

Innovation moves up in the duty-free agenda

The TFWA World Exhibition, held annually in Cannes in the last week of October, is a traditional venue for new product introductions. *Global Drinks Record* looks at many of the new products on offer and some of the issues surrounding innovation in the duty-free liquor industry. *GDR* editor Alexander Smith reports

For many years liquor innovation in duty-free was something of an afterthought. The hefty savings proposition alone was generally enough to ensure strong sales, and a stack 'em high, sell 'em cheap mentality prevailed. But by necessity that is changing, and innovation is coming to the fore.

The savings proposition in many duty-free and travel-retail markets has been reduced for a variety of reasons. In Europe the abolition of intra-EU duty-free has made it extremely difficult to offer liquor at competitive prices. And the ascension of much of central Europe into the EU over the next few years will extend that abolition.

Elsewhere, tax reform, often driven by the World Trade Organisation, has reduced the differential between domestic market pricing and duty-free. This was most apparent in Japan, but it is true of many other markets. Plus, there is far greater competition today from other product sectors, such as fashion and fragrances. These pressures are forcing the industry to look towards innovation to both enthruse the consumer, and sometimes provide a point of differentiation with domestic market offerings.

Camus La Grande Marque vice-president Cyril Camus says: "The environment is certainly becoming more competitive. We used to be easily one of the more innovative companies. But everyone seems to have woken up in the past two years and we have seen lots of good and different products appearing on the market. Innovation has never been stronger."

Bacardi-Martini Travel Retail marketing vice-president Jose Chao says: "Because there are a few big players and many smaller ones, the state of innovation varies a lot from company to company. The 'big guys' spend millions every year on new product development, but not necessarily on duty-free/travel-retail innovation. Some of the smaller companies are more dedicated to a single brand and have come up with some surprisingly innovative promotions and travel-retail exclusives, like mini-packs and destination-oriented products.

"In general I think that the past few years have seen almost everyone trying to be more innovative, as the duty-free industry itself becomes more sophisticated," adds Chao. "The fragrance houses have been one of the driving forces behind the higher levels of marketing sophistication. They have been the leaders in



Level: V&S Group's new vodka will be launched in the US in March 2004 and in duty-free markets in May

introducing new upscale products, the 'shop-in-shop' concept, and other forms of in-store personalisation."

Certainly the fragrance houses were the inspiration behind the earlier New Generation products and continue to provide the benchmark for much of the industry in terms of packaging quality.

Allied Domecq Duty Free managing director Charles Richardson believes that there are benefits to emulating developments in the fragrance area but warns that it is also important that liquor retains its distinctive character. He says: "There is a tendency in a company like ours to think that everything that is done in the cosmetics and fragrance area is innovative and fresh. I have to say that I do admire the way they approach the industry. But that approach may be their particular horses for courses. It might not be that appropriate for a spirits company to try to clone it. A bottle is a bottle—we can't get away from that fact. At the end of the day the consumer wants what is *in* the bottle."

He adds: "The liquor industry has unique equities that are really old and can sustain themselves for over a century. Some of our brands are over 200 years old, yet they still have status and relevance and, in another 200 years, they will have changed in some way but they will still be here. There are some new products that broke the mould and have come into the industry, which is good. But malt whisky is still going to come from the same distilleries in Scotland and the heritage of those distilleries is one of the main parts of their selling proposition. So not everything new is good. There is a lot of good in the old when it comes to the spirits business."

Camus believes there is a move away from gimmicky new product offerings towards products that have a real story behind them. "In the '90s we saw a lot of products with a funky name, which sort of sold by themselves, although the products in question didn't have much in the ways of legs. In the past two or three years, people have tried to create products that have a real story to tell and a real element of differentiation, and the packaging is then meant to put those attributes forwards, and not just be a gimmick. We are seeing more products that are interesting, and don't just look good." ▶

Anne McCartney president of Adventus and former purchasing manager at World Duty Free agrees and says: "New product development should start with customers and fulfil their demands. That way, no single voice will shape what they think is great. Much NPD in the late '90s appeared only to satisfy the sales guys' egos, but that is now changing."

Imagination Unlimited president Lars Johansson says: "We are starting to see a rejuvenation of the liquor category in line with today's lifestyle. For many years it was a fairly dusty category, but now consumer propositions being offered are more salient and pertinent to today's travel-retail consumer."

He argues that a successful retailer offering must strike a balance between the big volume international brands and innovative niche brands. "There are the big boys who sell volume, and then there are those who offer differentiated presentations with a high visual effect, something you see and want to have."

