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How Bahrain Duty Free's "Race 2 Win" promotion tied in with a Grand Prix seen by 300m across the globe.

Exclusive interview

Features: Frank Gray writes on security and airport retail; Graham Austin on handbags at dawn in Brussels; Aer Rianta International's Eamon Foley on New York JFK T4, Montreal, Moscow/Domodedovo, St Petersburg, Kiev and more; Alan Bork reviews the Trinity Forum White Paper; Randy Emch tells ACI Europe why airports should run duty free themselves; Beirut Duty Free's Mohamed Zeidan on booming business; Sharjah Duty Free's Jan Baljet on partnership and motivation; Martell's new spirit; Porfidio liquor innovation; Bahrain Duty Free's impressive "Race 2 Win" promotion; Abu Dhabi Duty Free's World Sand Golf Championship; watches and writing instrument reviews; counter intelligence; late news.



This month's special features

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Pole position for Bahrain Duty Free

By DOUG NEWHOUSE

Bahrain Duty Free's "Race 2 Win" promotion built around this month's Bahrain Grand Prix has been a total success.

Bahrain Duty Free General Manager, Maurice Burke, reports that suppliers involved in the promotion enjoyed "an enormous sales uplift", as did the whole operation, during the lead-up and – in particular – during the Grand Prix weekend from April 2-6.

"For such a big event to come here that is so high profile is fantastic," he said, adding that it "was a great experience for all of the staff." He said this was the culmination of a build-up to



Bahrain's key partners in its "Race 2 Win" promotion were all chosen for their high quality products and their association with the Formula 1 event. They were: Hugo Boss; Omega; Tag Heuer; JVC; Sony; Canon; Braun; Philip Morris; JTI; and BAT.

the promotion which first began back in October 2003 with the introduction of F1 merchandise and in particular the Ferrari brand. Burke said this was the outbreak of 'F1 Fever,' which not only ended with a hugely successful Grand Prix, but

also with demand for 'Racing Red' merchandise on a previously unimaginable scale in the Gulf State.

The airport concourse and retail space was converted into a virtual racetrack with starting grid, pit stop shopping, chequered flags

and tyre marks throughout the walkways. This was supported by specially launched promotional activity, with official Formula 1 GWP merchandise, and no less than three full-size F1 cars on full view in-store.

Performance indicators for the preceding two-month period of February and March saw F1 sales rise by 42%; passengers increase by 25%; and average spend per passenger jump 14% to \$18. The shop penetration rate also rose by 68%.

The sheer success of Bahrain's debut Grand Prix in terms of visitor numbers,

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Tobacco workshop planned for Singapore show

By DOUG NEWHOUSE

The *Business*, TFWA Asia Pacific and the International Travel Retail Confederation (ITRC) are continuing the fight to support the duty free tobacco business with the organisation of a dedicated Tobacco Workshop at next

month's TFWA Asia Pacific show in Singapore.

