



IWSR

magazine

Prestige spirits resume growth

Craft gains a foothold in Australia

Rum builds its premium credentials

Russia sees pockets of growth amid gloom

Port – on the road to recovery?

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Big changes at Bacardi

Exclusive interview with CEO Mike Dolan

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Comment



Alexander Smith
The IWSR Magazine
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The liquor industry fights over hundreds of key demographic battlegrounds at any given time. Drinks marketers highly covet the emerging female consumer, the high-net-worth urban elite, the rising middle-class consumer in developing markets, and the ethnic consumer in the US, to name just a few. One group is supremely important to the future of the industry and cuts across all ethnicities and genders – the Millennial consumer. This is the moniker given to those people born between 1981 and 2000, and is the group that the industry rightly obsesses about.

Moët Hennessy USA president and CEO Jim Clerkin explained in a recent interview in *the IWSR Magazine*: "You really have to understand the Millennial generation and, if you cannot meaningfully connect with your Millennial consumer, then you are not going to have a very good future... That is the key battleground."

This isn't necessarily the cohort with highest disposable income, but these are the consumers shaping industry trends and spending most frequently on going out in bars, etc. There are now 80m Millennials in the US market alone – nearly a quarter of the total population, with an estimated annual purchasing power of some \$200bn.

Marketing to this group is complex, however, and some companies and brands are struggling to connect with them, because traditional advertising has proven fruitless. Millennials do not want to be told what to do and are particularly resistant to advertising spin. Traditional advertising lacks credibility and most just skip the ads.

If Millennials are unreceptive to traditional advertising, they are more than prepared to engage with brands online. Millennials

"Millennials are more than prepared to engage with brands online"

consequently look for information about products in blogs or product reviews and are influenced by each other, particularly via mobile media. That is why most leading drinks groups are shifting more and more of their above-the-line spend to digital.

The impact of this Millennial cohort is already being felt. It is driving the fragmentation of the liquor industry in particular. Millennials value authenticity and local products and this has spurred the craft movement (while acknowledging that 'craft' is just a convenient and meaningless label). As a corollary, they tend to eschew many mass-market products, including leading spirits brands.

It is a myth that Millennials are not brand loyal or brand conscious. They are as brand aware as previous generations – they just tend to consume from a preferred bundle of brands rather than one particular brand and reach for these depending on mood or occasion. The challenge for drinks companies is to get into this drinking repertoire and then stay there.

For the first time we are seeing a true global consumer driven by social media – a trend-setting Millennial is no longer just setting trends in their domestic market, but globally. So the approach to branding and social media is crucial. Get it wrong once and you are in trouble globally. What is clear is that many of the marketing platforms and assumptions that the liquor industry was built on are less and less valid. Those companies that form the best understanding of this key Millennial demographic and adapt to its requirements will come out on top.

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Service with a smile

US logistics providers like Park Street are opening up the market to smaller brands. Alexander Smith reports

Miami-based Park Street is one of a new breed of logistics providers that have emerged in the US market to cater to the proliferating numbers of smaller liquor suppliers, many of which lack the expertise, scale and contacts to develop a viable route-to-market. Service providers like Park Street are helping to bridge these gaps.

Park Street offers small and mid-sized alcohol beverage companies an array of services, including back-office logistics, compliance, distribution, consulting services and trade financing. With its extensive expertise in the alcoholic beverage sector, the company provides clients comprehensive turnkey solutions. It has worked with hundreds of brands, including Atlantico Rum, Aviation Gin, Chicken Cock Whiskey and Whyte & Mackay's portfolio, to name a few.

Harry Kohlmann, who founded Park Street in 2003, explains the origins of the company. "I was working as a management consultant for McKinsey & Company and we were doing a lot of work for smaller liquor firms. It was obvious that while there was a lot of innovation coming from these smaller companies, they were facing a number of

disadvantages, particularly a lack of scale and higher overheads. We saw an opportunity to pool a large number of these suppliers together and provide these companies with all the advantages of a large company back-office infrastructure." In return, Park Street takes a per-case fee.

Park Street and other service providers, such as its rival MHW, help to greatly reduce the barriers to entry for many newcomers. "We make it significantly cheaper

Atlantico Rum. Co-founder Aleco Aztequa says the firm has been able to focus resources on market-facing activities since moving its back office to Park Street



"The challenge for new brands is to have patience to work through these mechanisms and not get frustrated. It does take a while to break through"

– Harry Kohlmann, founder, Park Street (above)

and easier for people to build their own brands and test-market them without losing a fortune," explains Kohlmann. That frees the supplier to independently focus on the sales and marketing side of the business.

"Since moving our back office to Park Street, we have been able to focus our resources entirely on market-facing activities. As a result we have accelerated our sales growth significantly," says Atlantico Rum co-founder Aleco Aztequa.