Johansson's company is one of those specialising in the latter approach through a range of innovative niche offerings, such as pisco, grappa, ice wine and Armagnac. "We are selling our brands in a non-traditional way; the components are many and varied. Grappa, for example, has limited global appeal. Hence, if we offer a good quality product in an affordable stunning presentation, highly profitable to our client, then the component is correct. Pisco is another niche item and a major category in Latin America. There are two companies who control this segment and they are so focused on competing in the home market, that they have not developed any export or strength in presentation. So this became an opportunity. Armagnacs were stale and dusty. Then Chabot focused on the visual presentation and bingo, now we can compete with the Cognacs."

Others are less impressed. Kobrand International sales and marketing director Lewis Johnstone believes that the industry is still largely under-achieving in the innovation stakes. "As I walk through duty-free I would really question how truly innovative many of these products are. If you look at the liquor sections, you see largely the hardy perennials and core brands plus some line extensions. There are not more than one or two truly innovative products coming in any given year."

Gebr Heinemann liquor buyer Adolf Paschek believes that might even be overstating things. He says: "There is no real innovation within the duty-free and travel-value [retail] liquor sector. Consequently liquor is losing market share."

Role of exclusives

Belgian Sky Shops commercial manager Marc Leemans contends that much of the supposed innovation within liquor is actually driven by the need to find loopholes to the pricing policies of the multinationals. Following the

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abolition of intra-EU duty free in 1999, most leading suppliers took the decision to end the preferential supply prices that duty-free operators historically enjoyed. Not surprisingly, operators were upset and some de-listings ensued. A rapprochement of sorts has since taken place, with companies agreeing to supply differentiated products of their core brands at the old preferential prices. "You get the innovation, where they stick a special label on it and call a product a travel-retail exclusive," says Leemans. "That overcame the negotiation problems after abolition for travel-retail. That was a practical issue and has driven a lot of the innovation we have seen in Europe."

Camus says: "Exclusives were quite important in the first months after abolition in overcoming the supplier pricing issue. They were a simple way of tackling that issue. It definitely gave us time to sort out the other problems on the regular range. Now you will see that we

don't have that many exclusives in travel retail, but we have sorted out the other pricing issues."

Ironically, at a time when duty-free exclusives are playing a greater role in Europe, their importance in Asia may be diminishing. The move towards New Generation products was targeted at a specific problem — how to appeal to the all-important Japanese travellers at a time when domestic retail prices were declining and the typical traveller was becoming younger and more female. Fashion-led products, differentiated from the domestic market, were the solution. But as new important high-spending pax groups in Asia emerge, such as the mainland Chinese and South Koreans, then the need for differentiated products is reduced. The price savings proposition is sufficient. In fact, they tend to prefer what they might not be able to afford to purchase in the domestic market.

Camus says: "If you have more and more Koreans and Chinese in your stores and fewer Japanese then yes, exclusives become less and less crucial. Although most companies have pulled away from producing New Generation exclusives, the market is still there. It's just slightly less visible."

For the most part, retailers are more enthusiastic about the exclusive concept than suppliers. Bacardi-Martini, for instance, has been fairly cautious in terms of its approach to duty-free exclusive products. Chao says: "At Bacardi we have experimented with duty-free exclusive products in the past and had mixed results. For example, our Bacardi Limon has been packaged with event and destination labels, which were successful, but not necessarily helpful in brand image enhancement."

Yet at the recent TFWA World Exhibition, Bacardi really pushed the boundaries on innovation with the introduction of a fragrance under the Bombay Sapphire gin trademark, called Infusion. While some luxury goods houses, such as Cartier, Dunhill and Van Cleef & Arpels, have launched fragrances under their house name, it is the first for a liquor company. The gift concept combines an upscale liquor product with a perfume, Infusion, that has its origin with the same botanicals used in the production of Bombay Sapphire. Likewise, the "5 Candles" set contains five votive candles, scented with the same botanicals.

"We believe Infusion will add value and cachet to the brand, as well as give the consumer an exciting new gift opportunity... The result is a truly unique pair of gifts that are marketable in either the liquor or fragrance sections of travel-retail, and thus appeal to a wider range of travellers than those normally attracted only to liquors. We are hoping to have more packs like Infusion that benefit the retailer and consumer, by cross-merchandising various products," says Chao. "In general, we are not against duty-free exclusives, but we are extremely selective in what we do and, for



Destileria Porfidio's range of 100% blue agave tequilas in hand-blown bottles

the most part, we would rather focus on brands that have proven themselves in large domestic markets. This allows us to harness the power of the brand and provide our retail partners with fast turning products.”

