

Region Watch: Latin America's Whisk(e)y Boom

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Whisk(e)y sales in Latin America have grown 60 percent the last five years and today drives world growth, along with Asia Pacific.

Whisk(e)y, including Scotch whisky, bourbon, Irish whisky, Canadian whiskey, Japanese whiskey and other types of whiskey, is considered an aspirational product amongst many consumers in Latin America.

Consumers recognize these products as aspirational due to their high price and imported nature. The momentum gained in the whiskey industry in Latin America over the past 5 years, 2003 to 2008, has been impressive.

Volume sales of whisk(e)y reached 135 million liters in 2008, compared to 84 million liters in 2003. This represents a 61 percent growth in whisk(e)y consumption from 2003-2008.

In many countries, the increased whisk(e)y consumption has taken market share away from more traditional spirits.

Latin American consumers have been shifting from local or less expensive spirits to whisk(e)y, which is perceived as a premium product.

The Latin American region, along with Asia Pacific countries, is driving the developing world's increase in whisk(e)y sales.

Status Symbol

Since 2003, economic growth and stabilization have led to a rise in urbanization and disposable income levels. Consumers with increased income have begun to underscore their sense of 'having made it,' or validate their shift in income level through the products and brands they choose, including alcoholic drinks.

The result has been a much more overt association between alcoholic drink brands and individuals' sense of status. The strong growth in whisk(e)y volume sales is attributed to many factors. Increased real GDP growth throughout the region over the past five years has had a positive effect on the higher-end consumer goods.

This is attributed to the strong and consistent yearly real GDP growth of approximately 5 percent since 2003. The strengthening local currencies from 2003-2008 in some countries, have also benefited the consumer and importer for the past five years.

This brought about an increase in advertising campaigns to get higher-end products into the hands of the growing middle income demographic.

Brazil dominates the region in terms of whisk(e)y sales in liters. Whisk(e)y sales in Brazil reached 41 million liters in 2008, up from the nearly 31 million liters sold in 2003. In Argentina, growth of sales in liters has shown to be strong and consistent since 2003 with a compound annual growth rate (CAGR) of 13%.

Venezuela is the Latin American leader in whisk(e)y consumption with a per capita of 1.2 liters. Whisk(e)y sales in Mexico have been tied closely to economic factors such as growth and consumer confidence. In other Latin American countries, similar consumption habits can be observed. These consumers are looking to move up to more aspirational brands.

Argentine Demand

Over the past five years many young and affluent Argentine consumers increasingly ordered cocktails and whisk(e)y in bars, pubs and restaurants as consuming these became fashionable and a status symbol. This has allowed whisk(e)y volume sales to grow by approximately 11 percent in 2008.

The increasing popularity of happy hour and drink promotions during weekdays has also contributed to increased sales and leading the way is the brand El Elegido de los Criadores by Llorente y C  a SA, J. El Elegido, a blend of imported Scotch malts that are bottled in Argentina. El Elegido leads due to its lower price point.

However, since 2003 this brand has lost approximately five percentage points due to an increase in consumption of high-end imported brands offering a higher sense of status. Brands such as Johnnie Walker, Jameson and Jack Daniel's have seen strong growth in volume sales since 2003.

While there are a number of products that benefit in these situations, various imported brands of whisk(e)y have grown in

strength and presence in Latin America. Johnnie Walker by Diageo Plc has grown 106 percent from 2003 to 2007 achieving sales of 26 million liters, making it the regional leader and whisky of choice.

Various brands have given up market share due to changes in consumer perceptions of those brands. Brands that were previously purchased frequently due to lower price points have now slipped since consumers are looking to drink brands that highlight their social status.

An example of this would be Natu Nobilis' move from second in the region in 2003 to seventh and Buchanan's move from tenth place to second in 2007.

This shift in whisk(e)y consumption however great in growth has only been a change from 3.8 percent to 5.9 percent volume share of the total spirits market.

Brazilian Boom

In Brazil, the strengthening of the Real against the U.S. dollar, between 2003 and through the third quarter of 2008, contributed to sales of imported whisk(e)y. Scotch whiskies displayed the fastest growth in volume terms in 2008. In blended Scotch whisky, stable prices of imported products contributed to its continued performance in 2008.

In 2007 and 2008, most investment in advertising campaigns was focused on whisk(e)y. Diageo maintained its investment in advertising campaigns for Johnnie Walker and marketing activities to promote sales amongst young consumers with the second annual Scotch Whisky Festival and Johnnie Walker Red Mix.

Pernod Ricard Groupe also increased its marketing push of Ballatine's Finest, Teacher's and Passport brands.

Outlook

Looking to the next five years, it can be expected that a slowing world economy may constrain volume growth for whisk(e)y. Fluctuations in exchange rates for local currencies to the Euro and U.S. dollar will impact product prices.

In the immediate short-term local importers may look to cut some of their margins to hold prices down. In the long-term, this may have a heavier effect since consumer confidence may cause a switch to less expensive whisk(e)y brands or to traditional local spirits.

Another important factor in the long-term will be the availability of credit for consumers to continue purchasing their aspirational products on credit in the hopes of waiting out the slow economy.

Those countries with high levels of debt repayment will be the first to see a decline in the more expensive brands due to less available credit and a decline in consumer confidence in the economy. A whisk(e)y product that can enter the market with a premium image and a low standard price could stand to benefit in this market.

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