

# SCOTCH WHISKY'S WINNING STREAK

Scotch sales are starting to rise again after years of decline, and with new products and line extensions, marketers are finding growth at the high end

By H. Lee Murphy

**F**annie Young, brand director of Dewar's Scotch for Bacardi USA, has a message for retailers who complain that Scotch whisky has become too large and complicated. Yes, her company and others are rolling out new upscale products and broadening the category, making merchants devote more shelf space for Scotch. But the American consumer has become so diverse and difficult to pin down that the old idea of one-Scotch-fits-all now seems quaint and utterly outmoded.

Scotch marketers are on a quest to put not one, but two, three or more bottles in their customers' liquor cabinets. "People choose different products for different occasions," Young says. "Dewar's White Label is great in a highball with a lemon twist at home. The 12-year-old is perfect for drinking on the rocks at a restaurant while out with friends. And the new 18-year-old is ideal for sitting down with a close buddy to celebrate a special occasion."

That 18-year-old (\$80 a 750-ml. bottle), the latest Dewar's creation, arrives in California for a test run beginning this month. It represents a considerable move upward for Bacardi, whose Dewar's White Label is priced at about \$22 in most stores, followed by the 12-year-old at \$30. This layering of

prices and ages will ideally put more punch in the brand, which is ranked No. 2 in the Scotch category, with close to 1.4 million nine-liter cases sold in 2007. Dewar's eked out a 1-percent sales gain in the United States last year, reversing the 1-percent decline that occurred in 2006.

Overall, U.S. Scotch shipments grew 5 percent last year, as measured by dollar volume, according to Impact Databank. Single malts accounted for much of the gain, while more mature blended labels fought with varying degrees of success to hold onto market share. Diageo North America's Johnnie Walker is the No. 1 Scotch on the U.S. market, and its Black and Red labels registered solid gains of 7.5 percent and 3.1 percent, respectively in 2007, while Pernod Ricard USA's Chivas Regal and William Grant & Sons' Clan MacGregor saw volumes drop 5.2 percent and 1.7 percent, respectively.

## Marketing Necessity

In a slumping economy, no one can afford to grow complacent. Bacardi is expanding its marketing for Dewar's beyond print and outdoor billboards to "guerrilla" campaigns that involve sponsoring independent film and music festivals, as well as hosting trivia and debate nights at trendy bars in

categories. But Johnnie Walker's marketing has played a key role." The Scotch's "Striding Man" logo, illustrating a man striving to get ahead, has been used on the brand's labels for a century, though it's only shown up in print and outdoor advertising for the last 10 years. The logo is being honored this fall with a Johnnie Walker Black collector's bottle that's embossed with a 23-carat gold striding man (\$65 a 750-ml. bottle), and the logo will make its national cable television debut next month in an animated commercial.

Topf believes the rising popularity of Johnnie Walker's upscale labels—Green (\$60 a 750-ml. bottle), Gold (\$90) and Blue (\$200)—has also helped boost interest in Red and Black. "Blue is growing more than 10 percent a year. It's the ultimate expression in blending Scotch and has had a positive impact on the rest of our line," he says. The upscale labels have become huge special occasion and gift items, leading Diageo to provide free engraving on bottles of the Blue label.

Diageo is also boosting support for its single malt portfolio, which encompasses such labels as Talisker, Dalwhinnie and Lagavulin. Some of those, particularly the smoky Islay-sourced Lagavulin (\$70 a 750-ml. bottle for the 16-year-old), are a handful for less-experienced Scotch drinkers. Accordingly, Diageo recently began a nationwide rollout of the less intense The Singleton of Glendullan, which is available only in a 12-year-old version (\$36). "For the consumer considering a move into single malts, we want to make it an easy transition with Singleton," says Chris Parsons, vice president of reserve brands at Diageo.

