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The western whisky industry

New arenas for a traditional spirit



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Introduction

Has Goliath arrived in the whisky industry?

Whisky is the largest category within the international spirits segment¹. It benefits from the exclusivity derived from its origins and the added value provided by its ageing process. This also makes whisky a premium spirit and as such it achieves more attractive profitability than other spirits.

This does not, however, mean that western whiskies, such as Scotch, Irish and North American whiskies, do not face challenges. These categories' traditional markets are stagnant and growth is now being realised in new regions such as China, South-East Asia, India and eastern Europe. This brings new requirements and a changing risk profile. Consumer preferences and attitudes are also changing and the bargaining power of retailers is on the rise. The financial burden imposed by maturing inventories must also not be forgotten.

However, if one event had to be singled out as the key item that may have the greatest impact on the industry's situation and outlook, it would have to be the consolidation of the spirits industry in general and the competition between Diageo and Pernod Ricard in particular.

While both companies are highly exposed to western whisky, anti-monopoly restrictions mean that future growth will have to come mainly from organic sources. Both Diageo and Pernod Ricard are consequently increasingly likely to use all their power to boost their sales and profitability. This will entail leveraging their huge branding, negotiating and financial power to bargain with retailers and distributors and investing in prices and promotions to support market share.

This in turn results in tougher market conditions for other players because, within the low-growth western markets, Pernod's and Diageo's gains must be somebody else's losses. With regard to the growth opportunities stemming from emerging markets, the higher risks connected with entering these markets limit the opportunities for some smaller players to enter this arena.

The key issue for smaller players, most of which are family-owned, is to balance independence and competitiveness. Their options range from joining forces with other spirits players to becoming a cost leader and from sacrificing size for specialisation to investing in a diversified portfolio.

¹ International spirits exclude local traditional spirits such as shochu/soju, arrack, aguardente, local Chinese spirits and low-priced vodka that is locally produced and consumed in Eastern Europe and Indian-made western spirits. Global spirits include all spirits sold around the world.

There is no magic solution for the challenges presented by the changing markets and competitive landscape. In some cases still attractive profitability or an unwillingness to break with family tradition might prevent company owners or managers from making significant changes. Selecting the right route and perfect timing for preserving the value that has been created through years of experience requires proper consideration.

This review focuses on the industry's main drivers and the range of strategies that the various players, depending on their relative positioning and capacities, might consider in order to preserve their business.

This study has been published in line with Rabobank's long-term commitment to the international food and agribusiness. It is one of a series of publications undertaken by the global department of Food & Agribusiness Research and Advisory.

Note: For pragmatic reasons, the entire category is referred to as whisky, which includes both whisky and whiskey. References to Bourbon include Tennessee whiskey.