One driving force behind its market dominance is its mixability. The spirit is featured in more recipes than any other type of spirit, largely because of its unsurpassed ability to bolster nearly any combination of disparate ingredients. Armed with a top-shelf bottle of vodka even time-strapped professionals can become a capable mixologist.

High-end vodkas have fueled the decade-long cocktail culture so pervasive in American nightlife. There would be no Martini renaissance with the advent of high-end vodka brands. The Cosmopolitan wouldn't exist without Absolut Citron. Kamikazes, White Russians, Lemon Drops and Bloody Marys all derive their spirit from vodka.

Today, vodka enthusiasts are savvier and more discerning. Judging by the rapidly expanding superpremium sector of the category, people have developed a taste for the good stuff. And as it turns out the good stuff is just about the most intriguing of spirits in the distiller's repertoire.



Skyy Spirits just debuted Skyy 90, a wheat vodka made in a technologically advanced, 5-column continuous still and bottled at 90 proof. It retails for \$30 to \$35 per 750 ml bottle.

Appreciating the impact appellation has on a spirit is readily acknowledged with malts and brandies, but it is only recently being applied to vodka. Just like when selling a bottle of single malt, piquing the consumer's enthusiasm for discovery is a sure-fire way of bumping your sales up a notch.

Vodkas are the unique products of microclimate, technique and water. Their base commodities, be they grain, grapes or potatoes, are nurtured by the sun and soil. Distillation renders their essence into the lightest of all spirits, one unfettered by the weighty effects of barrel aging. The

character of the water is a most telling ingredient, however. Water is what gives vodka its singular identity -- its genetic fingerprint, if you will -- which in respect to the top-end brands is why no two are alike.

Perhaps vodka's ace in the hole is its perceived value. From top to bottom, the category offers consumers a lot of bang for their buck.

Like whiskeys and brandies, vodka is a regional sport. Countries and regions develop their own distinctive styles and enthusiasts want a balanced offering of types and styles from which to choose. To that end, here is our scouting report on what's happening in the world of vodka.

NORTH AMERICA

The best-selling vodka in the U.S. is Smirnoff, with sales of more than 7.25 million 9-liter cases nationally in 2004 (the brand gained 5.7% in the control states, to almost 1.4 million mixed cases). The brand has expanded its influence with the release of a broad range of dynamically flavored vodkas, the most recent being Strawberry Twist. Others include Cranberry Twist, Citrus, Orange, Raspberry, Green Apple and Vanilla. The brand recently launched a line of Prepared Cocktails, called Smirnoff Signatures, which include the Screwdriver and the Cape Codder, both \$8.99 suggested retail for a 750 ml.



Pernod Ricard USA launched Seagram's Platinum Select Vodka, at 100 proof, last year. Including its flavored versions, the brand gained a hefty 38.9% last year to 639,000 9-liter cases after just two years on the market.

Meanwhile fast-growing Skyy Vodka released a new base brand, Skyy 90, a wheat vodka made in a technologically advanced, 5-column continuous still, which ultimately produces the industry's first 100% distillate. Sierra Nevada spring water is added and the spirit is bottled at 90 proof. The elevated alcohol content gives the vodka more tingle on the palate, an enhanced mouth-feel and a bold, yet accessible character. It retails for \$30 to \$35 per 750 ml bottle.

The distillery's flavored medley includes Skyy Melon -- a 70 proof spirit infused with an all natural blend of honeydew, cantaloupe and watermelon -- the most recent addition, Skyy Orange, as well as Skyy Spice, Vanilla and Berry Vodka, which joined their already successful Skyy Citrus

Vodka.

Seagram's Extra Smooth Vodka is performing increasingly well after entering the market two years ago. The 100% grain neutral vodka extended its line with the introduction of Seagram's Orange and Seagram's Black Cherry early last year. In addition, Pernod Ricard USA recently added to the line with Seagram's Platinum Select Vodka, at 100 proof. Overall, the brand gained a hefty 38.9% last year nationally to 639,000 9-liter cases.



McCormick's value-priced flavored vodkas increased sales volume by 51.2% in 2004, while the entire McCormick Vodka brand saw a sales increase of 7.3% in 2004 to more than 1.93 million 9-liter cases.

Even the un-sexy, domestically produced, so-called value brands are doing fine. While they don't have the pricing power, they do move cases. Among vodka's top-selling 10 brands, McCormick, Popov, Barton and Gordon's all sell 1.5 million cases and up. McCormick's had a stellar year in 2004, gaining 7.3% to more than 1.93 million 9-liter cases nationally. Successful flavor extensions have played a part in all these brands' recent growth.