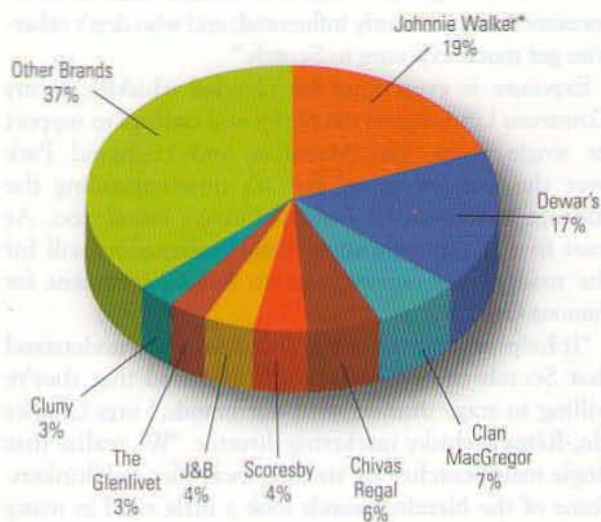
Diageo also continues to experiment with more upscale offerings elsewhere in its single malt lineup. While Talisker has been available in a 10-year-old (\$50 a 750-ml. bottle) for a while, the company is introducing a 30-year-old extension (\$400) this month. Similarly, the company's Oban 14-year-old (\$75) is being supplemented with a new 18-year-old iteration (\$150), due to arrive in the United States this month.

"We find there are two kinds of single malt drinkers," Parsons says. "One kind really knows his stuff and wants to try everything that's available, including the 30-year-old Scotches. The other kind is more mainstream and only wants a surface level of involvement. We must have products for each."

Skyy Spirits' Cutty Sark (\$20 a 750-ml. bottle) also falls into the crossover category, as the brand is widely recognized as one of the lightest and most approachable Scotches. The company began testing the new line extension Cutty Sark Blended Malt (\$25 a 750-ml. bottle) in Georgia and Colorado in May. It's an assertive blend of more aged single malts than those used in Cutty Sark Original, with fuller flavor and darker color.

"The Blended Malt represents a kind of small step towards a single malt whisky without going all the way," says James Bruton, Skyy's group brand director. "We're monitoring it closely and hope to take it nationwide eventually. There may be other line extensions in the future."

## TOP SCOTCH WHISKY BRANDS BY SHARE OF CATEGORY—2007



(8 million nine-liter cases = 100%)

\*Includes Black, Red, Blue, Green, Gold and Swing.

Source: IMPACT DATABANK © 2008

Skyy knows something about line extensions. The company also imports the Bowmore brand, which starts with Legend (\$25 a 750-ml. bottle) and moves up through a 12-year-old (\$45), 15-year-old (\$65), 18-year-old (\$95), 25-year-old (\$275) and the 42-year-old Black Bowmore (\$4,750), of which the United States was only allotted 80 bottles to sell. And this December Bowmore will introduce an even more elite bottling called White Bowmore (\$6,000), from casks laid down in 1964. Only 40 bottles of this Scotch will be available in the U.S. market.

## Filling Category Gaps

Every supplier wants to fill perceived gaps in the Scotch category. White Rock Distilleries in Lewiston, Maine, imports the popular single malt McClelland (\$22 a 750-ml. bottle). Dan Dabbelt, a division manager at White Rock, argues that a slowing economy will eventually force many consumers to trade down. "For many people, investing in a \$50 bottle of 12-year-old single malt is hard to do," he says. "We can give people an affordable test drive in single malt, and we compete effectively with blended whisky, no question."

Nevertheless, the overall Scotch trend seems to be moving to higher pricing. Constellation Spirits in Chicago once imported just the Old Pulteney 12-year-old (\$50 a 750-ml. bottle). A year ago the company added a 17-year-old (\$100) and a 21-year-old (\$130). "You have to offer a full range," brand director Christine Gretchko says. "Single malt lovers want choices. They like to discover new products and new tastes." The company hasn't turned its back on the

cities like Boston, New York and Los Angeles. "We're after consumers aged 22 to 32—the kind of people who don't want to be part of focus groups or any kind of research," Young says. "This is a creative class of urban consumers who are fairly influential, and who don't otherwise get much exposure to Scotch."

