

## VODKA STATESIDE

# Flavours front the action and growth

**Ann Cooper** looks at the state of play in the all-important US vodka market. Thanks to the prevailing economic climate, trading down is rife and there's a shift to take-home sales, but at the same time the thirst for new flavours remains unabated

**WHEN IT** comes to spirits, vodka, in terms of the fashion world, remains the US's new black. Despite 2009's gruelling economy leading to a new frugality, and shifting spending patterns that have had consumers trading down, spending less in chi-chi bars and restaurants and drinking and entertaining more at home, America's unquenchable thirst for voddy shows little signs of abating.

The spirit officially described by the US government as "colourless, flavourless, and odourless" remains the most dynamic category in the US spirits arena. It accounted for 30% of total industry volume in 2009, amounting to some 56 million nine-litre cases, according to just-released figures from the trade organisation Distilled Spirits Council of the United States (DISCUS). In value terms vodka represented 24% of industry revenues, \$4.6 billion (£2.9bn), and while there has been trading down within the category, revenue is still up by \$75 million.

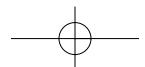
But if vodka remains the new black, it's actually also the new brown, pink, red, orange and purple or any other colour of the rainbow – depending on your flavour preference. Because one reason for the spirit's phenomenal US growth over the last decade has been the booming sales of a line extension that is anything but colourless, flavourless or odourless: flavoured vodka.

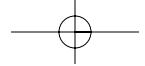
Citrus was the original flavoured vodka, quickly followed by raspberry and vanilla, and today – at the last count – there are some 360 varieties. Flavoured vodkas account for around 20% of all vodka sales and they have grown some 27% a year during the past five years, according to industry estimates. Research from the Nielsen Company shows that even with an economic downturn, dollar sales for flavoured vodkas were up 9.9% in 2009, compared with only 3.5% for the non-flavoured variety.

According to Noah Rothbaum, editor of the website Liquor.com and author of *The Business of Spirits*, "The big difference between us and the rest of the world, especially Europe, is that they just don't love flavoured vodkas like we do. The US market is the number one market for flavoured vodkas. Some are obviously not going to last. Citrus flavours are the most popular because they work so well. Some have done better than others. But from the lowest of the low to the best, there's a flavoured vodka for every budget."

Fancy a side order of bacon to accompany your Sunday morning brunch? Well for the denizens of Seattle, Washington, on the west coast of America, there is Bakon flavoured vodka from Black Rock Spirits, which is setting sizzling sales records and is just one of the more unusual new flavours to hit US shelves in recent years.

Others include everything from banana to chocolate, coffee, herbs, pumpkin,





sweet lemonade, tea, cucumber, rosemary, tomato and chilli peppers. And, for the protein-deficient amongst us, there's even protein-infused vodka called Devotion Spirits – aimed at party animals that need a little something extra that's not actually illegal to help them make it through the night. Then there's the blossoming dual-flavoured line extension boasting such flavours as grape, hibiscus & lavender lemonade and cucumber, lime, honey, mango & melon.

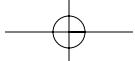
New variations can really drive sales. The current "it" flavour is Absolut's just-launched Berri Acai, says Jonathan Goldstein, vice president of Manhattan's Park Avenue Liquor Shop, which stocks 200 different vodkas from around the world. "Flavoured vodkas are always active sellers," he says. "Every day we could sell two or three different ones and never run out. The most popular flavour is whatever's newest, until the next thing comes along." Among his most popular brands, he says,

is the English import Three Olives with around 15 flavours and which retails for about \$20 and below. It saw a dramatic sales increase to 1.1m nine-litre cases in 2008, a 29.4% gain from the previous year. In 2009, sales were up 17%, according to figures from Information Resources, a Chicago-based market research firm, whose data uses food and drug outlets.

Another hot contender is Gruppo Campari-owned Skyy's Infusions Ginger; part of its two-year-old Infusions line, which also includes Citrus, Cherry, Passion Fruit and Pineapple. "Pineapple quickly rose to our second-best selling flavour (behind Citrus), capitalising on the resurgence in the Tiki trend we saw in 2009," says Andrea Conzonato, chief marketing officer at Skyy Spirits, adding, "Infusions Ginger is capitalising on a huge popularity swing in ginger for both chefs and mixologists."

The US love affair with flavoured vodkas is due in no small part to its embrace of

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### THE DEMOGRAPHICS

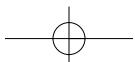
#### **The older the brand, the older the consumer**

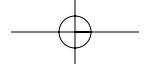
According to industry research, Stolichnaya drinkers tend to skew older than Absolut imbibers. And Absolut drinkers tend to skew slightly older than those who drink Grey Goose. Among unflavoured vodkas, Belvedere scores highest in the 21-to-24 age group. And a Nielsen Company report says that "millenials", the 21-30 age group, are a highly influential bunch and more likely than anyone to choose super-premium and premium brands.

the cocktail. Blame, or rather thank, first James Bond, with his "shaken, not stirred" Vodka Martini, and latterly those Cosmo-swilling babes of *Sex and the City*. With the noughties christened the decade of the cocktail, the trend looks here to stay. All of which is good news for vodka.

