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| *May 28, 2004* |

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**1. After Shopping at Younkers, Pop a Cork**

By Patt Johnson – *Des Moines Register*
May 27, 2004

**The Wine Experience will open a shop inside the new store at Jordan Creek Town Center.**

DES MOINES, IA -- Shoppers at the new Younkers at Jordan Creek Town Center mall will be able to have a glass of wine and roasted duck salad after they've strolled the department store's aisles.

Kyl Cabbage and Tom Henry are expanding their successful Windsor Heights business, the Wine Experience, by opening a 2,000-square-foot retail shop and restaurant inside the Younkers store being built in West Des Moines.

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| ANDREA MELENDEZ/REGISTER PHOTOS |
| **Expanding: Tom Henry, left, and Kyl Cabbage talk about wine with Dana Walters on Tuesday at their Windsor Heights shop, the Wine Experience. The men plan to expand, opening a shop in the Younkers store at Jordan Creek Town Center mall.** |

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| **Wine weekend** |
| JUNE 3-5: WineFest will be at the State Historical Building and other locations. Tickets for the June 4 wine-tasting events are $50. Tickets for seminars June 5 range from $25 to $40. WineFest benefits locals charities. For more information, call 243-3744 or see [www.winefestdesmoines.com](http://www.winefestdesmoines.com).JUNE 4: The Wine Experience will hold its second Real Wine for Real People from 5 to 8 p.m. The free event will feature wine tasting at the shop,7696 Hickman Road. For more information, call 252-8798. |

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"This is a pioneer project," said Cabbage, who created the Wine Experience nine years ago. "This is something Younkers could possibly take to other outlets."

Younkers executives approached Cabbage and Henry about opening a shop within the department store because they wanted "to add unique elements" to the Jordan Creek Younkers, said George Meyers, senior vice president and director of stores for Carson Pirie Scott, a Saks Inc. division that oversees Younkers stores.

"We're certainly interested in seeing how this concept works," Meyers said. "We think we've hooked up with the right people."

Department stores, which have been struggling for years to retain shoppers, are branching out into nontraditional areas to keep stores fresh, said George Whalen, a retail consultant in San Marcos, Calif.

"They are trying to find ways to reinvent themselves, which includes adding all kinds of services, so a wine shop is in line," he said. "It's all about creating a destination for shoppers."

The Wine Experience at Jordan Creek will feature seating for about 50, Cabbage said. Most of the walls will be glass and brick, giving patrons a view in and out of the shop, he said.

Customers will be able to order wine by the glass from a selection of about 20 varieties, with prices ranging from $5 to $10 for a five-ounce glass, Henry said. The menu will include roasted duck, smoked salmon and grilled tuna salads, gourmet cheese plates, a choice of two homemade soups, and grilled panini sandwiches. The menu also may include fondues, Henry said.

Wine by the bottle, prepackaged gourmet foods, and gift baskets also will be sold at the shop, Henry said.

Cabbage and Henry will spend about $225,000 constructing and outfitting the store, which will open when the mall premieres Aug. 4.

**2. Supreme Court Says Wine Import Fight is Ripe for a Ruling**

By Joan Biskupic, *USA TODAY*

May 25, 2004

The Supreme Court said Monday it will referee a modern-day fight over state control of alcohol that recalls the days of Prohibition.

The Supreme Court said Monday that it will decide whether states can prevent out-of-state wineries from shipping alcohol directly to consumers.

A ruling in a set of disputes to be heard later this year could resolve conflicting lower-court decisions over laws that critics say give large wholesalers an unfair edge over small wineries and force customers to pay more.

For years, small wineries and consumers have protested laws that ban direct shipments of wine across state lines. But the widespread use of the Internet to buy goods has intensified the dispute.

About half the states ban direct shipments. In recent years, lawsuits have challenged such bans in Michigan and New York - the states involved in the cases now before the court - and in Florida, Indiana, North Carolina, Texas and Virginia.

The legal question to be considered by the justices falls at the intersection of two constitutional provisions: one that protects the flow of interstate commerce, the other the 21st Amendment, which ended Prohibition. The amendment, adopted in 1933, allows states to regulate "the transportation or importation into any state of intoxicating liquors."

