Trend Watch: Premium not the only growth opportunity in spirits

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In recent years manufacturers have largely focused on boosting volume sales of the premium and super-premium sections of their brand portfolios. However, the vast majority of spirits sold in the world, even in established markets for international spirits manufacturers such as the US, are either economy or standard products, and in most cases these products are driving volume growth. Margins may be lower, but with the large volumes involved, these products still offer producers huge potential

Euromonitor International takes a look at different blended Scotch and vodka markets around the world, identifying how important standard and economy products are in different markets and the impact they have had and are likely to have on future growth. Classification of these spirits is based on pricing, taking a typical brand, usually the leading brand by volume, as the benchmark price, which is indexed as 100%. The benchmark brand will usually be a standard-priced brand.

Premium and super-premium products account for a small fraction of total volumes. In the largest premium and super-premium market - the US - only 31% of the 55 million (nine litre) cases of vodka sold in 2007 were premium or super-premium, while in the more premium-positioned blended Scotch, 52% of the 8.2 million cases sold were premium or super-premium. The one exception is China where 91% of the nearly three million case blended Scotch market were premium variants (ie Chivas Regal 12) or higher in 2007.

Standard and economy brands driving growth of established markets
Premium and super-premium products are often seeing the fastest growth rates in many developed and mature markets such as Spanish blended Scotch or Russian vodka, albeit from low bases. However, this is not always the case. In the world's largest blended Scotch market (12 million cases in 2007) â€“ France - standard and economy variants grew by 17% and 14% respectively between 2003 and 2007, accounting for 85% of total volume growth over the same period.

Even if standard and economy variants do not see the most dynamic growth rates these products are still the key volume growth drivers in many â€œWesternâ€• markets. In the US vodka market, where consumer trading up is strongest, nearly 60% of the 21 million case growth between 2003-2007 came from standard and economy brands. Meanwhile, in another large and dynamic market - UK vodka â€“ 94% of the 1.9 million nine litre case growth between 2003-2007 came from standard and economy variants to account for over 90% of UK vodka sales in 2007.

The share of growth from standard and economy brands may fall slightly over the forecast period in the US and the UK as trading up continues. However, with the US vodka market expected to grow by over 10 million cases between 2007-2012, there is plenty of room for growth in standard and economy variants, especially if there is a recession. In the UK it is highly likely that, with the country's discount culture and slowing economy, the vast majority of the 2.1 million case growth expected over the forecast period will still come from standard and economy brands. In Western Europe the UK is not alone, with other countries such as France and Germany having seen, and likely to continue to see, similar trends in vodka.

â€œEmerging marketsâ€• offer great potential
In most â€œemergingâ€• markets, due to lower disposable incomes, economy and standard products dominate vodka and blended Scotch sales. In Brazil in 2007, 87% and 98% of blended Scotch and vodka respectively were either economy or standard products. Between 2003-2007 standard and economy products accounted for 78% of the 1.1 million case growth in blended Scotch and 95% of the 2.1 million case growth in vodka.

Meanwhile, in Thailand in 2007, over 86% of the 3.8 million case blended Scotch market was accounted for by either economy or standard Scotch, with economy blended Scotch commanding two thirds of total volume sales and responsible for 75% of the 0.4 million case growth over 2005-2007. Over 2007-2012 the market is expected to grow by 0.8 million cases.

All the market is standard
The combination of the prestigious image of blended Scotch and low disposable income means that brands such as Johnnie Walker Red or Grant's, positioned as standard brands in many mature markets, are perceived as either super-premium (India) or premium (South Africa) in other markets. Consequently, all growth in the 350,000 case Indian market has come from standard or economy variants. With the Indian market expected to nearly double between 2007-2012, most, if not all, of that growth will come from standard or economy variants.

In South Africa in 2007, over 70% of the 1.6 million case blended Scotch market was made up of what would be perceived in more mature markets as standard or economy products, and they in turn accounted for 70% of the market's growth between 2005 and 2007. With the market expected to grow by a further 600,000 cases over 2007-2012, at least half of this growth should come from standard and economy variants.

Vodka, because of its foreign or Western image, is also in a similar position in some markets, such as the 3.8 million case Indian vodka market. The 350,000 case super-premium vodka category is made up of brands such as the normally standard positioned Smirnoff. Super-premium products only accounted for 8% of the 1.7 million case growth between 2005-2007. With growing consumer prosperity the market is likely to witness growth of 2.1 million cases? between 2007-2012. Standard and economy vodka have good prospects in India.

Trading down can also happen in premium markets
Even in the largest premium blended Scotch market â€“ China - consumption has started to move away from premium products, purely purchased and consumed by businessmen. â€œEconomyâ€• brands (such as Johnnie Walker Red) saw growth of over 72% between 2005 and 2007 to account for 9% of the Chinese market as prosperity and the desire for Scotch reaches lower-income consumers.

Bright future
Trading up is likely to continue for the foreseeable future in both established markets for international companies and emerging markets. In established markets this will be due to a certain increase in prosperity, but also increased desire for premium products. Yet even so, standard and economy variants will dominate volume sales and are likely to drive whatever growth there is.

In emerging markets trading up will come primarily from continued economic growth and increased prosperity. Due to the low economic base of most consumers the majority of trading up is going to be either to economy variants as consumers move away from other local spirits or from economy to standard variants.

This means huge potential, in both large established markets and relatively small but rapidly growing markets, for manufacturers to substantially increase volume sales and generate healthy profits. To achieve this they will need to produce products in large enough quantities and have good routes to market.

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