

SHANKEN'S IMPACT

NEWSLETTER

GLOBAL NEWS
AND RESEARCH
FOR THE DRINKS
EXECUTIVE

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EXCLUSIVE INTERVIEW

Bacardi USA's Leadership Team

Change seems to be the primary theme these days at Bacardi USA. In January, the portfolio was bolstered by the parent company's acquisition of St-Germain, the elder-flower liqueur brand that's a star of the mixology community. Meanwhile, innovation has been at the forefront, with recent launches including Bacardi Pineapple Fusion, new Cognac brand D'Ussé and Dewar's Highlander Honey—the first honey-flavored Scotch whisky. New marketing platforms are being implemented across the portfolio, along with a major initiative to improve execution throughout the value chain.

In this IMPACT interview, key members of the Bacardi USA team—regional president, Bacardi North America Robert Furniss-Roe; Bacardi USA senior vice president and chief marketing officer Juan Rovira; vice president, managing director, rum Toby Whitmoyer; vice president-brand managing director, vodka Shane Graber; and vice president-brand managing director, Dewar's blended Scotch whiskies Arvind Krishnan—discuss the U.S. team's latest efforts.



Robert Furniss-Roe, president,
Bacardi North America

Q&A starts on page 36 >>>

Special Report

IMPACT's "Hot Brands" Paced By Gallo, Constellation, New Entries

IMPACT'S 2012 "HOT BRANDS" FEATURE A dizzying array of upstarts, stalwarts and re-births. Among the 89 awardees are Hot Brand fixtures like Modelo Especial, Jameson, Bogle, Svedka, Barefoot and Verdi, all of whom have, remarkably, earned a spot on the list for at least 10 consecutive years; first-time winners such as New Amsterdam vodka, Ruffino and Bud Light Platinum, among others; and brands—and entire categories—that have climbed their way back to Hot Brand status after years of absence or under-representation.

These include Chateau St. Jean, Edna Valley, Simi and cider, which now appears stronger than ever, with seven Hot Brand entries.

And while industry giants loom large on the Hot Brands honor roll—E.&J. Gallo and Constellation each won 11 awards apiece—it includes more than 50 marketers in all. There remains an abundance of opportunity for brands that deliver value to suppliers, distributors, the retail and on-premise trade—and, most of all, consumers—no matter their size.

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Impact's "Hot Brands"

Vodka Leads Way For Spirits, While Premium California Wine And Cider Make Presence Felt

continued from page 1 >>>

Spirits: Vodka Domination Continues

To say vodka leads spirits' Hot Brands would be an understatement. In fact, the category comprises more than one third of 2012's 24 spirits winners, as well as the list's five biggest brands—Svedka, Pinnacle, Burnett's, Ciroc and UV. Though vodka is among the most competitive and crowded categories,

it shows no signs of slowing as consumers gravitate to brands with the best price-value offering.

Despite intense competition in the lower-priced import segment, Svedka continues to carve out solid growth. Diana Pawlik, vice president of marketing for the brand, says the Svedka hopes to pass the 4-million-case mark this year in

IMPACT'S "HOT BRANDS" – SPIRITS^{1,2}

(Thousands of Nine-Liter Case Depletions)