The U.S. Court of Appeals for the 6th Circuit struck down Michigan's licensing rules favoring in-state suppliers, saying they violate the Constitution's interstate commerce clause. The appeals court rejected Michigan's arguments that 21st Amendment concerns, such as keeping alcohol from minors, outweigh any commerce problem.

But when the U.S. Court of Appeals for the 2nd Circuit reviewed a New York state law that allows alcohol to be shipped into the state only by businesses that hold New York licenses, it emphasized the 21st Amendment's affirmation of a state's power to control the delivery of alcohol within its borders.

The consolidated cases are Granholm vs. Heald ; Michigan Beer & Wine Wholesalers Association vs. Heald ; and Swedenburg vs. Kelly .

**3. Rappers Leading Cheers for Cognac**

By Shelley Emling*, Palm Beach Post-Cox News Service*

May 22, 2004

LONDON -- "Yea, yea, yea just pass the Courvoisier," Sean "P. Diddy" Combs intoned in a 2002 hit song written by fellow hip-hop star Busta Rhymes.

And America was listening. Sales of the pricey French cognac shot up nearly 30 percent that year, helping pull the 300-year-old French industry from the brink of disaster.

More recently, champagne sales have surged as rappers celebrated premium brands in songs such as *Rotten Apple*, in which 50 Cent boasted of "teachin' the hoodrats what Cristal taste like."

Fine wines and spirits were once associated with stuffy white country-club types, but marketers have learned that rappers can make or break their products with their influence over America's young consumers.

The music drives all kinds of merchandise in a market estimated by *Black Enterprise* magazine at $5 billion a year, so it's no surprise that global companies are keen to tap into a loyal fan base made up mostly of those in the highly prized 18-to-24 age group.

A study by New Media Strategies, a research company in Washington, D.C., revealed that 60 percent of consumers who consider themselves hip-hop fans said they are more likely to see films or buy products if they feature or are peddled by their favorite artist.

New Media CEO Pete Snyder said in a statement that corporate America is finding out that "hip-hop artists can mean serious bling-bling for their bottom lines."

According to New Media, Reebok's S. Carter Collection by rapper Jay-Z became the company's fastest-selling sneaker in company history.

"Hip-hop as a culture is generally about people on the margins, disenfranchised people like young blacks and Latinos of the inner city. Often they've not had an opportunity to succeed in life other than hip-hop, and when they do, they celebrate in very visible ways to show others how well they have done," said Todd Boyd, author of the book *Young Black Rich and Famous: The Rise of the NBA, the Hip-Hop Invasion, and the Transformation of American Culture*.

When hip-hop artists are celebrating, their fans are watching -- and often imitating. And that's lifting the spirits of French distillers.

"Young African-American consumers in the United States have been very good for the cognac industry," said Claire Coates, a spokeswoman for the Cognac National Interprofessional Bureau, a trade association in Cognac, France.

Indeed, a few years ago the sleepy area around Cognac was in dire straits.

Cognac had been synonymous with luxury in Asia, which by the early 1990s was consuming half the world's supply of the high-end brandy. But sales took a beating when economic troubles beset the region and currency devaluations drove up the price in imports.

Fortunately for the cognac industry, artists such as Busta Rhymes favored their product's smooth, complex flavors and potent alcoholic punch. As the strong Asian market unraveled -- and sales in France fell to at an all-time low -- sales to America have tripled in the past decade, to more than 40 million bottles in 2003.

Although grape growers around Cognac are grateful, they're also somewhat bemused at how the drink that was a favorite of Napoleon has won over a new and very unfamiliar generation.

"I think people here have found it quite interesting to see the way this group drinks cognac all night long and mixes it with other beverages," Coates said.

Whereas once cognac was generally served neat or with ice, now 60 percent of consumers mix it with something else, she said.

"In France, cognac is still mainly consumed as an after-dinner digestive, but Americans are mixing it with tonic, juice, or whatever they want to," Coates said.

She acknowledged that, although cognac sales continue to grow within the hip-hop generation, they're not growing as quickly as they once were.