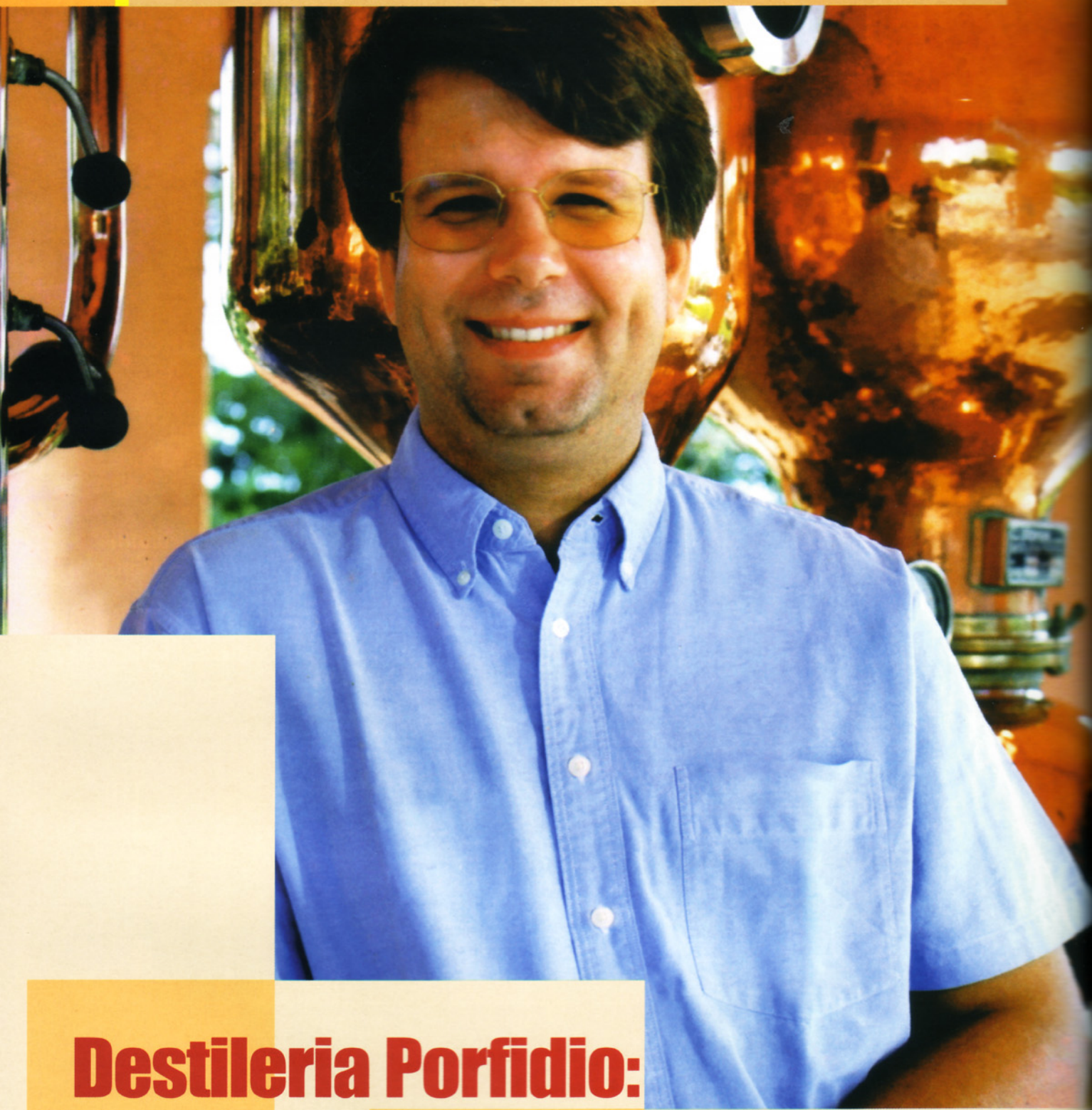
The central feature will consist of a panel of leading retailers from the region with the purpose of bringing the trade in Asia Pacific fully up to speed on the continuing and very real threat to duty free

tobacco from the World Health Organisation (WHO) and anti-tobacco activists.

This follows the WHO's recent and misleading guideline suggesting – quite incorrectly – that national government signatories to the



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Destileria Porfidio:

into the high end

Proving that innovation in liquor is not dead, Destileria Porfidio is testing the upper limits of the market with some novel new offerings. Alexander Smith reports.

For many years Cognac and Scotch accounted for virtually all of the premium and super-premium liquor sales in global duty free. But the emergence of a new generation of super-premium rums, vodkas and tequilas is challenging this domination. Mexico-based boutique producer Destileria Porfidio is one of those producers leading the charge.

Destileria Porfidio first made its reputation with its high quality tequila products. Martin Grassl, a then 25-year-old Austrian who had some family ties to the apple brandy business, originally founded Destileria Porfidio in Mexico in 1991. He originally went to Mexico, following business school, at the behest of an Austrian trading company looking to source a high quality tequila for the Japanese market.

Although he determined that none existed, Grassl suggested that one could be developed. The trading company by then had lost interest, so Grassl decided to pursue the project on his own, backed by his family.

Within seven years Grassl's small distillery at Puerto Vallarta on the Mexican West coast had forged a reputation for agave tequila of quality.

He says: "The whole concept of the company was to transfer American and European production standards to a Mexican product and catapult it from a cheap product into a super-premium product by raising the quality."

