

US DRINKS: If you can make it there...

The American market is often viewed as a Mecca by drinks brands, but does the reality match up to the dream? Gabriel Savage reports on the US Drinks Conference 2008, which highlighted the risks and rewards for potential investors



For many European drinks suppliers, the US has long been viewed not only as the land of opportunity, but also the graveyard of brands which failed to find the right formula in this notoriously complex market. With this in mind, the US Drinks Conference was established last year as a medium for communicating to potential exporters both the rewards and pitfalls that lie in wait across the pond.

This year's conference, held in London on 14 October, had clearly been buffeted by economic storms on both sides of the Atlantic. Nevertheless, it attracted an international field of 55 representatives looking for answers on whether the US cash cow still exists and, more crucially, how to track her down.

The dominant message was sober but positive, conveyed by a strong panel of distributors, suppliers, legal experts and marketing directors, all with expertise in the intricacies of establishing a successful brand in the US market. An upbeat opening presentation from John Beaudette, president of importer and distributor MHW, highlighted that although the weak dollar may have dented US consumer confidence, it also offers European businesses a useful discount while they build their brand.

However low confidence falls, this is still a population of over 300 million thirsty people, where last year, according to Adam's Liquor Handbook, statistics bible for the US drinks industry, alcohol accounted for \$189 billion in retail sales. Indeed, 2007 saw a growth rate of 2.5%, largely driven by the wine and spirit categories. From a longer term perspective, wine sales in the US have enjoyed a 14-year period of successive growth, with imports driving this increase. As Charlotte Hey, db publisher, affirmed in her sponsor's address, as margins tighten and costs rise, the continuing value offered by the US drinks market offers a beacon to sleepless European suppliers looking for opportunities to broaden their consumer base.

Glowing reports from 2007 are all very well, but with the financial drama of 2008, is the outlook still positive for the drinks industry? A tentative yes, according to Jeff Grindrod

and Mike Ginley, partners at Brand Action Team and Next Level Marketing, whose research sends out the message that US consumers may be tightening their belts, but not at the expense of their post-work pint. Most consumers polled this September continued to drink about the same amount as when dining out a year ago, preferring instead to cut spending on their food order.

Indeed, the concept of “affordable luxury” echoed from all sides throughout the day: that Hermès handbag may be out of the question for the moment, but in compensation the Cosmopolitan becomes non-negotiable.

Marketing know-how

This opens up the issue of marketing strategy, where the message from distributors and existing US suppliers was unanimous: consistency and commitment are crucial factors for success. For Rudy Ruiz, executive vice president of major distributor Southern Wine & Spirits, it’s not enough for a brand to pitch its product, then sit back and count the profits as the distributor swings its account database into action. Too many wannabe suppliers present their product with little idea of who their target consumer is, where and how they drink, and why they should buy this over a competitor’s established brand. As Ruiz says, “The better the understanding of the consumer, the better the job we are able to do.” However fantastic a product, it can never appeal to the entire US population, so it is through this initial rigour of “aligning expectations”, that a good distributor can then ensure the right supplier is matched with the right consumer.

Another whiff of coffee follows for the starry-eyed supplier: even if you want your brand to be enjoyed in the trendiest LA bars, this is an expensive way to test the market. Ruiz points out that it may be worth considering a launch somewhere less aggressive, where a brand can build a loyal following before stepping into deeper waters. For premium brands, Ruiz often recommends Miami as a starting point, where regularly shared traffic with New York can facilitate further expansion by word of mouth. If it reaches the point where retailers and bars are initiating contact with the distributor then phase one of the battle is won.

It is at this point that commitment from the producer is key to generating sustainable excitement for its brand. However successful the distributor may be at opening account doors, this needs to be supported by marketing activity, ideally from the supplier.

Whether this involves educating bar staff about the product, sending the winemaker over for tastings, providing gift packaging, setting up in-store floor displays or preferably all of the above, there are options for every budget. Some approaches will prove more successful than others, as David Phelan, managing director of The Coole Quay Liqueur Co, discovered when he organised a promotion in a high-end US nightclub to market Coole Swan, a super-premium Irish cream liqueur launched into the US nine months ago. This proved to be an expensive exercise, with little long-term sales uplift once promotional fervour had moved on to the next brand.

However, all the strategy, planning and commitment in the world amounts to nothing if a brand crosses the immovable dragon that is the Alcohol and Tobacco Tax and Trade Bureau (TTB). The hangover from Prohibition means that certain regulations on alcohol sales, branding and marketing will vary from state to state, creating a potential minefield

for European importers trying to establish themselves in one state, never mind 50.

Some of the biggest pitfalls for importers were highlighted by Vincent O'Brien, senior counsel at Nixon Peabody LLP, whose expertise in US beverage alcohol law has made him hot property on advisory committees and international conferences as the key to unravelling a complex system which has scuppered many an unwary business plan.

First and foremost for suppliers carried away by a distributor's handshake after a good lunch, O'Brien's message is "Get a written contract". Painfully obvious as this may seem, many foreign suppliers are unaware of the strict franchise controls operated by several states, which can make it very difficult to change distributor if it is no longer meeting the needs of the brand.

Even when all relevant licences, labelling and registration hurdles have been cleared by a producer, usually with the help of its US importer, there remain tight regulations governing promotional activity. Here in particular it is possible for informed suppliers to remain on the front foot and develop a creative marketing approach to navigating their product safely through these restrictions. A word of warning, however, from O'Brien for those who fail to do their homework: "It is a criminal offence to violate trade practices and many overseas representatives don't realise this." Anecdotal evidence suggests that the US government's sense of humour is limited when dealing with those who, even inadvertently, contravene regulations.

Beating the system

For all its rigidity, the US legal system is gradually allowing some alternatives to the infamous "three-tier system", which, dependent on your viewpoint, either separates or unites producer and consumer. Direct shipping is permitted by an increasing number of states, and has now been extended by some to foreign imports. However, direct sales currently account for just 1.5% of US imports, proving a viable option for only the most niche, limited-quantity products. For the moment, every new legal challenge from frustrated suppliers citing discrimination is changing the rules and, once the goal posts are set, hopefully this process will be easier. As current regulations stand, however, most companies will find it more cost effective to continue using a distributor.

Among other factors, only companies with a US office base may apply for the certificates of label approval (COLAs) required for all alcoholic beverages.

However difficult the timing of the US Drinks Conference may have proved for the organisers, with scripts being revised each time a government bailed out a bank, or didn't, it was perhaps more important than ever that European businesses with an interest in the US market had access to this breadth and depth of expertise. The message taken home was clear: there is still gold to be had in the US, but the supply is limited and only those prepared to offer a rigorously researched business plan, distinctly positioned product and, above all, patience, need apply.

Case study: Codorniu

One solution to balancing federal legislative requirements with the inconvenience of managing distribution through several importers was seen in Codorniu's 2007 purchase of the business now called AV Brands. Not only did this step buy the Spanish Cava brand an established business complete with portfolio, infrastructure and clients, it also

provided the opportunity to share in the US profit of other brands imported by their new company, which includes Two Oceans. In addition to its core Cava business, Codorníu also owns wineries including Artesa in Napa Valley, which give it still further control over US distribution and profits.

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