Diageo sets its sights on soju

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Diageo's launch of an alternative to South Korea's favourite spirit could create a goldmine in the Asia-Pacific spirits market.

South Korea's prolonged economic downturn has had a marked impact on spirits sales. Shrinking disposable incomes have compelled many consumers to switch to the country's cheaper traditional liquor, soju, the market for which has increased by 10% since 2002. Diageo has been first to react to the spirit's potential; in October it launched a premium variety, Jajaknamu, in the South Korean market.

Whisk(e)y blues

While whisk(e)y is South Korea's largest spirits sector in value terms, the sector has been declining since 2002, according to Euromonitor International's â€œSpirits in South Koreaâ€• report. Diageo holds approximately 34% of the South Korean whisk(e)y market with brands such as Windsor and Johnny Walker, but the company has seen its profits eroded by a combination of economic recession and legislative changes. A new tax rule regarding corporate entertainment expenditure, new anti-prostitution laws and companies' growing adoption of the clean card system have reduced sales of the type of on-trade establishments, where the majority of whisk(e)y is sold.

In contrast to whisk(e)y, soju is customarily consumed during meals, making the drink more resistant to economic slumps and less reliant on on-trade sales, with 58% coming from the off-trade. Soju can therefore go some way to assist spirits companies in countering economic downturns, and the declines in sales of products such as whisky and vodka.

Japan beckons

Once established in South Korea, Diageo should look towards Japan, which has just supplanted South Korea as the world's biggest soju/shochu market and, is forecast to grow by more than 30% by 2011. Were Diageo to capture only a small fraction of these markets, which have a combined population of over 175 million, the profits would still be considerable. The company should also attempt to use the predicted tax hike on soju to its advantage. By absorbing these additional costs, it can reduce the price gap between its premium soju and regular soju, heightening consumers' temptation to trade up. Depending on the success of the venture, other international players may well be encouraged to follow Diageo's lead.

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