Tequila has been one of the hottest worldwide spirits categories over the past decade. It was the fastest growing white spirit in duty free until 1999. Growth slowed recently because of a shortage of agave, the raw ingredient of

tequila. But in a sense, it was a victim of its own popularity. As international – particularly American – drinkers turned to tequila, producers found it difficult to match demand. Fortunately those shortages are easing and the category seems set to resume dramatic growth.

A particularly encouraging development has been the development of aged premium tequilas. The agave shortage forced suppliers to decide between two marketing approaches. Either they reduced the agave content in their brands to 51%. Or, they sought to focus on upscale extensions of aged 100% blue agave. Although this strategy was borne out of necessity, it has succeeded in creating a real connoisseur following for upscale tequilas. Clearly the formation of a premium segment has positive implications for duty free, which has long been the key channel for super-premium products.

Grassl anticipated this development as long ago as the early 90s. "We have to divide the tequila market into two categories. You have the standard cheap tequila and the niche ultra-premium tequila. What is driving it is interest in luxury items generally such as ultra-premium liquor,

growing affluence and the increased willingness to display that new wealth. The numbers of people that can afford products such as ultra-premium tequila and rum is growing. You could see that developing as long ago as the early 1990s."

There are other points of differentiation between high-end tequilas and the mass-market products. One is ageing. Tequila that is only aged for 60 days before bottling is labelled silver or blanco (white). Reposado (rested) tequila is aged from two to 12 months. Añejo (aged) tequila is aged in wood for between one and six years. It is the Reposados and Añejos that are showing the fastest rate of growth in travel retail – albeit from a small base.

The other main quality determinant is the type of wood used. Tequila is usually aged in used Bourbon barrels of American oak. Porfidio is different in that it uses either new American oak, or new French. This tends to impart more flavour and colouring into the tequila. Because they are more sipping tequilas than the shot variety, this enhanced flavour and bouquet is an important consideration.

The other element is packaging. The Porfidio range comes in hand-blown bottles with coloured glass in the form of the cactus plant at the base. They are also >





< numbered and labelled by hand. Today they have four main tequila products: Triple-Distilled Plata, Tequila Reposado, Single-Barrel Añejo and the Miniatures.

These intensive production processes also place natural limits on volume. Porfidio only produces 50,000 litres per year. The market leader Jose Cuervo by contrast produces about 16m litres. "The emphasis is on quality. With us it is all about niche marketing to very high standards."

Of course, these processes also add considerably to the cost, and the ultimate price tag. With an average retail price of \$100 per bottle, Porfidio tequila is not for the price shy. Grassl says: "Porfidio is a boutique item which is tailor made for duty free. It is a limited availability item that serves as an ideal destination product."

The agave shortages were exacerbated by the Tequila Regulatory Council (TRC) decision to create a demarcated area around Jalisco for tequila production. Only agave grown in that specific region can be called tequila. Grassl says: "They created the demarcated area at the worst time, just as it was going into shortages. It is all about creating an agricultural monopoly. Mexico is split up into many states, and three states within the 32 existing ones have a monopoly on tequila production. It is all about trying to protect their interests and not about product quality."

Besides this problem, the TRC and the Mexican Government have also become embroiled in another controversy.

A proposed regulation by Mexico to stop bulk shipment of tequila and require that it be bottled at source, has the potential of erupting into a major trade dispute between the US and Mexico. Grassl says: "From an economic point of view it makes no sense. Eighty per cent of the tequila market is the US. Of that 80%, once again approximately 80% is bottled in the US. My concern is that the Mexicans do not have the capacity to handle the bottling side.

"Also, if US companies lose the bottling rights they are also going to lose some interest in

marketing the category. It could kill off the consumer base in the US."

Certainly there is no love lost between Destileria Porfidio and the TRC. In 2001 the Tequila Regulatory Council (TRC) rescinded its license to produce tequila, accusing it of false labelling and selling a product that does not meet established norms. Destileria Porfidio Managing Director Catalina Fenyesi said at the time in published reports that: "The TRC is a private organisation and not a government agency. This organisation represents the particular interests of its financial contributor, which consists in its majority of two international tequila companies." Grassl also maintains that as a European and thus a relative outsider, he has provoked considerable resentment from the tequila community, which set about trying to shut him down.

