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| *www.IowaABD.com* | *Lynn M. Walding, Administrator* |

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| *February 18, 2005* |

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***A Chinese ad for Absolut***

***features a calligraphic character***

***that means ‘blessing,’ ‘fortune’***

***or, when turned upside-down,***

***‘welcome.’***

**1. Absolut Seeks Growth Through 'Fu'**

Timed to Lunar New Year,
Ads With Chinese Flavor

By Christopher Lawton – *Wall Street Journal*

February 14, 2005

**Target Burgeoning Market**

The market for premium vodka is a tiny one in China, but with a swath of the country's vast population swiftly becoming more affluent, a certain Swedish distiller is moving to seize what its ads might term an Absolut vodka is celebrating the Chinese New Year, which began last week, with its most aggressive integrated advertising and marketing campaign in China to date. The "Absolut New Year" effort centers on the Chinese character "fu," which means "blessing" or "fortune." The character, often printed upside down during the new year holiday to mean "fortune arriving," will be prominent in print ads, on billboards and in a new Chinese-language Web site. Absolut, a unit of V&S Vin & Sprit, also will run promotions in bars, restaurants and liquor stores.

**Interactive Billboard**

Like many global marketers, Absolut is looking to China as a potential growth engine as the U.S. and other mature Western markets provide relatively slower growth. Absolut leads the Chinese vodka market with a 34% share by volume, compared with 27% for [Diageo](http://interactive.wsj.com/pj/q-quote.cgi?sym=deo&type=company)'s Smirnoff, according to the market-research firm Euromonitor International. V&S, which is controlled by the Swedish government, wants to solidify and improve its position in China while fending off competitors.

The print ads, created by the Paris and Shanghai offices of [Omnicom Group](http://interactive.wsj.com/pj/q-quote.cgi?sym=OMC&type=company)'s TBWA, resemble the iconic ads Absolut has used in the U.S. since 1980, featuring a photo of an Absolut bottle. However, the bottle in the new Chinese ads bears the "fu" character, with "Absolut New Year" printed upside-down atop the page -- the idea is for readers to upend the ad to get the double meaning of the symbol, Absolut says. A billboard featuring the character-bedecked bottle will appear in Xintiandi Plaza in Shanghai, with a street-level control button that lets passersby make the bottle rotate.

Absolut's previous Chinese ads were little different from Western versions, except for featuring scenes from a Chinese city, but the new effort is meant to tap directly into Chinese culture, says Peter Wijk, director of marketing and communications for the Asia-Pacific region at V&S Absolut Spirits.

"The campaign is obviously very Chinese," Mr. Wijk says, adding that a non-Chinese person probably wouldn't understand it. "This is a way for us to celebrate the Chinese New Year with the Chinese, and be very relevant with that culture." Absolut wouldn't disclose spending on the campaign.

The Web site, Absolut's first in China, furthers the campaign's celebration of the New Year but also addresses a key need: teaching drinkers just what they should do with this unfamiliar spirit. Written in simplified Chinese characters, the site features tips on mixing and consuming vodka, along with information on the brand's heritage. In addition to the ads and Web site, Absolut plans to teach bartenders how to serve Absolut and will introduce Absolut cocktails into bars and clubs.

**Growth Outpaces U.S.**

Absolut says the market is growing fast, as years of social and economic policies, including the single-child restriction, have spawned a growing generation of educated and affluent middle-class Chinese drinkers. But for now, all imported spirits account for just 1% of the Chinese spirits market.

The vodka market, of course, is smaller still, with 134,200 gallons sold in 2004, generating $19.5 million in sales, according to Euromonitor. Volume was up 14% compared with 2003. Last year's U.S. vodka market of 107.8 million gallons and $10.93 billion in sales dwarfs China's, but volume growth was a more modest 6.1%, Euromonitor says.

Analysts share Absolut's view that the Chinese market has great potential. "Imported spirits are seen by the young generation as being cool and trendy, hip drinks," says Parita Chitakasem, global spirits analyst for Euromonitor. "Young Chinese are becoming more Westernized....With vodka being a fashionable spirit in the West, it is sure to take off in China."

But Ms. Chitakasem warns that imported spirits often are expensive in China, and out of reach for most Chinese drinkers. A bottle of Absolut costs 110 yuan, or about $13.30, compared with an average of 4.5 yuan for a local spirit, according to Euromonitor. Despite rising disposable incomes among the Chinese middle class, Ms. Chitakasem says local spirits will continue to account for the majority of spirits sales.

