

Scotch whiskey makers focus on emerging markets

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The reception of the office of Diageo in Mumbai. Companies like Diageo, maker of the market leader Johnnie Walker, are focusing efforts on emerging markets. (Prashanth Vishwanathan/Reuters)

The noise is deafening at Diageo's Abercrombie coppersmiths as skilled workers hammer away, molding 14 large, bell-shaped stills destined for Scotland's first new whiskey distillery in more than three decades.

A few miles down the road at Carsebridge, coopers are teaching the backbreaking traditional art of making oak casks to the first batch of apprentices in years as the company increases production to meet demand from emerging markets like China and India.

Clever marketing by Scotch distillers has encouraged a growing middle class in both those countries to embrace the prestige and heritage of the drink to reflect their newly affluent status. There is also a renewed appetite for the higher quality single-malt whiskey from mature markets like the United States.

Overseas sales of Scotch whiskey rose 4 percent to an all-time high of \$5 billion in 2006, the latest available figures - equal to a whopping 25 percent of Britain's entire food and drink exports.

Industry experts say that strong growth continued through 2007 and into 2008, reversing a downturn in the drink's popularity at the end of the last century when its reputation as a tippie for the older gent saw it lose ground to white spirits like vodka and gin.

"Suddenly whiskey is cool again," said Charles Allen, global brand director for Scotch whiskey at Diageo, the maker of the world's two top brands by sales, Johnnie Walker and J&B.

Diageo is so sure that demand will continue to grow that it has unveiled plans to build an \$80 million distillery at Roseisle in northeast Scotland, part of a \$200 million expansion program that will see roughly \$160.5 million spent on expanding capacity in distilling with the remainder dedicated to packaging and warehousing.

The whiskey stills - 15-foot high kettles that separate the alcohol from the fermenting mix of water and malted barley - being put together at Abercrombie will be moved into place this year and the first production from Roseisle is slated for early next year.

Other producers are making similar moves - some \$1 billion of capital expenditure has been invested across the industry for 2008 to 2009, according to the Scotch Whiskey Association.

That funding is spread across Scotland, which has more than 60 old stone distilleries, like Diageo's 200-year old Blair Athol stillhouse in the town of Pitlochry, dotted across its Highlands and rolling southern hills.

As domestic sales of Scotch whiskey stagnate, 90 percent is now exported with state-of-the-art bottling plants shipping from the port of Grangemouth in eastern Scotland.

While there is continued growth in some traditional markets like the United States and Europe, emerging markets like China and India are generating the most buzz, said David Williamson, the spokesman for the Scotch Whiskey Association.

"It is certainly advantageous that in two of the world's largest and fastest-growing economies, whiskey consumption is either a well-established tradition - India - or a marker of sophistication - China," said Jason Holway, an independent analyst at Zenith International.

"An aspiration to 'trading up' and drinking Scotch whiskey in each culture should bode well for the future of the industry," he added.

Scotch whiskey sales in China jumped to \$1.1 billion in 2006 from just \$2 million in 2001, aided by Beijing's decision to cut its spirits tariff to just 10 percent from 65 percent after it joined the World Trade Organization in late 2001.

Exports to India, where tariffs remain relatively high at 150 percent but well below their previous levels of up to 550 percent, were valued at \$48 million in 2006, the most recent figures available.

Diageo's Johnnie Walker, the longtime market leader in the United States and the world's No. 1 brand by sales, is the clear winner so far thanks the company's strong marketing push in China to sell the tippie as a party drink.

Edrington Group, the maker of The Famous Grouse and The Macallan, is putting its faith in the growing popularity of single-malt whiskeys, investing millions of pounds to restart production at a dormant stillhouse that will increase output of The Macallan single malt by more than 30 percent to more than 8 million liters per year.

"We are seeing some fantastic growth in terms of single malt," said Ken Grier, Edrington's director of malts.

A single malt is distilled from just one malt, or grain - in the case of Scotch whiskey, barley - from a single distillery. A blended whiskey is the product of mixing one or more single-malt whiskeys together with whiskey made from other grains.

Single malt exports in 2006 rose 7 percent, compared to a 4 percent rise for blended Scotch sales.

The push to sell single malts is part of the industry's marketing focus on promoting premium products and brands. Pernod Ricard of France last year introduced Chivas Regal 25, a luxury blend that sells for around \$300 a bottle, while Diageo introduced its Johnnie Walker Blue Label King George V, which sells for \$500.

To qualify for the prestigious label of Scotch, whiskey must be made at a distillery in Scotland and matured in an oak cask for at least three years.

That means an expensive and long startup process for new entrants like the tiny Kilchoman Distillery on Islay, an island off the west coast of the Scottish mainland.

Its managing director, Anthony Wills, said the distillery's single malt, due for first release in June 2009, would be introduced as a niche product aimed at the U.S., Japanese and European markets.

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