Perhaps hedging his bets with Destileria Porfidio, last year he entered into a joint venture with South African plantation owner James Domileo to produce a super-premium tequila-style product distilled at a new facility in Switzerland from South African-grown blue agave. The first product, Porfidio Tour du Monde, was released on January 1. The Triple Distilled Plata (unaged) 100% Agave spirit will retail in duty free at around \$30. According to Grassl, South Africa presents perfect growing conditions for agave. After five years Porfidio expects to release Porfidio Single Barrel Añejo, an aged agave distillate.

Grassl says: "It is made from agave, and in the end it is the consumer who is going to decide its merits and not Mexican regulators. We think we are capable of delivering the same quality, or superior quality as the Mexican produced Porfidio. If that is the case then the product will be accepted."

Grassl's approach is rather unorthodox in other ways. Seventy seven percent of all sales are still in North America and Mexico, according to IWSR estimates. Yet he is targeting such non-traditional tequila





markets such as Russia and Asia. "They are certainly unusual target markets. Few tequila producers are seriously looking at the Asian market today and there is generally no established market in Asia for standard tequila. But Asians have an appreciation for high quality items, and they also like novelty.

"Eastern Europe is also interesting. There is a significant super-premium liquor market in Russia. We are already doing a lot of business in Russia. It is an excellent market."

Grassl also believes that tax reform in Mexico, while damaging the broader market, is boosting prospects in Mexican duty free. Mexico has gone from a flat tax by volume to a percentage tax based on value. This, he maintains, will disproportionately hit premium products in the domestic market. "In Mexico the outlook for duty free is excellent based on the unfavourable tax reforms. There is now a real saving to be had on super-premium products."

Grassl is now seeking to apply the same quality principles to another big Latin American product – rum. Similar to tequila, rum has long been viewed as a mass market or even commodity product. Its commodity image in many markets has certainly worked against its development in the duty free channel, although there have been several notable exceptions such as Bacardi. Now it seems that rum is finally being recognized for the high quality product that it can be and is gradually developing a connoisseur following.

Last year Destileria Porfidio launched its first premium rum, Porfidio Triple-Distilled Single Cane Plata. This year the company launched three new aged and distillation-strength rum variants at the IAADFS Duty Free Show of the Americas in Orlando, Florida. Porfidio Barrique Añejo Rum is a 100% pure cane rum, distilled to 40% ABV and aged in new French Limousin oak. Porfidio Single Barrel Añejo Rum is aged in new American oak. Porfidio Single Cane Distillation-Strength Plata Rum is a whopping 70% alcohol-by-volume single cane rum.

Again, Porfidio offers a point of difference with more standard offerings. Most rum is made from molasses, a waste product from sugar production, whereas Porfidio Single Cane Rum

is made from freshly pressed cane juice and from fresh unburned sugar cane. Similar to its tequila offerings the bottles are hand blown, only these contain a coloured glass palm tree at the base.

Even on the French islands of the West Indies, where they use sugar cane juice not molasses for their rum, they distil it in industrial columns that don't separate out the low quality 'head' and 'tails' of the spirit. Porfidio, on the other hand, uses a hand-operated alambique for distillation so that they can isolate and extract the top quality spirit in the so-called middle cut.

With supply limited, these rums will carry lofty suggested retail prices: the Porfidio Barrique Añejo will retail at \$150 for a 750ml bottle and the Porfidio Single Barrel Añejo is priced at \$100.

The challenge will be transferring a successful trademark from one category to another. Grassl says: "It is fairly rare for a liquor trademark to be effectively transferred across categories, particularly at the premium end of the market. That is what we are doing, going from tequila to rum. We believe that a trademark should stand for a concept and not necessarily a product category. The concept of the Porfidio trademark is the highest quality in the liquor category. The same concept can apply to rum, or any other category. If you buy a bottle of Porfidio you know it is going to be of the highest quality."

Grassl believes that his company is filling a need for greater innovation in the liquor industry. "The consolidation of the liquor industry has had a negative impact on innovation. It goes to reason that the less companies that you have, the less innovation that you are going to have. The larger they become, the more adverse they get to taking risks. Because of that, innovation doesn't usually come from the multinationals but from smaller companies, such as ours. Innovation will always be at the centre of anything that we do." ○