One reason is that the biggest entertainers have started rapping about another high-end product, champagne.

In particular, Cristal -- which costs $150 to $600, depending on the vintage and bottle size -- was invoked in hip-hop lyrics more often during the past year than that of any other beverage, according to American Brandstand, which tracks brands mentioned in the top singles on the *Billboard* chart for brand-strategy company Agenda.

Experts say rappers are drawn to Cristal, produced by the centuries-old house of Louis Roederer, by its high prices, its lavish packaging and its rarity (only a limited number of bottles are released each year).

"Champagne used to be known as something consumed mostly by older generations, but, again, it's been used a lot in pop culture and particularly in rap videos, and now cognac and champagne are both growing side by side," said Tiziana Mohorovic, research analyst at Adams Beverage Group in Norwalk, Conn.

Studies show that wine consumers who have attended an R&B or hip-hop concert in the past year are 77 percent more likely to buy champagne or sparkling wine than the general public, said Scarborough Research, a marketing research company in New York.

"African-Americans are more likely to be in the top spending categories for champagne and sparkling wines, and a lot of that has to do with the hip-hop culture," said Allyson Mongrain, a spokeswoman for Scarborough.

Other studies by Adams Beverage Group reveal that more than 20 percent of African-American wine consumers drank champagne and sparkling wine in 2002 -- up from 16.2 percent in 1994.

In comparison, the share of white consumers hovered at around 18 percent.

No trend lasts forever, of course, and spirits companies know that.

So what drink will next benefit from a hip-hop shout-out? Could it be gin? "Even though gin is not something rappers are yet getting into, we're seeing gin as being the next great thing among young consumers," said Mohorovic. "A lot of high-end gins have entered the market in the last 18 months, and more bartenders are now utilizing gin in signature drinks."

Does it bother Courvoisier that gin might become the next big thing in hip-hop?

Certainly not, said Dave Karraker, a spokesman for Allied Domecq Spirits & Wine North America, owner of the Courvoisier brand. "We own the Beefeater brand as well."

**4. Alcohol Ads Outnumber Responsibility Ads 226 – 1, CAMY Study Shows; In 2002, Responsibility Ads Dropped, Alcohol Product Ads Soared**

*US Newswire*

May 26, 2004

WASHINGTON, May 26 /U.S. Newswire -- Alcohol industry "responsibility" advertising on television declined substantially in 2002 from 2001, while alcohol product advertising increased significantly over the same period, according to a new study by the Center on Alcohol Marketing and Youth (CAMY) at Georgetown University.

"Responsibility" ads have as their primary focus a clear, unambiguous message warning against driving after drinking, encouraging use of a designated driver, advising viewers to drink responsibly, or informing them about the legal drinking age of 21.

In 2002, the number of "responsibility" ads dropped by 46 percent from 2001 levels, while the number of alcohol commercials increased by 39 pecent. Industry spending on responsibility advertising also fell dramatically -- down 57 percent from 2001.

"This minimal amount of responsibility advertising does little to reinforce the messages of parents and teachers who are trying to prevent underage drinking. Our children need to receive a more balanced message about alcohol," said Jim O'Hara, CAMY Executive Director.

Key findings from the study include:

-- Television responsibility advertising was cut in half in 2002 while alcohol advertising on television increased substantially. For every responsibility ad that aired in 2002 there were 226 alcohol product ads. In 2001, the ratio was 1 to 88. For every dollar spent on responsibility ads in 2002, the industry spent $99 on product ads. In 2001, the ratio was $1 to $35.

.................. 2001, 2002, Percent Change

Number of responsibility ads, 2,379, 1,280, minus 46 percent

Number of product ads, 208,909, 289,381, plus 39 percent

Spending on responsibility ads, $23,217,900, $10,043,997, minus 57 percent

Spending on alcohol product ads, $811,166,400, $990,225,497, plus 22 percent

The study also shows that:

-- Youth were 128 times more likely per capita to see an alcohol product ad on television than an alcohol company- sponsored responsibility ad. Underage youth ages 12 to 20 were 400 times more likely to see an alcohol product ad than an ad discouraging underage drinking, and 188 times more likely to see an alcohol product ad than one against drinking and driving.