"It is really the rich kids who are following these trends," Ms. Chitakasem says of imported spirits. "They are pretty fickle, and can afford to buy these drinks."

**2. Corking the Kegger**

By Seung Min Kim *- The Daily Iowan*

[February 18, 2005](http://www.dailyiowan.com/main.cfm/include/displayIssueArticles/issue_date/20050218.html)

Some Iowans are pushing lawmakers to launch a keg-registration law, which they contend would be a crucial tool for police to track those supplying alcohol to minors and would cause adults to think twice about purchasing liquor for the underaged.

But opponents of the recently introduced bill argue that another law trying to combat underage drinking won't target the root of the issue and would instead create more headaches for local alcohol vendors while draining keg sales.

Iowa could become the 24th state to enact a keg-registration law, which would require alcohol vendors to secure a permanent sticker with an identification number on each keg.

"We're not under the illusion that it will stop underage drinking. That point has been made before," said Creston Democrat Mike Reasoner, the House bill's sponsor. "But we're going to hold people accountable who choose to furnish alcohol to an underage person."

The bipartisan bill, currently in the State Government Committee, is similar to a proposal drafted last year that did not make it to the House floor.

Bill supporters argue that tracking keg purchases is similar to what alcohol vendors already do - recording basic information so the buyer can receive a deposit when the keg is returned. But Doug Alberhasky, the manager of John's Grocery, 401 E. Market St., said requiring keg registration won't work.

"It's hard enough doing business in today's day and age, being local and independent," he said. "We definitely don't need another procedure to make our life difficult."

A keg-registration ordinance went into effect in Keokuk County in southeastern Iowa in 2004, the first in the state. Since then, a few other counties have enacted ordinances, said Lynn Walding, the administrator of the Iowa Alcoholic Beverages Division.

"We realize that kids will buy bottled beer or go outside the county; that's why we're working diligently to pass this as a state," said Mary Krier, the chairwoman of the Adolescent Alcohol Prevention Working Group, who helped write Keokuk County's ordinance. "We're not destroying taverns with our little axes."

Twenty-three states, plus the District of Columbia, have keg-registration laws, according to the Mothers Against Drunk Driving.

Though proponents of the bill say it's not their goal to eradicate underage drinking, countywide keg-registration ordinances have spurred adults to think twice before serving alcohol at events such as graduation parties, Krier said.

Others doubt whether keg registration will effectively curb underage drinking.

"Some communities have found it useful," Walding said, adding that he does not endorse or oppose the bill. "But does it affect underage drinking? No, and that's the real question. There are no studies to support that finding."

In recent studies by his office, he said, he noticed that keg sales have "dried up" in states that require registration.

Such a law may slash keg sales but, in return, boost the grocer's business if former keg buyers decide to purchase cases of alcohol, which yield more profit, Alberhasky said.

"There are always going to be people who will find a way around the law," he said. "If [lawmakers] in Des Moines think they're going to solve the problem by creating another law, they're wrong."

While Iowa City police routinely bust underage parties with kegs, not many are charged with supplying alcohol to a minor, said police Sgt. Doug Hart. This law, he said, may help increase arrests on that charge.

**3. Herky's Shot Down Again**

By Peter Rugg - *Muscatine Journal*

February 14, 2005

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MUSCATINE, Iowa - A Muscatine City Council decision not to renew a local bar's liquor license was upheld Thursday by an administrative law judge in Ankeny.

The decision could mean the end of Herky's Tap, 1415 Grandview Ave., which has 30 days from Thursday, Feb. 10 to appeal the decision to the administrator of the Iowa Alcoholic Beverages Division (IABD).

With a 3-2 vote in November, the Council declined to renew tavern owner Teresa Blanchard's liquor license after an Aug. 21, 2004, party in and around Herky's resulted in three criminal complaints against Blanchard. According to court documents released by the IABD, three Muscatine police officers saw people drinking beer served from Herky's Tap on land connected to property, without the area being properly licensed. Police also reported nude women dancing on a stage. Police estimated 500-700 people attended the celebration.

According to the documents, officers notified Blanchard, who said the celebration was an annual event held on private property, and that none of the events had ever been a problem. After speaking with Blanchard, police advised her to keep the situation under control. Officers then contacted their superiors, and filed criminal complaints against Blanchard on Sept. 2, 2004, listing miscellaneous prohibition, bootlegging, for the sale of alcohol outside permitted grounds, and allowing public indecent exposure under state guidelines.