Shakers Vodka from Minnesota is making a splash among enthusiasts. The first ultra-premium American vodka, Shakers is distilled entirely from the heart of Minnesota wheat, which is fermented in spring water, distilled in a six-column still and meticulously filtered. Released last year, Shakers Rose Vodka is a 100% wheat vodka infused with an elixir of rose. Shakers Rye Vodka, made from 100% Minnesota-grown rye, also belongs to the portfolio.

Two smaller American vodkas are gaining recognition. Liquid Ice Vodka is produced at the Silver Creek Distillery in Rigby, ID. The distillery also markets Blue Ice Vodka, a light, flavorful spirit made from Russet Burbank potatoes and Rocky Mountain spring water.

Oregon's Spudka Vodka is distilled from potatoes in a 139-plate continuous still. It is then double-filtered through activated charcoal and diluted to 82 proof with glacier-fed spring water from Mount Hood.

Produced in Frankfort, KY, Rain Vodka is made from organically grown corn from the Fizzle Flat Farms in Yale, Illinois and Kentucky limestone water. The award-winning vodka is quadruple-distilled and filtered through activated charcoal and diamond dust.



The superpremium Absolut Level hit sales of 100,000 9-liter cases in its first year on the market.



The Absolut Spirits Company has just launched its seventh flavor, Absolut Apeach. Like other Absolut flavors, Apeach contains all-natural ingredients and is 80 proof. It is available now in 50 ml, 750 ml, 1 liter and 1.75 liter bottles.

And then there is the handful of U.S. artisan vodkas, such as Hangar 1 made by St. George Spirits in Alameda, CA; micro-distilled Domaine Charbay Dry/Clear Vodka, also out of California; Crater Lake Vodka from Oregon's Bend Distillery; the acclaimed Tito's Handmade Vodka, made at a distillery located outside of Austin, the first and only legal distillery in Texas; and Triple Eight Distillery on Nantucket Island, the East Coast's first micro-distiller.

Rich in natural resources, Canada is an ideal place to distill ultra-premium vodka. Made in the Rockies, Pearl Vodka is distilled in small batches from wheat and soft spring water. The brand has been successful in the U.S. and is now growing at a double-digit pace.

Renowned Canadian distiller Corby's produces Polar Ice Vodka, a value-laded spirit made from 100% wheat, and imported into the U.S. by McCormick Distilling Co.

SCANDINAVIA

In 2004 Absolut introduced superpremium Absolut Level, a 100% wheat vodka produced in Åhus, Sweden. The superpremium vodka benefits from the production process of continuous distillation and small batch distillation. A light vodka with texture and a complex taste is formed when these two are blended. Selling for between \$25-\$30 per 750 ml, Level had notable success in 2004, selling 100,000 9-liter cases nationally its first year on the market.

Brown-Forman debuted Finlandia Mango Fusion last year, joining the brand's cranberry and lime flavors.



Svedka, from Spirits Marque One, introduced its latest flavor, Citron, to its portfolio of Swedish vodkas, which also includes Clementine, Raspberry and Vanilla.

Shaw-Ross International debuted Fris Apple Vodka last year. Fris saw an almost 20% sales increase in 2004 to 233,000 9-liter cases.



The Absolut franchise these days also means flavor and the company has launched another keeper. Following on the heels Absolut Vanilia, and the 80-proof Raspberi, the company just released Apeach. Like the rest of the brand's flavors, the vodka contains no added sugar and presents a vibrant, true-to-fruit experience.

Last year Absolut also launched Danzka Vodka, a 100% wheat spirit made in Copenhagen by Danish Distillers. The Danzka line includes the flavors of Citrus, Grapefruit and Cranberyras, a combination of tart cranberry and sweet raspberry flavor.

Finlandia is produced in Helsinki entirely from premium, six-row barley and glacier-fed spring water. Like many distillers, Finlandia extended its range with the release of Cranberry Fusion, Lime Fusion and the latest Mango Fusion. Fast-growing Svedka Vodka has a new flavor, Citron, to join its other flavor extensions -- Raspberry, Vanilla and Clementine, while Fris Skandia recently launched Fris Lime and Fris Apple.

HOLLAND

While Ketel One and Vox continue to lead the Dutch contingent in sales, the two heavyweights are relatively unlike. Vox Vodka is made from 100% wheat and demineralized water. The vodka is distilled in column



stills and filtered through screens made of inert material. Ketel One is distilled with alembic copper pot stills and made entirely from wheat. After distillation, the vodka is rested in tile-lined tanks for six weeks.