Exposure is everything for blended whiskies. Rémy Cointreau USA staged samplings and tastings to support its single malts The Macallan and Highland Park over the last few years, but it's now expanding the concept further to its Famous Grouse brand, too. At least five of the company's brand ambassadors will hit the road in the coming year to build excitement for Famous Grouse.

"It helps us that restaurants are coming to understand that Scotch can be paired with food and that they're willing to stage dinners with our brands," says Charles Ho, Rémy's whisky marketing director. "We realize that single malt Scotches are stealing away blended drinkers. Some of the blended brands look a little tired in many consumers' minds. That's why we have to work to keep Grouse fresh."

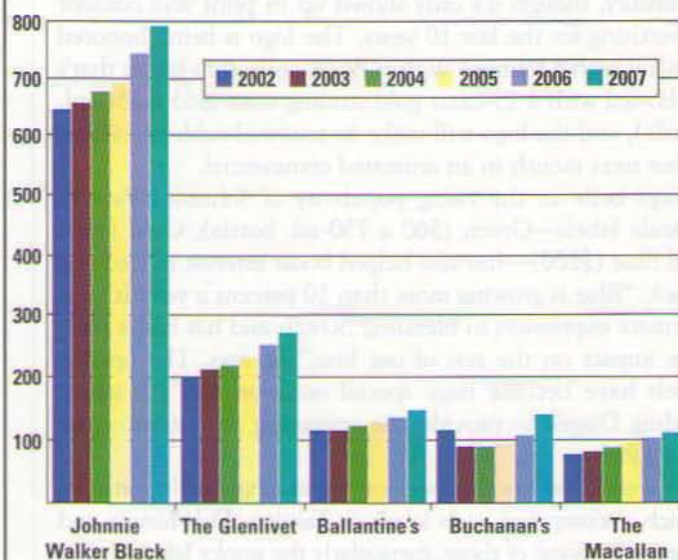
Larry Neuringer, brand director for both Chivas Regal and Ballantine's at Pernod Ricard USA, admits that the company's blended Scotch brands would "like to catch more of that wave of growth single malts are enjoying." Sales of Chivas have been soft recently because past brand owners had given up recruiting new Chivas drinkers, he says. That neglect allowed archrival Johnnie Walker Black, a highly successful recruiter since the early 1990s, to leapfrog ahead of Chivas in the marketplace.

"The demographics of the Chivas drinker have been aging," Neuringer says. "Younger people need to have somebody—often somebody they admire—help lead them into the Scotch category."

Even though sales of Chivas 12-year-old (\$20 a 750-ml. bottle) have been stagnant recently, Pernod plans to put much of its marketing muscle behind the high-end line extension Chivas 18-year-old (\$70) in the coming months. Some of the company's

## LEADING SCOTCH GROWTH BRANDS—2002-2007

(Thousands of nine-liter case depletions)



Source: IMPACT DATABANK © 2008

other brands—Chivas 25-year-old (\$299) and the 21-year-old Royal Salute (\$120)—are so narrowly allocated that they merit little marketing efforts.

"In the first half of this year Chivas 18-year-old was up 21 percent in sales," Neuringer says. "On the other hand, the 12-year-old was just treading water. Our hope is that if we can get the 18-year-old growing consistently, then the 12-year-old will eventually follow."

The segmentation of another Pernod Ricard brand, Ballantine's, is becoming especially pronounced. The original Ballantine's Finest retails for \$20 a 1.75-liter bottle, while the 12-year-old sells for \$22 a 750-ml. bottle, the 17-year-old is \$85 and the rare 30-year-old is \$350. Despite the variety that Ballantine's offers, Neuringer admits the brand has received little marketing support in the last few years. However, he says Pernod is working on a plan to raise the price of Ballantine's Finest to reposition it as a more premium Scotch. "We think the quality merits that," Neuringer says. "We believe consumers want a return to more solid times, when things weren't changing so fast. In many cases they're getting back to what their parents drank. That can be the appeal of Ballantine's."