Under a plea agreement, Blanchard paid $300 in fines for miscellaneous prohibition and bootlegging, while the indecent exposure complaint was dismissed.

Blanchard could not be reached at work Friday night, where Herky's Tap staff said she had been at home, ill. She could not be reached for comment as of press time Friday night.

Blanchard went before the Council in November with a group of Herky's Tap supporters and a petition signed by 758 people, pleading for the renewal of her license. Blanchard told the Council she would not allow similar complaints in the future, cited the businesses' charitable work and promised to run the business as a credit to Muscatine. The renewal was supported by council members Anne Lesnet and Osama Shihadeh.

Cpl. Vincent Motto of the Muscatine Police Department said he was not aware of any other situations in which a local bar's license had been permanently revoked, although temporary closures happened occassionally. Motto has been with the department for six years. He was unsure of circumstances surrounding past celebrations at Herky's Tap.

If Blanchard chooses to appeal, and is again denied at the administrative level, she has another 30 days to appeal the decision to a district court for a judicial review, said Lynn Walding, administrator of the IABD. After a district court, she could appeal to the State of Iowa Supreme Court.

Walding said he could initiate a review of the decision himself, but was not likely to review it unless Blanchard appeals the decision.

“It’s not uncommon for something like this to go to district court, but it can get pretty costly going to the supreme Court,” Walding said.

Herky's Tap can remain open during the appeals process, but once the window for appeal closes, the bar cannot serve alcohol without violating state bootlegging laws.

**4. No Longer Forgotten, This Drink is Gaining on Vodka and Rekindling Interest in the Cocktails of Yesteryear**



***Bruce Bennett, for the Chronicle***

***The classic gin martini at***

***O’Rourke’s Steakhouse.***

By Dai Huynh– *Houston Chronicle*

February 9, 2005

A vodka martini is sacrilegious.

That is, if you're at a bar in England, where a "real" martini is three parts gin and a whisper of vermouth, stirred with ice, then strained into a chilled glass.

But across the Atlantic, gin plays second fiddle to vodka, whose U.S. sales are 50 times higher, says Spec's general manager Mike Sanford.

Gin sales in the United States have been stagnant since the '60s when Americans started pouring vodka into their martinis.

But that's changing.

With a flurry of activity in the premium-gin category, from new products to new marketing campaigns, suppliers look to a brighter future for "the forgotten drink."

U.S. consumption of imported gins — mostly premium brands — grew 32 percent in 2003, says Jean-François Bonneté of Cognac Ferrand USA, which markets Citadelle gin.

"The premium-gin segment is being revitalized," says Jamie Rohlich of Bacardi USA, which owns Bombay Sapphire. "Because vodka — in particular, flavored vodka — has become so popular, consumers are looking to gin for a new taste experience."

At O'Rourke's Steakhouse, diners are sipping gin martinis and fizzes.

"During Sunday brunch, all you see is Ramos gin fizz," owner John O'Rourke says. "It's a real throwback, a yesteryear drink out of New Orleans. But all the gin cocktails are making a comeback."

Another popular pour is the gin cassis fizz with lemon juice, sugar, club soda and crème de cassis.

At Downing Street Pub, bartender Greg Doxakis concocted a frilly Pink Diamond gin cocktail with Chambord, 7-Up, crème de menthe, sweet-and-sour mix and a candy swizzle stick.

"People are drinking more gin, but our gin drinkers are predominantly male, typically 25 and older," general manager Kevin Baimbridge says. "The gin companies are trying to market toward the female segment and doing Cosmopolitans with gin. The Pink Diamond is our take on the Cosmo."

Taking the cue from other liquors, which have used musicians to hype their brands, Seagram's is appealing to the young, urban set with its Gin Live tour.

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| **Just to name a few** |
| Here are some of our favorite premium brands: **Hendrick's (Scotland)**: Refreshing and ultrasmooth. Top notes: roses, cucumbers, pine. **Van Gogh Gin (The Netherlands)**: Distilled twice in column stills. Vibrant, smooth, aromatic and stout enough for the seasoned gin drinker. Top notes: pear, coriander, licorice and juniper. **Citadelle (France):** Triple distilled in copper stills. Snappy and crisp with a pleasant, underlying sweetness. Top notes: licorice, juniper, coriander, almonds. **Wet by Beefeater (England):** Very mellow and clean, with lush tastes of fruits. The lower proof allows flavors to linger pleasantly on the palate without afterbite. Top notes: oranges and pears, with just a hint of coriander and juniper.  |

"We're trying to impact consumer consciousness by being where they are," spokeswoman Helen Shelton says. "We've been very successful."

