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# RUM

## Juggernaut

BY DANIEL MARSTELLER

Even in the current recession, rum appears well-positioned to build on more than a decade of uninterrupted growth

**S**uccess at the rum category's high end has been elusive, but overall volumes have barreled onward, gaining 10 million cases over the last decade. According to Impact Databank, rum was up 2 percent to 24 million cases in 2008, despite the economy's steep nosedive in the fourth quarter. As financial anxieties continue, familiar calls like the Rum and Cola and the Mojito are likely to keep the category at center stage. And a new crop of intriguing brands is adding some sizzle.

One of those new brands is Pernod Ricard's Seagram's Smooth Brazilian rum, which launches this month for \$11.99 a 750-ml. bottle. Banking on the name recognition built by Seagram's gin and vodka, the new rum line launched with two flavor extensions—Citrus and Raspberry—in addition to the original. "Rolling out all the sizes and the flavors right away gives us more traction in the off-trade and instant credibility that we intend to be a major player with this brand," says Craig Johnson, brand director of rums at Pernod Ricard USA.

Pernod's other rum, Malibu, is the category's third-largest brand at 1.6 million cases. Last year, Malibu's sales slid by 2 percent after roughly doubling in volume from 2000 through 2007. Johnson blames the economic downturn. "Malibu is especially strong in national on-premise accounts, and that's one sector that's been really decimated in this economy," he says. In June, Pernod will introduce the new Malibu flavor Melon, which is expected to benefit from a multimillion-dollar

marketing budget. Malibu's flavor portfolio now accounts for about 20 percent of its sales, with Mango and Passion Fruit being the most popular. Pineapple, Banana and the core Coconut variety round out the line (\$15 a 750-ml. bottle).

Diageo's Parrot Bay extension of the Captain Morgan brand competes with Malibu. "Right now, consumers are interested in simple cocktails and a bit of escapism from tough times, and Parrot Bay answers that," says Mark Breene, vice president of rums at Diageo North America. He notes that Key Lime, which launched last year, has performed well so far (Parrot Bay is line-priced at \$15 a 750-ml. bottle).

### Trading Up, And Down

Captain Morgan Spiced rum inched ahead about 1 percent last year to 6.1 million cases. This year, Diageo's marketing plan for Captain Morgan (\$18 a 750-ml. bottle) will continue to center around the Captain and Cola bar call, which Breene says competes against domestic beer because of its broad appeal. Diageo believes Captain Morgan's TV ad support is valuable in connecting with consumers and wholesalers, and the company will stay its course amid the tough economic climate.

Rising above Captain Morgan's Private Reserve and Tattoo extensions to move into the ultra-premium category, last year Diageo cut a three-year deal with Industrias Licoreras de Guatemala to distribute the Ron Zacapa portfolio stateside (the flagship Zacapa Centenario 23 retails for \$45 a 750-ml. bottle).

PHOTO BY: (OPPOSITE PAGE) BRIAN BROWN

Following the three-year term, Diageo may purchase a 50-percent stake in Ron Zacapa subject to certain performance criteria. Other high-end rums from established players, including Moët Hennessy USA's 10 Cane (\$35), Sidney Frank Importing Co.'s Tommy Bahama (\$30) and Patrón Spirits Co.'s Pyrat (\$45), have gained a foothold in the market, but economic conditions haven't made development of the upscale segment any easier. "We've been selling Zacapa for slightly more than six months, so it's still early," Breene says.

Captain Morgan is encountering a bit of increased competition on the high seas, both within its own price segment—via William Grant USA's Sailor Jerry—and from Luxco's Admiral Nelson. Admiral (\$11 a 750-ml. bottle) entered the market nearly 15 years ago, taking a decade to reach 200,000 cases, and then doubling that number in only four years. Averaging 23 percent annual growth since 2005, the brand will likely exceed half a million cases this year.

Sailor Jerry (\$19 a 750-ml. bottle) is a newer brand, having arrived in 2002, but its rise has been even more dramatic than Admiral Nelson's. Named for the legendary tattoo artist Norman "Sailor Jerry" Collins, whose designs feature heavily in its marketing, the brand sells for well above Admiral Nelson's retail average, and typically at a slight premium to Captain Morgan as well. Suzi Cesco, marketing manager for Sailor Jerry at William Grant USA, says the brand's rebellious image attracts consumers who can otherwise be difficult to target.