David Brogden, brand category director for Scotch—Diageo Global Duty Free explains: “You have to be careful, in that anything that you sell under the brand name has to have a relevance. It has to be a good product, and has to meet a real consumer need as opposed to just being some sort of exclusive with the brand name on it. If you go into duty-free and have a big brand delivering an exclusive version in the sector, there is an inherent interest in it. People like new things from big brands, and they are relatively easy to sell. But if those lines don’t meet real differentiated consumer needs, and they are just trading off the main brand, over time you will damage the main brand and they will look like novelty one-off items rather than real brands. In that sense you have to be careful whether you are building your brand and offering consumers something relevant, or just trading off your brand name to get a quick sale.”

With its flagship Johnnie Walker brand Diageo has followed that approach with the introductions of variants such as Johnnie Walker Gold Label, Blue Label and a Johnnie Walker gifting collection pack.

Imagination Unlimited’s Johansson believes duty-free exclusives are more important now than ever as the price differential with duty-paid product is no longer a key factor of differentiation. He also points out that duty-free exclusives also enable better price management if duty-paid pricing is not consistent.

“The duty-free environment provides a good venue to test new packaging for a brand,” he says. “In the duty-free area, consumers are more open to seeing and accepting new packaging approaches for established brands. These, if successful, can be later rolled out at the duty-paid level.”

While most operators argue the need for exclusive products, some are less convinced. Paschek of Heinemann believes that the issue of exclusives serves to obscure the central issue of price savings. He says: “Exclusive liquor is not important. What is very important is to sell all liquor brands below the average domestic retail price. There should be an average savings [over the High Street] of at least 20% for duty-free and travel-value [retail] customers.”

White spirits go upmarket

For many years Cognac and Scotch had a virtual monopoly on premium and super-premium activity, but that is gradually changing. White spirits have been a hotbed of innovation. Leemans says: “The vodka category is an area that is evolving very fast and much of it is driven by new products. There has been some real innovation. This has been a case of a segment completely rejuvenating its products to attract younger consumers.”

Most of the changes have been driven by developments in the US domestic market, notably with the development of super-premium vodkas led by brands Grey Goose and Belvedere. And the trend is gradually carrying through into duty-free.

Allied Domecq is applying some of the knowledge it has garnered, working as duty-free distributor for Grey Goose, to upgrade some of its other white spirits offerings. Crown Jewel, initially launched in the early ’90s, was relaunched at this year’s TFWA World Exhibition. It has been given a radical facelift, with its clear bottle being replaced by a deep purple bottle. Global brands director for Allied Domecq Duty Free Michelle Audette says: “With the trend towards premium products in the white spirits category, we knew the time was right to raise its profile in the duty-free and travel-retail sector.”

In perhaps the most significant development to hit the industry, the V&S Group has announced plans to introduce Level, a super-premium vodka. Level will be launched in the US in March 2004 and will be available at selected duty-free retail outlets globally in May 2004.

The introduction has been long anticipated. Absolut largely created the premium vodka segment in the US but, in recent years, has been outflanked by the new generation of super-premium entrants. According to the company the name Level communicates the vodka’s point of difference – “the perfect balance of smoothness and character”. Level is being produced by combining two distillation methods; one involving continuous distillation, which distills the vodka hundreds of times to ensure smoothness, and batch distillation, where the vodka is produced batch-by-batch in pot stills.

The move towards upmarket products is also impacting other categories, such as rum

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**David Brogden,
brand category director—Scotch,
Diageo Global Duty Free**

and tequila, which were traditionally more skewed towards standard offerings. At the TFWA World Exhibition, Destileria Porfidio introduced its range of 100% pure agave tequilas – plata, reposado and anejo – in its distinctive hand-blown bottles, each with a glass cactus at its core. In the new year, the company is set to launch a super-premium tequila, distilled at a new facility in Switzerland and made from South African-grown blue agave.

White spirits also lend themselves to flavoured extensions. Today, flavours account for approximately 15% of the US vodka market, and are the subject of a lot of new product activity. Sidney Frank vice-president of brand development Bill Thompson says: “In the last year-and-a-half our focus, and that of our competitors, has been less about new products and more about flavour extensions. All the major brands have brought in new flavours.”

Grey Goose introduced L’Orange and Le Citron, the latter made with fresh lemons. It is in the process of launching Vanilla.