In fact, less than half of all youth saw responsibility ads. Alcohol industry ads about the legal drinking age reached approximately 37 percent of youth ages 12 to 20, who saw an average of 1.7 ads. Industry ads about drinking and driving reached approximately 38 percent of youth ages 12 to 20, who saw, on average, 3.6 ads. In contrast, product advertising reached 90 percent of youth ages 12 to 20, who saw an average of 281 ads in 2002.

-- Adults were 97 times more likely per capita to see an alcohol product ad on television than an alcohol company- sponsored responsibility ad. Adults 21 and older were 280 times more likely to see an alcohol product ad than an alcohol company- sponsored ad about underage drinking, and 148 times more likely per capita to see an alcohol product ad on television than an industry-sponsored responsibility ad about drinking-driving.

Almost three-quarters of adults 21 and over saw responsibility ads. Alcohol industry ads about the legal drinking age reached approximately 60 percent of adults 21 and over, who saw an average of 2.3 ads. Industry ads about drunk driving reached approximately 53 percent of adults, who saw an average of 5 ads per person. However, product advertising reached 96 percent of adults 21 and over, who, on average, saw 404.5 ads.

-- Of 59 alcohol marketers advertising on television, only four placed responsibility ads in 2002. Adolph Coors Co.; Anheuser-Busch Companies Inc.; SABMiller PLC and Diageo PLC were the four parent companies whose brands placed responsibility advertising in 2002. Of these, Anheuser-Busch placed the most responsibility ads, yet in 2002 Anheuser-Busch still spent 45 times more on product ads than on responsibility ads and placed 89 times more product ads than responsibility ads.

The Center's findings come eight months after the National Research Council ([news](http://us.rd.yahoo.com/DailyNews/manual/%2Ahttp%3A/search.news.yahoo.com/search/news?p=%22National%20%20Research%20Council%22&c=&n=20&yn=c&c=news&cs=nw) - [web sites](http://us.rd.yahoo.com/DailyNews/manual/%2Ahttp%3A/search.yahoo.com/bin/search?cs=nw&p=National%20Research%20Council)) and Institute of Medicine ([news](http://us.rd.yahoo.com/DailyNews/manual/%2Ahttp%3A/search.news.yahoo.com/search/news?p=%22Institute%20of%20Medicine%22&c=&n=20&yn=c&c=news&cs=nw) - [web sites](http://us.rd.yahoo.com/DailyNews/manual/%2Ahttp%3A/search.yahoo.com/bin/search?cs=nw&p=Institute%20of%20Medicine)) (IOM) published recommendations on reducing underage drinking, including a call for a national media campaign targeted at adults and designed to "animate and sustain a broad, deep, societal commitment to reduce underage drinking."



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| **5. Beware, Teen Tobacco Buyers! That Clerk Could be a Cop** *Eldridge North Scott Press*May 26, 2004DAVENPORT, IA - If you're under 18 and thinking about trying to buy cigarettes illegally in Scott County, consider this: that clerk behind the counter could very well be a cop, says Scott County Sheriff Dennis Conard |

It's all part of the Cops in Shops program - a partnership between the Iowa Alcoholic Beverages Division (ABD), the Scott County Sheriff's Office, and local retailers.

"The Cops in Shops program poses a peace officer working as a clerk. Teens will be surprised to receive a citation from the deputy and not the tobacco products they originally asked for," stated Sgt. Jeff Swanson of the Scott County Sheriff's Office Community Policing Unit.

Underage teens who attempt to buy tobacco or are found in possession of tobacco will be fined $50 for the first offense, and must also do eight hours of community service, according to Conard. A second offense will be punishable by $100 and 12 hours of community service, and a third (and subsequent violations) will bring a $250 fine and 16 hours of community service.

 "The program also serves as a warning that it is illegal to provide tobacco products to underage teens, as well," noted Swanson.

For more information about the Cops in Shops program, visit [www.IowaABD.com](http://www.iowaabd.com/).