Brand	Company	2009	2010	2011	2012E	Percent Change		
						'09-'10	'10-'11	'11-'12E
Svedka ³	Constellation Brands	2,765	3,290	3,645	3,825	19%	11%	5%
Pinnacle ^{3,4}	Beam Inc.	1,015	1,400	2,700	3,065	38	93	14
Burnett's Vodka ³	Heaven Hill Distilleries	1,280	1,520	1,850	2,040	19	22	10
Ciroc ³	Diageo North America	340	735	1,275	1,830	+	73	44
UV ³	Phillips Distilling Co.	845	1,005	1,200	1,610	19	19	34
Jameson	Pernod Ricard USA	815	1,035	1,335	1,575	27	29	18
Maker's Mark	Beam Inc.	805	900	1,035	1,170	12	15	13
New Amsterdam Vodka ³	E.&J. Distillers	-	-	45	1,125	-	+	+
1800	Proximo Spirits	535	690	805	925	29	17	15
Tito's	Fifth Generation	285	365	580	850	28	59	47
Fireball	Sazerac Co.	50	125	450	810	+	+	80
Platinum 7X	Sazerac Co.	385	495	580	690	29	17	19
Skinnygirl Cocktails	Beam Inc.	5	90	575	650	+	+	13
Jack Daniel's	Brown-Forman Beverages	-	-	320	485	-	+	52
Tennessee Honey	Worldwide							
Familia Camarena	E.&J. Distillers	-	150	315	400	+	+	27
Red Stag	Beam Inc.	85	190	250	385	+	32	54
RumChata	Agave Loco Brands	2	17	64	365	+	+	+
Pearl ³	Luxco	70	115	220	295	64	91	34
Wild Turkey	Campari America	130	180	230	285	38	28	24
American Honey								
Buchanan's	Diageo North America	160	200	230	260	25	15	13
DonQ ³	Serrallés USA	120	190	220	245	58	16	11
Bulleit	Diageo North America	72	135	185	235	88	37	27
The Kraken	Proximo Spirits	-	75	150	225	+	100	50
Russian Standard ⁵	Russian Standard USA	165	200	185	220	21%	-8%	19%

¹ Criteria:

Established brand with double-digit growth each year in 2010, 2011 and 2012

Established brand with at least 15% growth, 2011-2012

Special consideration - top 10 brand with at least 5% growth in 2012 and at least 15% growth since 2009

Significant new product

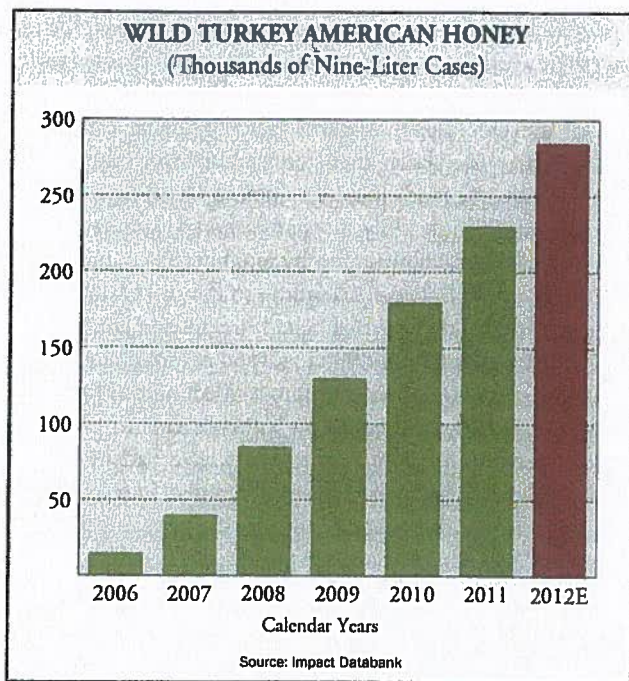
² Calendar 2012 minimum volume requirement = 200,000 cases

³ Includes flavors.

⁴ Acquired from White Rock Distilleries in April 2012.

⁵ Includes Original, Platinum, Imperia and Gold.

Source: Impact Databank



the U.S. On the heels of last summer's launch of Colada, what Pawlik called the brand's "best flavor launch to date," Svedka is currently launching two new flavors, Orange Cream Pop and Strawberry Colada. Constellation is also rolling out a new marketing initiative for the brand this spring. "We're really working to continue elevating the brand through innovation and consistency. We have a lot working for us—strong brand relevance and a high level of engagement with our loyal consumers," Pawlik said. "We're going to continue to be very aggressive in our pursuit to protect and enrich the equity that the brand has."

Beam purchased Pinnacle, along with Calico Jack rum, from White Rock Distilleries last April for \$605 million. At the time, Pinnacle was undoubtedly the hottest brand in the U.S. spirits market, largely on the strength of its Whipped range. While the brand has cooled a bit as Smirnoff and other competitors have gone full-bore into the dessert-flavor segment, Pinnacle still enjoyed marked expansion in 2012 to push past the 3-million-case threshold—just three years after eclipsing the 1-million-case mark.