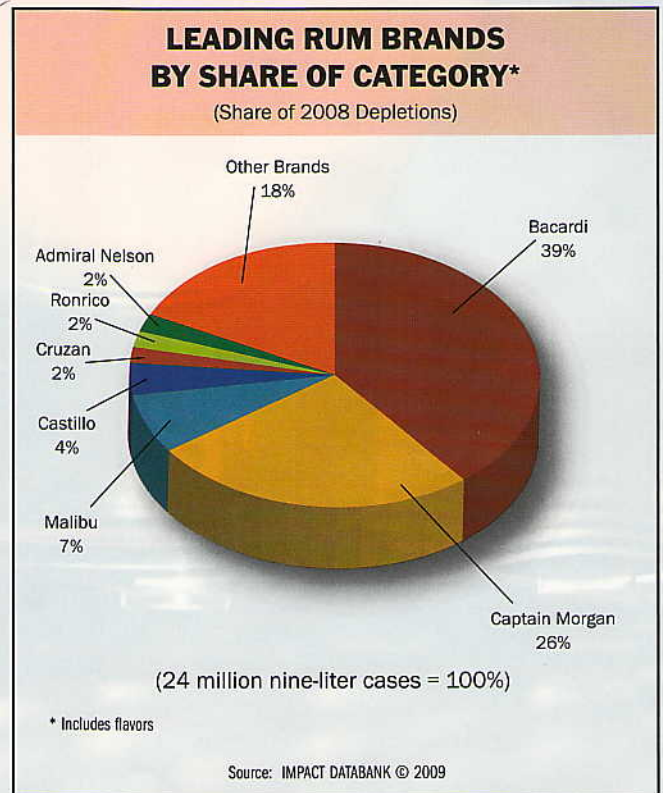
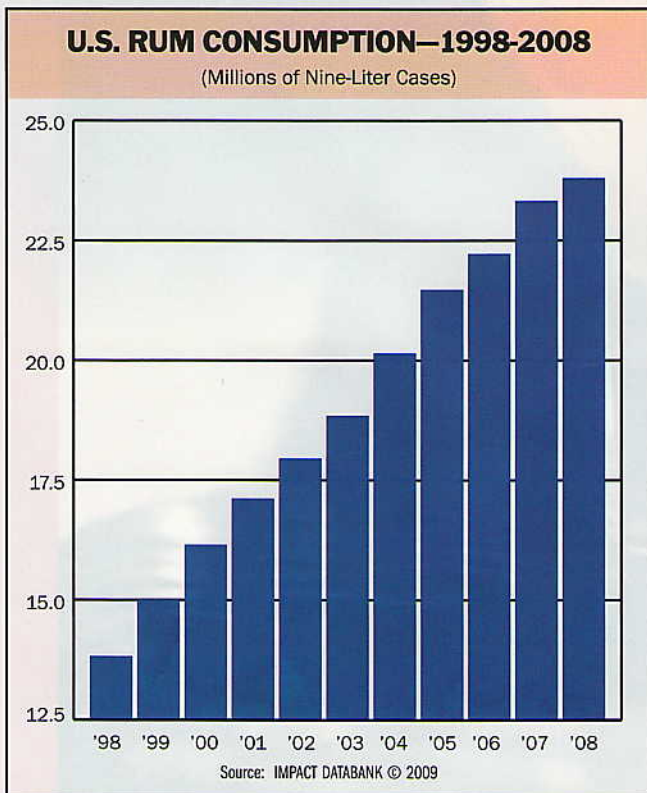
Cruzan rum entered 2009 with new packaging and a new owner, Beam Global Spirits & Wine, which acquired the brand for \$100 million in the wake of Pernod Ricard's V&S deal. Cruzan (\$14 a 750-ml. bottle) now resides in Beam's new

Lifestyle Brands unit, along with Sauza and El Tesoro Tequilas. Despite the portfolio shift, Cruzan grew 2 percent to 584,000 cases last year. Buoyed by a strong flavor line, including its new Guava release, Cruzan will be supported in 2009 by print ads and a consumer education initiative.