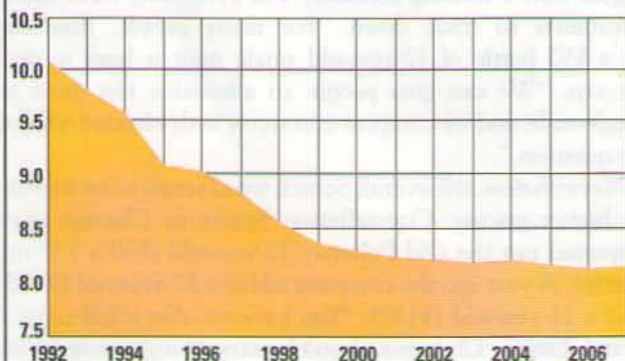
## The Blend Connection

Among blended whiskies, Diageo's Johnnie Walker has been the biggest success story of the past decade. The more expensive Johnnie Walker Black (\$50 a 1.75-liter bottle, depending on location) actually surpassed Red (\$26) in sales in the United States for the first time in 2004, and now easily outdistances its lower-priced sister brand.

William Topf, vice president of Scotch and Irish whiskies at Diageo North America, explains, "It's the premiumization of American tastes. It's happened, of course, across all spirits

## SCOTCH WHISKY CONSUMPTION—1992-2007

(Millions of nine-liter case depletions)



Source: IMPACT DATABANK © 2008

value end of the category, though. This month it's introducing the Speyburn Bradan Orach, with no age statement, for less than \$25 a 750-ml. bottle.

There have been fears that distilleries in Scotland are running out of old stocks, but the big brands keep introducing more advanced age statements. Pernod Ricard's The Glenlivet (\$35 a 750-ml. bottle for the 12-year-old) introduced its first 25-year-old version (\$350) in September. "We're finding that people want to go beyond the base single malts," says brand director Ron Zussman. "Our best growth is in our high-end marques. Our warehouses back in Scotland are a lot bigger than most people think." And they're about to get even larger: The Glenlivet has commenced a big expansion program to double its production capacity, as emerging markets like China require more Scotch. The Glenlivet is the best-selling single malt brand in the United States, with more than 270,000 cases sold last year.

But there are dozens of brands content to poke around the outer reaches of the category. Importer A. Hardy USA Ltd. in Des Plaines, Illinois, for instance, carries a little-known Scotch called The Arran Malt (\$45 a 750-ml. bottle for the 10-year-old), which is made at the only distillery in the Arran islands. "This whisky has no peat in it," says A. Hardy president William Walsh. "That allows blended Scotch lovers to come over to the taste much more easily."

### Tasting Expansion

The best Scotch retailers contend that for the category's sales to grow, more effective tasting programs have to be supported. At Federal Wine & Spirits in downtown Boston, manager and resident whisky guru Joe Howell offers more than 300 Scotches and keeps 200 open for tasting, including a 1992 Lochside (\$400 a 750-ml. bottle). He was inspired to start a tasting program when he noticed consumers buying \$200 bottles of Scotches for friends based solely on their labels. To further encourage tasting and experimentation, Howell staged a dinner at local restaurant Moo that featured more than \$10,000 worth of Scotch, including a Mortlach 50-year-old and a Strathisla 41-year-old. The event sold out, drawing 47 guests who each spent \$235 to attend.

Six-store chain Vendome Wine & Spirits in southern California frequently holds tastings at nearby on-premise outlets. An event scheduled for later this month at Ca Del Sole restaurant will feature nine single malts and one blend. With admission priced at \$50, the tasting is expected to sell out its 50 tickets.

"I like to put in a blend at tastings to give guests a point of reference," says Vendome general manager Scotland Stephenson. "We've not had a restaurant tasting yet that didn't sell out. People are eager to try new Scotch labels. Most can't afford to go out and buy 10 different whiskies and taste for themselves. So events like these play an important role in growing the category." **mw**



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