

White spirits

Matthew DuCann of Snow Queen believes that good customer relations has enabled his brand to stand out from the crowd

THE WHITE STUFF

The battle for the UK spirits market has never been fiercer. But for all the hype about dark spirits, reports *Rebecca Gibb*, the smart money is still on white. Portrait *Gautier DeBlonde*

Has everyone turned to the dark side? From the column inches they're attracting at the moment, you'd think dark spirits were now the dominant force in the UK spirits market. Rum might be on everyone's lips this year, but white spirits look set to maintain their stronghold in the UK.

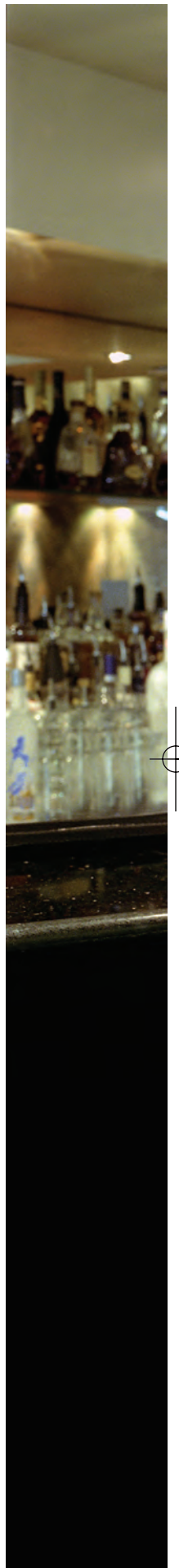
So is all the talk of the rise of dark spirits a lot of hot air? If you look at the figures, it would seem so. White spirits still make up the majority of the UK market, with more than 40% of sales by volume. The domination of gin and vodka is even more apparent in the

off-trade when you consider they account for three-quarters of all spirits sales. Although the UK spirits market is experiencing a general decline, tequila and vodka bucked the trend in 2006 with slight growth.

Out on their own

Own-label products are driving what growth there is. Although white spirits companies repeatedly mention the term "premiumisation", almost three-quarters of vodka and two-thirds of gin sales in the off-trade are the cheapest on display, and the average price for a litre of spirits remains static at £13.80.

Michael Gierak, managing director of Ocean Spirits, →





SERVICE WITH A SMILE

New vodka brands come on to the UK spirits market every year. Many disappear within the first 12 months. Snow Queen, launched in the UK in 2005, is one of the successful ones. The company has since grown 15% year-on-year and has listings in top-end bars, Selfridges and Harrods, and has just gone into duty-free shops at airports. It has 2,500 accounts in the US and aims to expand its distribution in the next 12 months.

Matthew du Cann of Snow Queen (pictured left) believes his brand's success is down to customer service, tastings and training. "Some brands make the mistake of getting an account but then don't maintain these relationships. You have to show you care."

He points out that barmen have become more knowledgeable than ever before, thanks to improved education, trade shows and magazines. "You need credibility and knowledge to sell a product, and many companies make the mistake of hiring marketing people rather than ex-barmen."

Snow Queen comes from Kazakhstan, formerly part of the USSR, which has one of the largest oil and mineral reserves in the world.

Kazakhstan distillery Geom produces more than 200 million bottles of vodka a year for 60 different brands, including Snow Queen.

The country was destined for obscurity until the film *Borat* brought it to cinema screens around the world.



White spirits

UK PRODUCTION

The world vodka market was worth £24.2 billion in 2006 and the UK is the world's fifth-largest market. But we are not only a nation of consumers – in 2006 the UK produced more than 35 million litres of pure alcohol intended for vodka production and more than 40m litres for gin, according to the UK Gin and Vodka Association (GVA).

The export market is much more important for gin than vodka, with 70% of UK-produced gin shipped to more than 200 countries in 2005; only 15% of UK-produced vodka was exported.

Edwin Atkinson, the director general of the GVA, explains why gin is such a successful export: “The consumer around the world looks to the UK as the home of gin and that is an influence on why so much gin is exported, compared to vodka produced across the globe.”

North America is the most important export market for gin, worth £93.5m each year. Spain is the second-biggest market, consuming half of all UK gin exported to the EU. While tight margins on cheap gins also make it unprofitable to export, premiumisation is a trend on the Spanish market. Local gin consumption has fallen, but volumes of UK-imported premium gins are up.

UK vodkas – mostly made from grain, sugar beet or molasses – are mainly sold in the UK, with total exports worldwide worth £31.4m (Spain spends more than this on gin alone).



which distributes Polish vodka Soplica, explains why. “UK growth has concentrated on the economy brands, which is partly fuelled by deep discounting and lack of consumer brand preference,” he says.

But Paul MacFadyen, director of IP Bartenders, believes that the nature of the UK's drinking culture – quantity over quality – is stifling top-end brands and consumers' desire to trade up. He says: “It will be a slow process converting the British public to drink top-quality spirits. They drink to get drunk, so price is an issue.”

While own-label vodka has fuelled volume growth, the share of own-label gin has declined by both volume and value. The UK Gin and Vodka Association (GVA) says there has been a move towards value rather than volume. It reports: “There has been some migration from ‘standard’ products into more premium and higher-value products.” More premium own-label products such as Tesco's Finest have also come on to the market.

Bartenders and spirit distributors report a definite shift in demand for top-end white spirits. Alex Claos, managing director of Allied Continental Brands, which mainly handles vodka, says: “The volume is always there and that's handled by the big guys, but premiumisation is definitely a trend led by the on-trade.”