Perhaps not surprisingly, many flavoured vodkas are marketed to women and the 21- to 25-year-old drinker, groups who traditionally prefer a sweeter taste. Bartenders also like them so they can offer patrons a range of offerings. "Cocktails remain a growth engine for both Absolut and the whole vodka category," says Ian Crystal, brand director on Pernod Ricard's Absolut and FRIS. Indeed, according to an October 2009 study of 3,200 premises in major metro markets, by the Beverage Information Group, Absolut vodka was the number one brand when it came to customer preferences, followed by Grey Goose, which was also the first choice in themed restaurants and in hotels.

Not everyone is jumping on the flavoured voddy juggernaut though, for instance Grey Goose has only a limited range including citron, vanilla and pear. "There are a lot of non-traditional flavours being launched – everything from bubblegum to root beer – some sectors of the vodka market are starting to look more like candy stores," says Ned Duggan, US senior brand manager for Grey Goose vodka. "We always keep a close eye on quality. Our *maître de chai* [master distiller] is





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constantly experimenting with potential new flavours, but unlike many vodka brands, we're not trying to launch a new flavour every year. Our priority lies with the integrity of Grey Goose vodka."

Obviously, there's been some recent fallout, accompanied by a slowdown in new entrants. Absolut owner Pernod Ricard, for instance, has said it intends to reduce the pace of new flavour introductions to one every other year. "We are probably reaching saturation ... You just can't sustain that many new vodkas," says Rothbaum.

Howard Lavine, president of Leon's Wine and Liquor Center in Miami, agrees the market is over-saturated with flavours. "People who buy premium vodkas want to mix their own flavours, they don't want pre-mixed. They think it's too artificial. I'm trying to buy as little as I can; unfortunately, the suppliers almost force you to purchase them because their suppliers are forcing them to buy them and it's pushing it through the marketplace. But what I hear is that there's even more flavours on the way. The flavoured vodka trend also has a lot to do with the excess supply of vodka and how they, the distillers, get rid of it. Creating another new product gets rid of a lot of inventory."

The other factor propelling growth over the past decade has been the continuing success and expansion of the high-end sectors, ranging from the ultra-super premiums such as Elit by Stoli and Absolut's Level, to the super premiums such as Grey Goose, Belvedere, and Ketel One, as well as the premium brands including Absolut, Smirnoff and Stoli. Then there's the myriad of smaller trendy and craft brands that also fuel sales.

Sales figures for 2009, however, show the recession taking its toll. DISCUS figures separate vodkas into price segments, and show that compared to 2008, the high end and super categories, volume is down by 2.3% and 5.8% respectively. In the premium category, volume is up 5.0%. While in the value sector, volume is up by 10.7%.

Rothbaum of Liquor Inc. says that the Elit and Level brands were just starting to catch on. "But they really never developed



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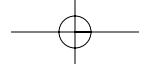
into the business they wanted. If things had continued on the same course, it is possible people would be willing to pay that much for vodka, but the market was relatively small. In some ways these brands were showing what they could do. A lot of vodka is being sold as a luxury product. They're trying to do what the Scotch people do. It was almost a way for Absolut and Stoli to say, 'We know a little about luxury'. But I don't think most consumers had ever heard of these brands."

Sales of Bacardi-owned Grey Goose, once the fastest-growing distilled spirit in history and helping establish the \$25 or \$30 bottle of vodka, went from 80,000 cases in 1999 to over 2.5 million in 2005. But in 2009, sales declined 3%, according to IR. Rival Ketel One, owned by Diageo, meanwhile, was down nearly 7%.

Lavine of Leon's in Miami says, "There's definitely a trade down, but Grey Goose is still the number one premium vodka. It's still selling, just not as much as it used to. People are trading down to Absolut. From our point of view, Absolut sales are increasing." Rothbaum adds, "People who drink Grey Goose are not drinking Popov, they are trading down to Ketel, or to Stoli or Smirnoff."

Taking a very different marketing approach from its competitors, is Diageo's super-premium brand Ciroc, a French grape-based vodka invented by Diageo six years ago, aimed at what it calls the "urban market". It had the brainwave of partnering with hip hop artist Sean "Diddy" Combs, CEO of Bad Boy Worldwide Entertainment Group and a well-known entrepreneur, with whom it splits the brand's profits. He in turn promotes and manages the brand. As a result, sales of Ciroc (which has also just launched two flavoured varieties) more than doubled to about 245,000 nine-litre cases in 2008, due in no small part to Mr Combs' popularity in urban markets.

For many years, of course, Absolut practically had the premium sector to itself. And it remains the number two selling brand, behind Smirnoff. But according to IR, 2009 volume sales fell by 3.7%. Diageo's Smirnoff saw volume sales rise by 3.7%. Meanwhile Stoli, one of the oldest



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### VODKA VERSUS OTHER SPIRITS ACCORDING TO DISCUS

DISCUS figures show that the entire spirits industry growth slowed in 2009, with the amount of liquor sold by suppliers up 1.4%. That's the smallest increase since 2001 and below the 10-year average of 2.6%. The market share for all spirits fell by more than 1% in 2009, compared to continuous increases since 2000. DISCUS CEO Peter Cress attributed the slower growth to some trading down among consumers. He cited a long-term analysis of prior recessions which showed a strong trend back to "premiumisation" as the economy improves. "Our data shows that there is light at the end of the tunnel," he said. "The question remains, how long is the tunnel?"