**6. In Its Long War With Brewers, Liquor Industry Gets Aggressive**

By Deborah Ball and Christopher Lawton, *The Wall Street Journal*

May 24, 2004

**Led by Giant Diageo PLC, Beverage Makers Boost Lobbying, Break Taboos**

*Anheuser-Busch Bites Back*

On a day synonymous with downing beer, marketers for the world's biggest liquor company were at the Clemens Family Market in Whitpain Township, Pa., peddling a different drink: vodka.

"It's very nice to be here on Super Bowl Sunday," Elayne Werns-Duke, a representative of [Diageo](http://interactive.wsj.com/pj/q-quote.cgi?sym=deo&type=company) PLC, told shoppers as she and her colleagues poured them free sips of Ciroc, a new vodka made from grapes. "It's a great way to start the day, by tasting Ciroc."

Such a promotion would have been unheard of on a Sunday just a few years ago. Pennsylvania is a "control" state, where liquor is sold exclusively through state-owned stores with limited hours -- and, for decades, those hours didn't include Sundays. Then, in early 2002, Diageo arrived on the scene. The London-based liquor giant lobbied legislators to permit Sunday sales and allow in-store tastings. The state even opened liquor outlets in supermarkets.

After decades of losing out to beer, the U.S. liquor industry is fighting back. The main reason: In Diageo, it finally has a player strong enough to go head-to-head against longtime beer titan [Anheuser-Busch](http://interactive.wsj.com/pj/q-quote.cgi?sym=BUD&type=company) Cos. Diageo, which snapped up most of Seagram Co. three years ago, now controls about 27% of the U.S. liquor market. That huge stake has given the company the marketing muscle and political clout to begin changing the laws and competitive dynamics that have held liquor back since the end of Prohibition.

![[headcut]]()Over the decades, beer companies have flooded the airwaves with commercials and plied Congress and statehouses with lobbyists. Producers of hard liquor have played a less-aggressive game. They feared that pushing their product too hard would spur a backlash in a country where liquor has had a bad image.

Diageo now is launching an unapologetic battle to bring liquor back, and has won a number of big victories along the way. It has helped persuade nine states -- including Massachusetts, New York and Oregon -- to allow some form of liquor sales on Sundays, raising the total number of such states to 30. It now has a presence in every state capital, where beer lobbyists have long outnumbered their liquor rivals.

Diageo also has been the driving force behind an effort to beef up the industry's lobbying group, the Distilled Spirits Council of the United States, or Discus. Several years ago, Diageo hired Guy Smith, a senior lobbyist for Philip Morris and a key public-relations adviser to President Clinton during his impeachment hearings, to help the group's efforts.

Since then, the group gained the goodwill of Mothers Against Drunk Driving by breaking with the beer industry and supporting legislation that lowered the acceptable blood-alcohol level for drivers to 0.08 in virtually all states. Discus also helped defeat tax increases on liquor in 26 of the 30 states in which they were proposed. Discus argued that such levies shouldn't be seen as "sin" taxes but as "hospitality" taxes that weigh on tourism and travel revenue and can cost jobs.

Diageo has been less successful in its efforts to get around the longstanding unofficial ban on advertising liquor on national television. Two years ago, NBC canceled a sponsorship deal with the liquor maker, citing pressure from advocacy groups.

But the industry has bumped up its presence on major cable channels, and liquor ads appear on more than 500 local broadcast stations. That's up from 70 such stations in 2001, according to Discus. And liquor is benefiting from buzz. Bars began offering drinks such as the Cosmopolitan, prominently featured on "Sex and the City." Vodka and rum producers have flavored their liquor with everything from raspberry to chocolate. Launch parties for new concoctions draw celebrities and media attention.

Discus works especially hard to get positive stories about liquor in state-capital newspapers. For example, it got coverage in the Harrisburg (Pa.) Patriot-News about its collaboration with Mount Vernon to reconstruct George Washington's distillery at a cost of $1.5 million.

All of this is paying off in sales -- at beer's expense. Liquor volume was up 3.2% in 2003, and beer was down 0.2%, according to Impact Databank, which monitors the industry. In 2003, liquor commanded about 29% of the beverage alcohol sector versus 27.9% in 1998, while beer's share shrank to 57.4% from 59.6%, according to Adams Beverage Group, a trade group.