It may be driven by the on-trade, but it is generally accepted that on-trade trends, such as premiumisation, trickle into the off-trade. So, how is the white spirits sector innovating?

Stylish vodka

In the vodka market, we've seen the rise and fall of RTDs, while the flavoured vodka craze seems to have slowed to a steady pace. However, innovation is difficult when you're producing a spirit that's meant to be neutral. Many brands are marketing themselves on levels of purity and distillation techniques.

Alan Daly, manager of spirit specialist Gerry's in London's Soho, which stocks more than 190 vodkas, thinks innovation has gone too far. “We've got vodka made with glacial water, vodkas distilled using milk, even nine-times distilled vodka – it's just become ridiculous,” he says.

So what else can vodka producers do to differentiate their spirit from the next? Pretty packaging appears to be the answer. From fancy labels to tactile bottles, vodka brands are really focusing on aesthetics. MacFadyen names U'Luvka as a case in point, which retails at £41.50 in the off-trade. “It's expensive but you're paying for a beautiful bottle.” And it seems image is everything to succeed in the vodka market.

Trendy nightclubs and bars now serve vodka by the bottle in ice buckets, and drinkers want to be seen drinking the right brand packaged in a stylish bottle in a case of “keeping up with the Joneses”. Snow Queen vodka has reacted to this demand, producing magnums and jeroboams for high-society London nightclubs. At £180 for a standard 70cl bottle, this is one on-trade trend that is unlikely to transfer to the mainstream shelves.



In a slowly declining market, white spirits are still expected to grow this year; below U'Luvka which retails at £41.50 in the off-trade



Botanical advantage

Gin has more room to innovate, with a host of botanicals – Hendrick's, for example, uses rose petals and cucumber, while Beefeater Wet is a pear-infused gin. New products are coming onto the UK market at a rate of knots. The latest gin is Pink 47 in a diamond-shaped bottle, with botanicals including nutmeg and almonds. Blackwood Distillers has also released its 2006 vintage dry gin with a twist of lime, while Whitley Neill (pictured left), known for infusing its gin with African botanicals, has just launched a sloe gin in the UK.

Meanwhile, Beefeater has launched a £10 million marketing campaign and a new bottle design this year to improve its traditional image.

Clearly these brands believe the gin market is worth investing in because, in spite of a slight decline in both volume and value last year, the UK GVA reports premium products are performing well.

More than a shot

Unlike most spirits, the tequila market, which accounts for less than 1% of all UK spirits sales, is growing. However, it is still encumbered by its "down-in-one" image, served with salt and lime.

Gareth Brown, UK marketing manager for Tequila Sauza, says innovation is becoming more difficult, but it is looking at packaging and promoting citrus-based long drinks. "Vodka and gin have been sold as part of mixed drinks as well as shots and we need to focus on that, too," he says. "One of the reasons tequila re-

mains small is because it's only been seen as a shot."

MacFadyen has seen a rise in interest in sipping and enjoying tequila, but most consumers are reluctant to see it as anything but a slammer. And it is not very versatile for cocktail making.

Vodka and gin, however, generally make good cocktail bases and Gierak believes celebrity endorsement of vodka-based cocktails has helped maintain its market share. "Sex in the City has done a great job for vodka and

"We've got vodkas from glacial water, vodkas distilled using milk. It's become ridiculous"

vodka martinis. It's really fashionable with female drinkers right now."

Like tequila, vodka sales did increase slightly in 2006 but the category is flooded. The market can only accommodate so many vodkas and most admit it is saturated. Matthew du Cann, brand development manager for Snow Queen vodka, blames the saturation of the white spirits market on small brands. "There are too many small companies who come on to the market hoping they'll get bought by bigger brands."

Gaining a foothold

But for smaller fry it is difficult to get a foothold in the market and many disappear as quickly as they appeared. The stagnating light rum category is particularly difficult to enter says MacFadyen: "Light rum is so dominated by Bacardi that any white rum that wants to succeed has to compete against them for a pouring deal."

White rums coming to the UK market must claim a point of difference. Rather than the standard offering, the opportunity for new white rums lies in the niche sector, with an emphasis on the origin and heritage of the product.

As the market leader, Bacardi is going down the vodka innovation route, launching flavoured white rums such as apple and berry.

While aged white rums have attracted some interest, genuine excitement surrounds golden rum. Mariam Riddle, UK marketing manager for Wray & Nephew, which owns Jamaican rum brand Appleton Estate has seen a sharp rise in demand from prestigious on-trade outlets for golden rums. "Golden rums are providing mixologists with a new and interesting challenge. We found bartenders have got what they term 'vodka fatigue', and are on a desperate search for spirits with a point of difference," she says.

Social responsibility concerns and alcohol misuse issues affecting the drinks industry are inevitably having an impact on the white spirits market. Justin Smyth of drinks marketing agency, In Spirit Brands, which represents brands including Ketel One vodka and Matusalem rum, says a number of factors have stifled growth. "Anti-drink-driving campaigns, restrictions on advertising and consumers becoming more health conscious have all had an impact on sales," he explains.

In a less-than-buoyant market, the trade seems to think white spirits can still grow. Vodka and tequila experienced growth last year despite a general decline of other spirits, including gin. Although vodka continues to dominate the sector, it looks like it has gone as far as it can in terms of innovation and new brands, while gin and tequila have room for growth. Admittedly, dark spirits might be the cool and sophisticated drink this year, but white spirits are still the major players.

Every year, the question is asked, what is the new vodka? You could argue the case for dark rum in 2007, but the answer is still vodka.