Last fall, Beam launched a multimillion-dollar advertising push behind the flavor-focused brand across TV, print, digital and social media platforms. Running under the tagline "It's more fun on top," and seeking to play up the brand's "fun, playful, innovative personality and imported, premium quality," Pinnacle's new spots began appearing on cable programming late last year.

Meanwhile, Ciroc's meteoric rise continued last year. The ultra-premium French vodka's sales have essentially tripled since 2010. Ciroc has been catapulted to new heights by its flavored offerings, especially Ciroc Peach, which Diageo called its "most successful North American product launch to date" last fall, but the brand's high-end cachet has also played a big

part in its success. In addition to its collaboration with entertainment mogul Sean "Diddy" Combs, Ciroc renewed its partnership with hip-hop artist Rick Ross for a second year in December.

Heaven Hill Distilleries' Burnett's vodka has also ridden its flavor range to new heights. The brand's extensive lineup of 29 flavor extensions and accessible price point (\$9.99-\$10.99 a 750-ml.) propelled it past the 2-million-case mark for the first time last year. Last winter, the brand launched its first seasonal flavor entry, Candy Cane.

Also embracing the dessert flavor phenomenon is Phillips Distilling, which just added a new expression to its UV vodka range, Candy Bar. The 30%-abv extension is infused with milk chocolate, caramel and peanut butter flavors and is priced in line with the rest of the range, at \$12.99 a 750-ml. Candy Bar is the 17th flavor in the line. The company says that sales of the brand's line of dessert flavors, which includes Cake, Chocolate Cake and Whipped, have increased 81% over the last year. UV saw its U.S. volume increase 34% to an estimated 1.61 million nine-liter cases last year, according to IMPACT DATABANK. "Our innovative approach to flavor selection and our top quality, engaging marketing campaigns are driving growth for our complete product line," said Phillips president and CEO Pedro Caceres. "In 2012, we had very successful launches of our confectionary flavors, UV Chocolate Cake and UV Whipped. We also continue to see growth with UV Cake and our all-star UV Blue." The company has also just released new packaging for unflavored UV 80, which is available now and will make its way through the pipeline in the coming weeks. Caceres estimates that the brand will grow to 2 million cases this year.

Though best known for its wine business, E.&J. Gallo may well have the market's hottest spirits brand on its hands in New Amsterdam vodka. After selling 45,000 cases during its few months on the market in 2011, the brand jumped out to more than 1 million cases last year, becoming the fastest spirits brand to hit that mark and far surpassing its forerunner New Amsterdam gin in the process, according to Gallo. The company credited the milestone to New Amsterdam's "five-times distilled" messaging, as well as its pursuit of the younger male demographic through events like pop-up "Shave Lounges" throughout the country. Last summer, it extended the vodka franchise with the addition of New Amsterdam Red Berry and Peach, offering the same two flavor types that have fueled the rapid growth of Ciroc. Portfoliomate Familia Camarena Tequila is also a Hot Brand, jumping ahead 27% last year to the 400,000-case mark.

Eschewing the flavor trend, at least for the time being, is rising star Russian Standard, which joined the list for the first time this year. "At our price level, the established brands with flavor extensions are seeing little or no growth on their core brand's 80-proof variety. They play the flavor game to grow their business and garner some excitement," Russian Standard USA's CEO Leonid Yangarber recently told IMPACT. "We're

FLAVORED VODKAS ARE ENJOYING IMPRESSIVE GROWTH, BUT BRANDS LIKE TITO'S AND RUSSIAN STANDARD ARE RISING FAST WHILE STICKING TO THEIR CORE OFFERINGS.

seeing so much momentum and natural brand development that we don't feel much pressure to go into flavors. So we have no plans to enter the flavor segment, although we never say never." After price increases and wholesaler realignments that saw the portfolio remain flat in 2011, Russian Standard was up 19% last year to cross the 200,000-case threshold.

Another brand that, for now, won't be launching any extensions is Tito's Handmade Vodka. Despite only offering one product with a relatively high retail price (around \$20-\$25 a 750-ml.), Tito's continues to soar. After an extremely successful year in 2011 that saw the brand cross the half-million-case mark, the growth rate for 2012 initially was projected at 30%-40%. But the brand bested even those predictions, coming in at about 850,000 cases last year. "We still have no plans to create flavors," Peter Angus, executive vice president of sales for Tito's, told *Shanken News Daily* in late 2012. "We'll stick to doing one thing well." Rounding out the vodka category on this year's Hot Brand list is Platinum 7X and Pearl.