Gin is a fragrant, complex distilled grain spirit with as many as 20 botanicals, from French violet root to paradise grains from Africa. They give each brand its distinct character.

The most dominant flavoring is juniper. Gin is the Anglicized version of jenever, Dutch for juniper.

Dr. Franciscus de la Boie, aka Dr. Sylvius, is credited with creating gin by infusing distilled alcohol with juniper in 1650 in the Netherlands.

"Gin is the first flavored vodka. It was originally used as a medicine for kidney ailments," says David van de Velde, who imports the top-shelf Dutch gin Van Gogh.

Van Gogh has 10 botanicals, including almonds from Java, cassia from Africa and cubeb berries from Sri Lanka.

Citadelle is infused with 19 botanicals.

Bombay Sapphire — which some credit for launching the superpremium segment in the United States several years ago — has 10, including almonds, lemon peel, licorice, juniper, orris root and angelica root.

In 2004, Citadelle and Bombay Sapphire enjoyed double-digit growth, inspiring others to launch premium gins.

Wet, a new twist on the classic Beefeater, has a fruitier bouquet and a lower proof, 70 instead of 94.

"Gin makers are going lighter because they know people are looking for a cleaner, modern taste rather than the heavier botanicals of traditional gin," Strip House sommelier Lynda Barnes says.

"People used to order gin out of the well; they didn't care what kind," she says. "Now it's Bombay, Citadelle or Hendrick's. They've become very aware."

**5. The Week Ahead: Dollar Costs Diageo Dear as the Guinness Issue Comes to a Head**

Edited by Abigail Townsend – *The Independent*

February 13, 2005

It's not just love in the air this week. Besides the flowers and chocolates being delivered for Valentine's Day, City workers will be kept busy with a number of heavyweight corporates stepping up to post their results.

One of the companies reporting is drinks giant Diageo, owner of Guinness as well as Baileys and Smirnoff, among others. The sector has been in the news following a flurry of actual and potential deals, and Diageo was one of the first to get the rumour mill going after it agreed a joint venture with Heineken to brew Guinness in St Petersburg. Market chatter has long pondered what Diageo will eventually do with Guinness - stout does not sit easily with its other spirit and wine brands - and so the Heineken deal was seen as significant.

Questions will no doubt be asked about this at the interim results. As for the numbers, analysts are expecting pre-tax profits to dip from £1.3bn to £1.27bn, largely because of the weak dollar. American spirits volumes are likely to be resilient, with a more subdued performance in Europe and Asia.

**6. Battle Over Liquor Just Beginning**

Source: *ABA Journal*

February 14, 2005

One Suit is Dismissed, But Four Others Try to Link Ads and Kids.

Back in 1997 when, one by one, states were entering into settlement agreements with the country's big tobacco companies, advertising experts were wondering which industry would be next.

A big clue came from Congress when Sens. Strom Thurmond, R-S.C., and Robert Byrd, D-W.Va., asked the states' attorneys general to take as careful a look at the alcohol industry. But it was Byrd who sent shivers through the industry when, according to Advertising Age, he expressed concern to his colleagues that tobacco's "evil twin" was being ignored.

Byrd had little to fear. Less than a decade later, the alcohol industry is indeed on the defensive, fighting many of the same charges levied against tobacco: The industry targets underage drinkers in its advertising and promotional campaigns.

And though the defendants have changed, many of the lawyers are the same, with a few even choosing to switch from plaintiffs to defense.

One of the more prominent lawyers to cross the aisle is former Mississippi Attorney General Mike Moore, who says he's not directly involved in the alcohol industry litigation, but is on the clock for Anheuser-Busch. He is consulting with the beer giant as part of its effort to prevent underage drinking.

So far, there are four class actions pending against the industry, the first filed in 2003 in District of Columbia Superior Court, Hakki v. Zima Co., No. 03-0009183. The others are winding their way through state and federal courts in Colorado, North Carolina and Ohio. The suits, all filed by lead attorney David Boies III of Fairfax, Va., allege that alcohol producers advertise in youth-oriented media, use cartoons to attract children to the message, and sell toys and clothes designed to appeal to underage drinkers.