Park Street has wholesale licences in a small handful of large states – California, New York, New Jersey and Florida – and can guarantee its clients a limited amount of distribution. If a brand succeeds in any of those large markets, it then gives that supplier a platform to seek out broader distribution in other markets with the larger distributors. Otherwise it is very difficult for a new brand with no track record to get taken on by wholesalers.

"The challenge for new brands is to have patience to work through these mechanisms and not get frustrated. It does take a while to break through," says Kohlmann. "You have to create the consumer demand and that, in turn, creates a trade demand and eventually an open door to the distributor.

It always works that way. Without that initial consumer pull it is very difficult to establish distribution. The entrepreneur has to be a fighter and go out there and find a couple of outlets to carry his products and make a point."

The consolidation of the distributor tier in the US has certainly made it more difficult for smaller producers to attain distribution. In some states there are only two major distributors and these are significant gatekeepers. Recently, a number of new

Park Street

wholesalers have emerged, which cater to craft producers. The big wholesaler groups have also opened specialised craft divisions. This is improving market access somewhat.

Also, many states have preferential laws allowing craft producers to do self-distribution within their own states. At the same time, more and more specialist bars are springing up that refuse to carry large brands. There is an opportunity to hand-sell to these bars directly.

On the cusp of consumer trends

Park Street now finds itself at the cusp of consumer trends, with consumer demand for craft liquor and the number of new entrants high. The question is will there be a shake-out at some juncture? While the number of product ideas is infinite, the amount of shelf space is finite.

Kohlmann says: "There are constant shake-outs, with new entrants and some departures, but overall fragmentation is here to stay. If anything, it is going to get much more extreme over the next 20 years. The market share of the top five or 10 brands in every category will diminish dramatically. That is driven by the information access and the liberalisation of advertising and marketing channels through cellphones and social media. Small brands can now get their word out and that is a big change. At the same time younger consumers want to differentiate themselves and might not want to have a big brand, but rather a less-discovered brand that speaks more about personality. It is about discovery. Over the next 10 years the spirits market will come to resemble the high-end wine market.

"The big suppliers will still maintain their market shares and they might even increase them, but they will do so by buying a lot of smaller brands," predicts Kohlmann. "There is going to be a huge buying wave coming in over the next five to 10 years. There is so much gross profit being shifted around that the big suppliers cannot afford to stand on the sidelines. They have to jump in. They are realising that there is a change occurring and it is a fundamental long-term trend. The shake-up is happening, but overall there are more winners than losers."

He explains that it is not just beverages where change is apparent. You see a lot more brand choice in any consumer product area. "The general consumer is changing and beverages are adjusting," says Kohlmann. "The industry structure that held back that change for a long period of time is breaking down, but also through enablers like Park



Park Street has handled brands like Chicken Cock Whiskey and Aviation Gin

"The big suppliers cannot afford to stand on the sidelines. They have to jump in"

– Harry Kohlmann, founder, Park Street

Street we are making it accessible. Somebody can come in with a brand without having millions of dollars at their disposal. They can start small and build from there."

Nevertheless, Kohlmann remains an advocate of the US three-tier system. "The system has proven to be successful. Just compare the US to Europe where there is far less innovation and new brand activity. That is because the wholesalers provide a counterweight to the clout of the retailers. In Europe, where you don't have that counterweight, the retailers control everything. It is very anti-competitive and works against smaller suppliers without the big promotional budgets. The three-tier system can always be improved, but I don't think it is going to go away."

Import business

Park Street also works extensively as an importer. Kohlmann believes there is an opportunity for Park Street, because the multinationals tend to focus on their own brands and are less willing to take on agency brands, while the big import companies have such big rosters that it is difficult to get adequate share of mind. "It is difficult enough to get distribution, but then if you add a whole other layer of fighting for attention, it isn't satisfactory," he says. "Providers like us will be the winners, because we enable the brands to take care of their own destiny. They can now enjoy the lower costs of an importer or multinational, but handle the selling themselves. It is the best of both worlds."

Other companies, such as Blackheath Beverage Group, are also providing a similar pooling service on the sales and marketing side. Again, this provides independent brands with the horsepower and leverage of a large supplier.

While big brands may be increasingly challenged, the outlook for the US spirits sector has rarely been better. Kohlmann says: "The market growth is based on positive dynamics with regards to population growth and overall accumulation of wealth. People also have more free time, which means they can also consume more – and that leads to more overall consumption. There is a persistent move from beer to wine and spirits, although craft beers are helping to stem the decline somewhat. Then you add other favourable trends, such as cocktails or craft spirits. Consumers are also attracted to the novelty and sophistication of spirits. There is also the trend toward premiumisation. It is all a very favourable outlook for spirits." ■