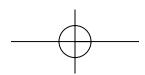
brands on the market and now imported and marketed by William Grant saw its sales decline by 12.8% in 2009, again according to IR, but then the brand has maintained its premium pricing strategy.

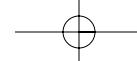
However, in such a competitive environment, pricing becomes increasingly important and many brands are being extremely creative with price promotions. As Crystal of Absolut and FRIS points out, "The vodka category represents one of the most competitive categories in spirits. The result is that there is very strong promotional pricing in place which is causing a blurring of tiers within the vodka segments: super premiums are invading premiums' turf, premium invading the value category and so on. Regardless of the competition within vodkas, the fact remains that vodka is still the most dominant segment in the marketplace and continues to grow versus overall share."

Crystal says Absolut has developed a national premium pricing strategy. "When we make local tactical adjustments to our national pricing strategy, it can be either upward or downward, depending on market conditions."

Another factor is the continuing migration of sales from on-premise to off-premise, as consumers look to save money. As a recent just-drinks/IWSR report on the global market for vodka put it, "Consumers who are drinking at home tend to be less concerned about purchasing status brands". As a result, Crystal says Absolut is putting more resources into support of the brand in the off-premise, which he says is helping to compensate for the industry-wide decline in the on-premise.

Reaping the rewards from the above down-trading is the often-overlooked value sector where vodkas retail for around the \$10 mark. Many budget brands, long in decline, have started to grow again and others are downright flying off the shelves. Constellation Brands' Svedka for example, increased volume sales by 30% in 2009, according to IR. Skyy Vodka, the number four brand behind Smirnoff, Absolut and Grey Goose, rose by 4.7%, while Sobieski Vodka, launched in the US in 2007, was an instant smash and sold 255,000 cases





in 2008, making it one of the hottest liquor introductions in years. Its marketing platform urged consumers to focus on what's in the bottle – not marketing or fancy packaging – and it's now united with actor Bruce Willis, who has a stake in the company. It's an approach that's differentiated it from the pack.

"The lower end is the one area that's growing," says Goldstein of Manhattan Liquor. "Sobieski's doing very well and they've got a great introductory price here. It's outselling Smirnoff because it's a few dollars cheaper. In this economy people are guarding their money closely. If they find a cheaper brand, and they like it, they'll stick with it. I think that's why both Absolut and Stoli claim to have come down in price. But that doesn't mean the distributor lowered price, because we have a three-tier system, it has to go through three steps before the end users see it. I can't say I've seen any lowered price. In vodka it's just more and more brands trying to break in. People seem to think they can become the next Grey Goose and make a zillion-dollar killing."

Traditionally, no one really wants to discuss the value category, but it's still huge. According to Rothbaum, "It was just sort of unfashionable to look at it. But Sobieski has done a good marketing job and so has Skyy. When they came out with their vodka, their tagline was, 'We're just as good, we're just in a cheaper bottle', so the implication was, 'you're paying for the bottle'. And

at a certain point, the difference between \$30 vodka and \$17 vodka, becomes subjective."

Conzonato of Skyy Spirits says they've seen a sales boost of about 7% in 2009. "The vodka category is no longer driven by what we call 'conspicuous consumption', meaning selecting a brand to make some kind of wealth statement," she says. "This was obviously a very big play in the '90s. It is now being driven by innovation and the 'quality to value' ratio, which benefits us. This is a shift in purchase habits that is driving most consumer product categories in the US."

"We do indeed think that trading down is a buying pattern that will remain as long as there is financial instability in the overall

market. Even when the markets recover we don't expect a dramatic shift back to conspicuous consumption as people who are shocked by a financial crisis tend to stay focused on the value to quality ratio for the rest of their lives, as we saw following the Great Depression. We have been able to grow market share in the past



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year without drastically reducing price, as we have seen some of our competitors do recently."

Ultimately, no one doubts that vodka sales will continue to outpace other spirits in 2010, but the key question is whether the new frugality seen among vodka drinkers will remain when economic conditions improve – and how that will impact the premium sectors. Research by just-drinks suggests some consumers who were once prepared to buy premium products, have now become focused on value and may be less prepared to resume their premium spending habits after the recession.

Lavine of Leon's in Miami weighs in with the last word: "When you look at the high prices of these imported vodkas, like around \$25, the people I really feel sorry for is the Johnnie Walker Black Label, Scotch whisky producers. They make JWB for 12 years sitting in a cask and then sell it for the same price as Grey Goose, where they've just pushed a button and it's instantly distilled. There's a great deal of inequity in the vodka market as far as price goes. Vodka is totally overpriced when you look at the Scotch guy who has to wait 12 years to get his money back. Of course that's why everyone's trying to get into the vodka market." \$