Plaintiffs also claim that several of the leading beer and distilled spirits manufacturers, including Zima, Mike's Hard Lemonade, Bacardi and Coors, have conducted "secret market research" into the drinking habits of underage drinkers. The suits further claim that the companies have concealed this research by using code words to disguise these marketing efforts targeting children.

A fifth class action, which also alleged public nuisance and violation of California's unfair competition laws, was dismissed on Jan. 28 when a Los Angeles County Superior Court judge ruled the plaintiffs failed to show how the marketing campaigns waged by beer makers Anheuser-Busch and Miller Brewing Co. caused the plaintiffs harm. Goodwin v. Anheuser-Busch Cos., No. BC310105. The lead plaintiffs, Lynne and Reed Goodwin, sued after an 18-year-old drunken driver killed their daughter in 2003.

In his opinion, Superior Court Judge Peter D. Lichtman wrote that there is no link between the defendants' ad campaign and the teenage drunken driver or even evidence that he consumed alcohol manufactured by the named defendants. "Plaintiffs do not explain why the intervening act of the driver (illegally consuming an alcoholic beverage, becoming intoxicated and then choosing to get behind the wheel of a car) was not the cause of their tragic loss," Lichtman wrote. Chicago lawyer Edward M. Crane, outside counsel for Anheuser-Busch, issued a press release praising the decision.

"The judge in Goodwin twice held that it is wrong for courts to reward underage drinkers for intentionally violating state alcohol laws," the release says. "Moreover, since the repeal of Prohibition, alcohol beverages have been highly regulated by state Departments of Alcohol Beverage Control. The judge in Goodwin deferred to the DABC, recognizing that courts should not assume the mantle of 'advertising czar' to regulate which ads can be shown in various national mass media.

"The legal theories in these lawsuits are contrary to state alcohol laws, the First Amendment, and state tort law, and we believe even more judges will recognize the merit of our positions in the months ahead."

However, the lawyers for the Goodwins, including veteran tobacco plaintiffs lawyer Steve W. Berman of Seattle, say they will appeal and are confident they are going to win.

George A. Hacker, director of the Alcohol Policies Project at the Washington, D.C.-based Center for Science in the Public Interest, also isn't completely discouraged by the dismissal in California.

Like the suits against big tobacco, he says, the alcohol litigation will take time to mature. "The alcohol cases are just in their infancy," he says. But he did acknowledge, "Barring the discovery of earthshaking confessions from the alcohol industry that they are targeting young people or targeting addicts, these cases have a long row to hoe."

Moore says that when he was attorney general, while wrapping up his tobacco claims, he took a really hard look at a possible case against the alcohol industry.

"The main Achilles heel in the tobacco cases was that the tobacco companies did research on what makes kids start smoking" and how to effectively advertise to them, Moore says. "That seems to be missing in the alcohol cases. I didn't come across any documents then or now."

Moore also sees an uphill battle as the pendulum swings during the Bush administration to more conservative courts. "That probably doesn't bode well for plaintiffs generally," he says.

Just as Moore is quick to point out differences between tobacco and alcohol industry litigation, Hacker says the similarities continue to make the litigation attractive to plaintiffs.

"The alcoholic beverage industry does everything that the tobacco company used to do in terms of hooking young drinkers, wrapping marketing in youth-oriented culture and music and humor," Hacker says. "They make very halfhearted efforts to reduce youth access to alcohol."

Hacker is rooting for the plaintiffs, and he speculates that evidence supporting their case will eventually be uncovered. "The litigation angle needs to be continued," he says. "Sooner or later, something will come up. Someone will come forward. A document will be leaked. The harm will be that much more direct."

**7. Starbucks Liqueur to Launch Thursday**

By William Spain - *MarketWatch*

February 17, 2005

CHICAGO (CBS.MW) -- Big Kahlua is about to face some tough competition as a new coffee-flavored spirit backed by two of the top names in beverages rolls out.

Starbucks Coffee Liqueur, a joint venture between the Seattle coffee giant and Fortune Brands unit Jim Beam Brands, is expected to make its formal debut Thursday morning, industry sources said on Wednesday.

The drink, similar in look and texture to Kahlua, but at a higher price point, is distilled in Ohio and is flavored by "100 percent Starbucks coffee," according to the label.