Meanwhile, as competitors continue to emerge, category leader Bacardi has maintained its dominant position, advancing by 2 percent to 9.4 million cases last year and reclaiming its position as the U.S. market's largest spirits brand. Bacardi's strength remains in the off-premise, but brand director Maggie McDonnell says its on-trade sales have held up despite the recent wariness of consumers. "Bacardi does well in neighborhood bars, where business is still relatively good. Nightclub business is obviously down around the country, but the Mojito carries Bacardi in those venues," she says. In the off-premise, Bacardi's RTD cocktail Classic Mojito started off red hot, having passed 250,000 cases in 2008, its first year on the market. In April, Bacardi unveiled its newest flavor, Dragon Berry (\$17 a 750-ml. bottle), a mix of strawberry-flavored rum infused with exotic dragon fruit.

### Restaurants And Bars Still Rolling

It's no secret that on-trade operators have been hard-hit by the economic crisis, but that doesn't mean development has rolled to a halt. In March, Drive This! Entertainment—owned by Michael Frey, who is also a managing partner of Montecristo Rum, and Craig Gilbert—unveiled Rhubarb at The Mirage Hotel and Casino in Las Vegas, an opulent lounge near the resort's main entrance. Rhubarb's cocktail menu features \$12 specialty rum drinks, including the Mojito and Mai Tai,





The three-unit Cuba Libre Restaurant & Rum Bar (the Atlantic City location is pictured) offers several variations of the Mojito and many other rum-based specialty drinks, along with high-end sipping rums. To extend its brand name, the restaurant is launching its own proprietary rum later this year that will be sold off-premise in Pennsylvania and New Jersey.

along with original concoctions like the Tatonga, a mix of Montecristo Spiced and Cruzan Mango rums, Daiquiri mix, pineapple juice and Angostura bitters. “The numbers so far are better than the opening of my cigar bar, Casa Fuentes, which opened next door four years ago,” says Frey. “People are still coming to Vegas, and there’s still perceived value in sitting for an hour or two with a well-made cocktail for \$12 and a great cigar for \$17 in a beautiful setting.” Rhubarb also offers 40 sipping rums for between \$8 and \$12 a 1½-ounce pour.

At Cuba Libre Restaurant & Rum Bar, which has locations in Philadelphia, Atlantic City and Orlando, director of operations Bob Gallo says business has been affected by the downturn, but he feels it’s in the process of rebounding. “Sometimes the restaurant sector is the first into the recession and the first out,” he says. “When someone orders a Mojito, it almost always leads to another—the difference is that people have been consuming less lately.” Cuba Libre’s Classic Mojito (\$8.50) is made with the restaurant’s proprietary rum, which will soon enter the off-premise in Pennsylvania and New Jersey under a deal with Opici. Flavored offerings and sipping rums—including El Dorado, Flor de Caña, Brugal and Ron Matusalem—are also garnering interest at Cuba Libre, although Gallo admits the cultivation of rum’s higher end still demands more consumer education.

## Off-Trade Outlook

Off-premise sales appear to be holding at least steady, and in many cases rising, despite the challenging economy. “Customer counts and sales are up, although the dollar amount per ring, or per customer, could be down slightly,” says Bob Kreston, owner of Kreston Wine & Spirits in Wilmington, Delaware.

“People aren’t trading down so much in everyday consumption. But when they’re buying for entertaining, and in quantity, they’re more likely to trade down right now.” Bacardi and Captain Morgan continue to be top-sellers, and Kreston expects flavor lines like Parrot Bay and Cruzan to make a push coming into the summer months. Up the pricing ladder, Mount Gay from Rémy Cointreau USA is Kreston’s best-seller. And Appleton, which recently departed Brown-Forman’s U.S. portfolio for Kobrand Corp.’s, is also attracting regular shoppers.

Across the country at Wally’s Wine & Spirits in Los Angeles, spirits buyer J.P. Blanchard says super- and ultra-premium rums have a devoted following. Ron Zacapa 23-year-old and Flor de Caña Centenario 21 are popular, while changes to the flavor profiles of Zaya Gran Reserva and Pyrat in recent years brought loyal consumers running to buy out the older versions. “For the most part, these are older consumers with mature palates who know what they like,” says Blanchard. Rum’s favorable value-for-money equation also helps protect the category’s share at Wally’s. “The performance of older rums stays pretty consistent regardless of the economy,” Blanchard says. “You can get a very nice bottle of rum for \$50 or \$60, so you’re not paying as much as you might for a high-end Scotch.”

With its strength in the value and premium segments of the market—and a flavor arena set to heat up as summer comes on—rum appears positioned to ride out the economic storm without losing share. While the development of a larger high-end segment remains a challenge, it’s one that marketers will no doubt relish the opportunity to seize in the coming years. **mw**

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