The superpremium import Ketel One Vodka saw double-digit percentage sales increases in 2004, to more than 1.33 million 9-liter cases.

And both brands have extended their range into flavors. The Vox portfolio now includes Vox Sour Apple and Vox Raspberry. Ketel One Citroen is an infusion of all-natural citrus flavors. For its part, Ketel One has seen tremendous growth over the past five years, and the superpremium had sales of more than 1.33 million 9-liter cases nationally in 2004.

Made at the Dirkzwager Distillery, the Van Gogh Vodka range of flavors grew again with the release of Van Gogh Mango. The popular line of flavored vodkas also includes Melon, Wild Appel, Citroen, Oranje, Dutch Chocolate, Vanilla, Raspberry and Pineapple.

Following the successful launch of its VOX Raspberry vodka, Jim Beam Brands has just added a second flavor, VOX Green Apple to its brand.



Packaged in a sleek with a rubber, no-slip label, Effen Vodka is continuous-distilled vodka made from wheat and filtered through peat. The brand has extended its line with the introduction of Effen Dutch Black Cherry. Zuidam Dutch Vodka is double-distilled from malted grain. The aromatic vodka has a full and richly textured body.

FRANCE

The third best-selling imported vodka in the U.S. is Grey Goose, which is now a proud member of the Bacardi family of products. The brand is distilled in traditional copper alembic stills using a blend of rye, barley, wheat, and corn, and limestone-filtered spring water. The premier Grey Goose line also includes L'Orange, La Vanille and Le Citron. Sales of Grey Goose were up by more than 25% nationally again last year, to 1.76 million 9-liter cases.



Sales continue surging for the superpremium Grey Goose Vodka, which jumped 360,000 9-liter cases in 2004, to 1.76 million cases. The brand was purchased last year by Bacardi USA.

Cîroc Snap Frost Vodka continues to garner a following. The brand is the first and only vodka made entirely from grapes. Cîroc is distilled five times in traditional copper pot stills from several varieties of grapes, including "snap-frost" Mauzac grapes, which are picked late in the season allowing them to attain a higher sugar content.

Made in Cognac, Citadelle Vodka is distilled five times in traditional copper alembic stills from the hearts of wheat and soft spring water from the Angeac Champagne Springs. The Citadelle line also includes Raspberry Vodka and Apple Vodka.

The latest news out of France is the arrival of newcomer Jean-Marc XO Vodka. This award-winning alembic spirit is distilled nine times from four different varieties of French wheat and limestone-filtered spring water. Because it is entirely handmade, only 200 bottles of the superpremium vodka can be produced per hour. It retails for about \$50 per 750 ml.

RUSSIA

The biggest news coming out of the former Soviet Union is the release of Stolichnaya Elit, the new flagship of the brand's world-class range. One of two ultra-luxury vodkas now available in the U.S., Elit is made employing small batch distillation from glacier water and select winter wheat. But the secret behind this distilled spirit is something called "freeze filtration."



Allied Domecq recently introduced Stolichnaya elit, an ultra-luxury vodka featuring a "freeze filtration process." The brand retails for about \$60 per 750 ml.

The technique was first employed in the days of the czars when vodka was barreled and subjected to the terrible cold winter weather. Impurities in the vodka slowly gravitated to the wooden staves where they would become frozen and fall out of solution. Later, the essentially pure vodka would be poured out through an opening in the bottom of the barrel. Stolichnaya Elit has successfully concluded its test marketing in several major markets. It is now being groomed for national rollout. Reflecting its lofty status, the brand retails for about \$60 per 750 ml.

The entire Stoli line had another profitable year in 2004, posting a sales gain of 4.3% to more than 1.93 million 9-liter cases nationally (up 5.5% in the control states).

The other contender in the ultra-luxury class is The Jewel of Russia Ultra Vodka, crafted in a traditional Russian style, from a blend of premium rye, hardy winter wheat and artesian spring water. Marketed in a beautiful, hand-painted bottle, The Jewel of Russia retails in the \$60 range.

Superpremium Zyr Vodka is distilled five times from premium rye, winter wheat and spring water. The vodka is rigorously filtered for purity through a proprietary system of filters, one of which is birch tree charcoal.