Diageo is rolling out a revamped range of its Smirnoff vodka flavoured lines to global travel-retail, based on their success in the US domestic market. Raspberry Twist, Orange Twist and Citrus Twist are the latest variations in Smirnoff’s flavoured range.

Bacardi has also been successful with its flavoured rum entrants, starting with the introduction of Bacardi Limon in the late ’90s. More recently it has enjoyed considerable success with its Bacardi Twist line, which comes in three flavours, Watermelon Breezer, Mango Breezer and Lime Breezer, all retailing at £10.99 (\$19.20) for a litre.

Scotch and Cognac innovation

Of course there continues to be significant new product activity from duty-free mainstays, such as Scotch and Cognac. Allied Domecq Duty Free marketing director Jonathan Ashworth says: “We are generally seeing more innovation at the higher end of the liquor market. If you get it right, it can be highly rewarding very quickly.”

Bacardi-Martini launched Dewar’s Signature, a 21yo variant. It also introduced an 18yo version. These join Dewar’s 12yo, launched three years ago. William Grant & Sons introduced Glenfiddich Caoran Reserve 12yo single malt. The whisky was initially introduced in the UK domestic market.

Camus is also proving that it has lost none of its appetite for innovation. The company brought in a unique Cognac from the Ile de Ré, off the south-west coast of France at the recent TFWA World Exhibition. The island is officially part of the Charentes-Maritime “departement” (district), enabling the spirit to be classified as Cognac. Traditionally, the wines from the island are used for blending and this is the first commercial attempt at promoting the island’s wares. “Ile de Ré is



Camus brand Ile de Ré is the first commercial attempt at promoting the island's wares

targeted at the non-traditional Cognac drinker and we expect it to take more [volume] from Scotch than Cognac," says Camus.

Hine Cognac, acquired earlier this year, is introducing a number of specialist offerings. At Cannes it unveiled a Hine Discovery Gift Pack that contains three 20cl bottles of vintage Cognac. Next year it plans to launch Hine Triomphe Cognac, a blend of Cognacs, all more than 40 years old.

Camus is also bullish over recent developments in the high-end XO segment. The group has recently repackaged its XO Extra, following similar exercises at Hennessy and Rémy Martin. "XO Extra is not a new Cognac category. It has been around for a long time, and was fading away. All of a sudden, Rémy, Hennessy and ourselves repackaged our Extras. They are still very classic, but more relevant to today's consumers. The fact that three of the main companies did it at the same time completely revitalised the category. Extra is hot again. You see it when you walk through the shops. XO used to be the bottle on the top

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*Cyril Camus, vice-president,
Camus La Grande Marque*

shelf. It was really old-fashioned and dark. Now you walk in the shop and all you see is Extra, because the products are gorgeous. It is giving Cognac back some lustre."

He adds: "It is interesting that, through packaging, you can really change the perceived image of a product itself. I am not sure that we really have to spend billions as an industry to tell people that our product is still relevant. If we make an effort to present it correctly then we are emphasising the message that it is relevant."

SKU proliferation

Ashworth warns that there are natural limits to the ability of the trade to absorb these new products. He believes that more innovation and the sheer number of new product introductions court the danger of SKU proliferation. "You have to wonder just how retailers absorb everything. They certainly needed harsher criteria. Like anything, after it proliferates, it will inevitably then contract to a more manageable size. Hopefully we have some offerings that will still be there."

Leemans of Belgian Sky Shops shares these concerns: "The moment has come to reduce the assortment. Every airport that I visit I see Smirnoff and Absolut, and five or six other vodkas on top of that. Then there are a lot of local brands. In the beginning you had to applaud the new product developments, but in the end you give it a try and if, after six months, it doesn't work, you de-list the brand. That is more often the case than not."

Says Camus: "Yes, we are slowing down the number of new product innovations. Operators are still slimming stock. Now is just not the time to launch too many new products."

Nevertheless Ashworth is confident that new products will continue to drive the market: "All the research that we have done shows that consumers look for and expect to see new things. Increasingly, I think people will spend more money on liquor. That will lead to innovation in terms of unit prices. Look at Grey Goose. There was reluctance by retailers to take on a \$30 vodka. There are opportunities for higher-priced ticket items. The Cognac houses have been doing it for years. They have been very successful in the £30, £40, £50 and £60 area. Consumers will buy that if they see the right things. There is no reason other categories can't share in that. Duty-free is a premium branded environment. The consumer expects. Let's not disappoint them." ■

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