For decades, liquor had an image redolent of smoky bars and seedy nightlife, and booze was often demonized in popular culture. Because of beer's lower alcohol content, many states set lower age limits for buying brew than liquor. Based upon alcohol content, federal excise taxes on liquor are more than double those on beer and nearly three times those on wine. A hodgepodge of state laws governed when and where liquor could be sold.

![[chart]]()Beer, by contrast, is stacked high in convenience stores and splashed over television airwaves, where it is now one of the biggest consumer-goods advertisers. The beer industry has cultivated an image of sports, fun and patriotism since Prohibition was repealed in 1933. In the 1940s, an industry group began an ad campaign that depicted beer at barbecues, fairs and ball games. The slogan: "America's Beverage of Moderation."

The liquor industry always talked ruefully of "equalization" with the beer industry -- catching up in sales and access to markets -- but didn't get far. Then, in the mid-1980s, the Bronfman family, then owners of Seagram, decided it was time to "normalize" liquor. Liquor consumption was declining, in part because of a 1985 federal excise-tax increase. Light-beer sales were surging, stoked by TV ads.

"Someone had to take leadership and say, 'This is wrong,' " recalls Edgar Bronfman Jr., then chief executive. There was "this misperception that the alcohol in beer is somehow different from the alcohol in wine, which is somehow different than the alcohol in spirits. It's not."

In 1985, Seagram came up with television ads, without any brand logos, saying, "A drink is a drink is a drink." The point: A standard 1.5-ounce serving of liquor has the same alcohol content as a standard serving of wine and beer. So, the ad argued, the three products should be treated the same in terms of taxes, advertising and access.

Seagram tried in vain to get U.S. networks to take the commercials. So the company bought ads in newspapers with the tagline, "What the networks don't want you to know about alcohol."

August Busch III, then Anheuser-Busch chief executive, circulated a rival booklet among legislators: "A drink is not a drink." Anheuser-Busch executives recount a story about how Mr. Busch drove that point home at a Washington restaurant in the late 1980s. When a congressman questioned whether tax discrimination between liquor and beer made sense, Mr. Busch asked the waitress to bring three martinis to the table, then three Bud Lights. He suggested his guest drink the three martinis, while he drank the three beers -- then they could discuss equalization. The politician dropped the subject. Anheuser-Busch declines to comment on the incident.

In 1996, Seagram broke the industry's self-imposed ban on TV advertising by buying spots on cable and local broadcast stations. There was a wave of protest in Washington, but relatively few channels took the ads, limiting their impact. And soon the Bronfmans turned their attention to their entertainment assets, selling most of their beverage business to Diageo.

The purchase made Diageo the undisputed leader of the global liquor market. It was created in 1997 with the merger of Guinness PLC and Grand Metropolitan PLC. Today, North America is the centerpiece of the company's growth strategy. Diageo earns nearly 40% of its global operating profit there, and its market share is nearly three times the size of runner-up [Allied Domecq](http://interactive.wsj.com/pj/q-quote.cgi?sym=AED&type=company) PLC.

![[headcut]]()As the new industry leader, Diageo in 2001 launched an aggressive gambit to "crack the beer occasion," as executives termed it. Its new product, a malt beverage called Smirnoff Ice, was brewed like a beer and contained spirits flavoring -- but it didn't have any vodka, so it enjoyed the same freedom of distribution and advertisement as beer. It soon became a billion-dollar-per-year product for Diageo.

"The spirits industry had lived for years with this feeling that we don't want to stick our heads above the parapet because the beer people would get upset," says Chuck Phillips, chief executive of Diageo North America until 2000. "We were going to have to stop living in 1933."

The success of Smirnoff Ice infuriated Anheuser-Busch, according to industry officials -- especially when Diageo managed to get ads on the air during the 2001 Super Bowl. Anheuser-Busch had signed on with CBS as the exclusive malt-beverage advertiser, but Diageo got around that by buying air time allotted to local CBS affiliates during the telecast.