Led by extensions from the spirit industry's top whiskey brands, the flavored whiskey segment also boomed last year. Hot Brands Jack Daniel's Tennessee Honey, Wild Turkey American Honey and Jim Beam's Red Stag are three of those around which the category is building. "People want to be part of the Jack Daniel's franchise, and Tennessee Honey offers something for those who aren't necessarily whiskey connoisseurs," said Mike Keyes, president of Brown-Forman's North American Region, in an interview with *IMPACT* last year. "It has performed well in the off-premise while attracting female, African-American and Hispanic-American consumers. When you launch a new brand and spend significant money supporting it, you do worry about cannibalizing your core business. But instead, it's brought more people into the franchise and has broadened our ability to speak to consumers." Tennessee Honey won *Market Watch* magazine's Best New Product award in the spirits category in 2012. Meanwhile, Beam continues to innovate with Red Stag. Early last year, it extended the fast-rising flavored Bourbon with two new editions—Red Stag Honey Tea and Red Stag Spiced.

But as fast as the flavored whiskey segment seems to be rising, there are also a number of whisk(e)y brands that are thriving without entering the flavor game. Irish whiskey remains one of the U.S. spirits market's fastest-growing categories, building on a popularity that stems mainly from the success of its dominant brand, Jameson. Jameson hasn't seen an annual downturn in the 23 years that Pernod Ricard has owned the brand. Its U.S. volume grew by roughly 18% to more than 1.5 million cases last year, according to *IMPACT DATABANK*.

Last fall, Pernod Ricard launched the upscale Jameson extension, Black Barrel (\$34.99), in several new markets including New Jersey, Connecticut, Illinois, Washington, D.C. and Massachusetts. It was backed by launch events in each new market playing up the role bartenders have had in stoking Jameson's explosive growth in the U.S. market in recent years. The only Scotch to be named to the list this year is Buchanan's. The Diageo brand has risen fast despite a challenging environment for blended Scotch, and is showing strong growth in many markets outside of the U.S. as well.

Diageo's Bulleit has also bypassed the flavor route, but the company continues to extend the brand in several directions. In the early days of 2013, it unveiled a higher-proof, higher-priced offshoot, Bulleit 10. The new expression is 91.2-proof (the core brand is 90-proof) and will retail for around \$45 a bottle, approximately \$20 higher than the original Bulleit. The launch comes roughly a year after Bulleit's introduction of a straight rye whiskey.

Meanwhile, there has been much attention swirling lately around another Bourbon Hot Brand, Maker's Mark. After announcing mid-February that it would lower the abv of Maker's Mark from 45% to 42% to keep pace with rising demand as its distillery undergoes a \$110 million expansion, Beam quickly reversed its decision a little over a week later after much public outcry from consumers. "The unanticipated dramatic growth rate of Maker's Mark is a good problem to have, and we appreciate some of you telling us you'd even put up with occasional shortages (rather than a lower-abv product)," Maker's COO Rob Samuels and chairman emeritus Bill Samuels, Jr. said in a statement.

Beam portfoliomate Skinnygirl continued its rise in 2012, though it's cooled a bit after its explosive start. After jumping ahead almost half a million cases from 2010 to 2011, the brand slowed to a 13% increase last year to reach 650,000 cases. Last May, Beam launched TV ads behind the brand under the tagline "Drink like a lady," and in the fall, they launched Skinnyminis, a four-pack offering of the Skinnygirl ready-to-serve Margaritas in 200-ml. bottles. While the prepared cocktail remains the Skinnygirl flagship, extensions to the franchise continue to attract additional consumers. Beam is launching three new offerings this month—Skinnygirl White Cherry vodka, Skinnygirl Mojito and Skinnygirl Moscato.

Serrallés USA's DonQ is one of only two rums to make the list this year. "Increased distribution in drug and grocery chains, better on-premise execution, our fall television cam-