Leading Brands of VODKA IN THE CONTROL STATES

(Mixed Cases)

Brand	Supplier	2003	2004	% Change
Smirnoff	Diageo	1,315,557	1,391,176	5.7%
Absolut	Absolut Spirits Co.	940,058	960,589	2.2%
Aristocrat	Heaven Hill Distilleries	493,413	508,794	3.1%
Burnett's	Heaven Hill Distilleries	350,853	409,733	16.8%
Popov Vodka	Diageo	400,324	404,955	1.2%
Stolichnaya	Allied Domecq Spirits USA	370,778	391,262	5.5%
Skyy	Skyy Spirits USA	274,936	323,919	17.8%
Kamchatka	Jim Beam Brands	335,003	323,377	-3.5%
Grey Goose	Bacardi USA	237,835	296,399	24.6%
Nikolai	Sazerac	265,807	287,511	8.2%
Total Leading Brands in the Control States		4,984,564	5,297,715	6.3%
Others		4,194,690	4,536,360	8.1%
Total Vodka in the Control States		9,179,254	9,834,075	7.1%

Source: Adams Beverage Group Database from NABCA data

Kutskova Vodka is made in the heart of Moscow, and is double-distilled in small batches from grain and soft spring water. Priced in the low \$20s, Kutskova is one of the good values on the market.

Other impressive Russian brands are Magadanskaya, made from grain, potatoes and pure mineral water in the once closed Siberian city of Magadan; Original Cristall, produced from winter wheat and glacier water, then filtered through quartz crystals to achieve its purity; and Ikon, a continuous-distilled Russian vodka made from grain and artesian water, which is then filtered four times through birch charcoal.

New to the U.S. is Bogorodskaya Vodka, a bold, hardy spirit made in the traditional Russian style. The same can be said about Staraya Moskva. Distilled at the Cristall Distillery. Staraya is triple-distilled from grain and filtered through a proprietary filtration system.

POLAND

By most accounts, vodka was first produced in Poland over 500 years ago. Those who savor vodkas with body and flavor eventually visit the brands produced in here. Among the renowned vodkas distilled in Poland, perhaps the most famous is Wyborowa, a spirit distilled entirely from rye and the preferred brand of Pablo Picasso. It typifies the style and character of the region. Last year Pernod Ricard successfully launched 100% rye Wyborowa Single Estate Vodka. As the name implies, the distillers not only grow the grain, they also distill the product with spring water found on their estate near the Polish village of Turew.

The best-selling Polish vodkas continue to be Chopin and Belvedere. Chopin is made entirely from Stobrawa potatoes from the Siedlce region of Poland. It is distilled four times in small batches. Belvedere is a spicy and zesty spirit quadruple-distilled from premium rye and filtered through charcoal. The distillery has released two flavors of Belvedere -- Pomarancza (mandarins and oranges) and Cytrus (lemons and limes). The superpremium brand notched sales of 440,000 9-liter cases nationally in 2004.

Much of the success Polish vodka currently enjoys in the U.S. is because of Adam Bak, longtime owner of Adamba Imports of Brooklyn. One of his franchise brands is Ultimat Vodka from the Polmos distillery in Bielsko-Biala, Poland. The vodka is distilled from a singular blend of potato, wheat and rye.

Back in the U.S. after a brief hiatus is Królewska, a luxury vodka made in column distilled from 100% wheat and spring water and packaged in a tall, elegantly appointed bottle. Also new on the market is handmade Potacki Wódka, a rye vodka double-distilled in copper alembic stills.

ENGLAND & IRELAND

One of the fastest-growing vodkas is Three Olives, imported from England by from White Rock Distilleries, of Maine. Featuring six flavors (Apple, Chocolate, Raspberry, Vanilla, Cherry and Orange), the brand doubled its sales nationally last year to 350,000 9-liter cases.

To no great surprise, Ireland has entered the fray with a viable contender. Boru Irish Vodka is made by West Cork Distillers in County Cork. The superpremium spirit is quadruple-distilled in small batches from grain and soft spring water and filtered through 10 feet of Atlantic Irish oak charcoal. Boru has three flavor extensions - - Craazberry (cranberry/raspberry), Orange and Citrus.

SWITZERLAND

Xellent Vodka is the first Swiss representative on the American market. It's a small batch vodka made from high-altitude Swiss rye, which is first distilled in traditional copper alembic stills, then further refined in 45-plate column stills. The all-important water source is the Titlis glacier in the heart of the country.

Ever since the millennium's odometer rolled over, the ranks of premium vodkas have continued to swell. As long as Americans make vodka the country's most in-demand spirit, distillers around the world will continue to roll out new and exciting brands with which to tempt aficionados and novices alike.

Carrying a broad selection of vodka brands and affording aficionados with new taste experiences is vital. Enticing your clientele with a wide array of intriguing vodkas will stimulate sales and enhance the appreciation for this deceptively unpretentious spirit.

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