By late 2001, Diageo's drink had stolen 1% of the U.S. beer market. Anheuser-Busch was forced to get into flavored malt beverages itself, say industry analysts. In 2003, Smirnoff Ice shipments from wholesalers to retailers, a key measure, totaled 15 million 2.25-gallon cases. Anheuser-Busch's Bacardi Silver reached four million cases in the same period, according to Impact.

Diageo began lobbying the broadcast networks to take liquor ads, and finally won over NBC in late 2001. Diageo's deal called for spending about $500 million over five years. Diageo sought MADD's advice in devising the new ads, agreeing to run nothing but anti-drunk-driving spots for the first four months, limiting itself to programming where at least 80% of viewers were over the drinking age, and avoiding programs, such as concerts, that would be associated with young people.

Just before Christmas 2001, NBC ran its first social-responsibility ad for Smirnoff. The camera panned along a row of empty glasses lined up in front of a bottle of Smirnoff. "One of the best ways to have a great time this holiday season is to make sure everyone gets home safely," a voice said. A man then reached for the last glass and turned it upside down, as the camera zoomed in to a set of car keys. "Select a designated driver," continued the voice.

Anheuser-Busch fought every inch of the way. Mike Owens, vice president for sales for Anheuser-Busch, urged distributors who carried both Anheuser-Busch and Diageo brands to dump the liquor maker's products. "Diageo ... is well financed and made up of young, aggressive, well-educated managers who are out to take our share," Mr. Busch told an internal sales conference in the spring of 2002, according to people who were there and reported at the time by Beer Marketer's Insights, a trade publication. "Just that simple. We are not going to let them do it." Anheuser-Busch declines to comment on the speech.

In March 2002, NBC dumped Diageo, citing pressure from unspecified advocacy groups and some members of Congress. Executives at Diageo and others within the broadcast industry say privately they believe NBC was afraid of angering Anheuser-Busch, which spent about $53 million on the network that year, according to TNS Media Intelligence/CMR, a market-research group. An NBC spokesman says, "During good-faith conversations with members of congress from both parties, NBC was asked to reconsider its advertising test. We agreed to do that."

Anheuser-Busch Chief Executive Patrick Stokes declined to be interviewed for this article, but issued this statement: "Consumers are not buying alcohol; they're buying beer or wine or spirits, which are very different products," Mr. Stokes said in the statement. "When you recognize that beer is only 5% alcohol and spirits are usually 40% alcohol, you can make an argument that spirits should be taxed eight times higher than beer."

Around the same time, Diageo took another blow when the beer industry successfully lobbied the Treasury Department's Alcohol and Tobacco Tax and Trade Bureau (TTB) for a radical change in the rules on the recipe for beverages like Smirnoff Ice, dubbed "malternatives." Under the proposed new rules, if Diageo wants its malternatives to continue to be considered part of the beer category and not hard liquor, it will have to completely reformulate Smirnoff Ice and its other malternatives, change its production systems and restock the products.

The new rule dictates that a flavored malt beverage can obtain only 0.5% of its alcohol by volume from spirits flavoring. Currently, the majority of alcohol in Smirnoff Ice comes from spirits flavorings. The final decision likely will come this year, and Diageo is preparing for the heavy expense of this changeover.

"They want to be us, but they're not us," said August Busch IV, president of the brewer's North American business, at an industry-group meeting in autumn 2002, according to people who were there. "We are aggressively resisting the kinds of changes that the liquor industry is seeking and at the same time helping to promote the very special role of beer in American society."

Diageo Chief Executive Paul Walsh admits that the company may have underestimated the political power of Anheuser-Busch. "I admire Anheuser-Busch. They have a great business and maybe if I were in their position I would try to protect these barriers as well," he says.

He adds that the setbacks have forced Diageo to drop its hope of getting onto the networks for now, but the company still vows to level the playing field with beer in the long term.

"We're not targeting Anheuser-Busch here. We're targeting the consumer," Mr. Walsh says. "And those lines [between liquor and beer] are going to get blurred whether Anheuser-Busch likes it or not, because that's what the consumer wants."