Both are 20 percent alcohol by volume, roughly half that of most liquor brands.

While it will be sold at bars, restaurants and liquor outlets, it will not be on the menu at Starbucks retail stores.

Kahlua, marketed by British spirits and fast-food behemoth Allied Domecq, is made in Mexico. It has been the runaway leader in the category for decades, with a more than 80 percent market share by sales. It sold 1.3 million cases in the U.S, according to the 2004 Adams Handbook and grew by 2.4 percent in the 52-week period ended January 4, Allied said.

Starbucks (SBUX: news, chart, profile) and Jim Beam announced the joint venture in April of last year and started consumer testing in August.

**8. This Bud May Not Be For You**

By Dimitra Defotis - *Barron's Online*

February 16, 2005

Blame it on the revival of the martini, or maybe on pinot noir's moment, but the stein now looks half-full for Anheuser-Busch.

Tepid beer sales, hurt by the growing popularity of wine and hard liquor, have pushed shares of America's largest brewer near a 52-week low. But before the stock foams again, some investors want the maker of Budweiser to improve profitability and shore up its U.S. market share.

That may be tough, because the large pool of twenty-somethings, a key beer-drinking cohort, hasn't helped sales much to date. And growth abroad, especially in China, won't happen overnight.

Meanwhile, Anheuser has raised prices recently, but must spend aggressively on marketing new products and fending off competitors.

That's why the stock may remain as flat as an open day-old can of Bud.

"We sold Anheuser-Busch because we saw domestic beer sales growth slowing," says Timothy Call, chief investment officer at Beacon Trust, a New Jersey investment advisor. "With the baby boomers' children starting to age, they are drinking less beer."

Anheuser-Busch is the top U.S. beer seller and gets most of its profits from domestic sales, according to Legg Mason. Anheuser reported a slight market share decline to 49.6% of U.S. beer shipments in 2004.

London-based SABMiller, which makes Miller, is a distant second, with U.S. share at 18.5%, according to Beer Marketer's Insights, a West Nyack, N.Y. trade newsletter.

But more young adults are turning to mixed drinks, the over-50 crowd is gravitating to distilled spirits and wine, and higher-priced import and craft beers remain trendy, says Charles Georgas, an analyst at Marquis Investment Research in Chicago. He recently initiated coverage of Anheuser with a Hold rating.

From 1995 to 2003, wine and spirits combined gained three percentage points of the total U.S. alcohol market, to 44%. Those gains came at the expense of beer, whose share fell to 56%, according to Georgas.

"We see that trend of beer losing share continuing," he adds.

Many children of baby boomers have reached the prime beer-drinking age of 21 to 28. That demographic could drive the industry's growth through 2010, as it did in 2001 and 2002, says Eric Shepard, executive editor of Beer Marketer's Insights.

Yet beer consumption in 2003 and 2004 was soft. The reason? More young drinkers prefer flavored-vodka martinis and wine to beer. And the HBO hit "Sex and the City" showed the allure cocktail culture has across genders and generations, Shepard says.

Another problem: The King of Beers traditionally has been the blue-collar brew, says Victor Ornelas, who worked in Anheuser's marketing department and now runs a Dallas-based marketing firm.

"I would be challenged to tell you what Anheuser-Busch stands for now," Ornelas says. "I don't think they know how they are going to reverse that [market share] decline."

In a written response to questions, a company spokesman said Anheuser-Busch has a "number of new product, package and marketing initiatives designed to increase beer volume and market share, many of which are geared toward the 21- to 27-year-old consumer."

One is a "malternative" called B (E), a beer with ginseng, caffeine and guarana, a South American berry.

Another is Budweiser Select, a beer billed as "crisp" with "no aftertaste" and reduced carbohydrates and calories. The company also is pushing draught beer, fresh beer sampling and retro-themed Bud cans.

But Anheuser may be relying too much on new brand rollouts in 2005, says Corey Horsch, an analyst at Credit Suisse First Boston. Operating margins were flat at 22.5% last year, despite price increases that boosted domestic beer revenue 2.5%.

The company raised prices again this month, but the "longstanding view that BUD can continue to grow profit via methodical and disciplined price increases is in jeopardy," writes Horsch. He advises investors to "remain on the sideline."

The stock, meanwhile, trades just above the S&P 500's forward price-to-earnings multiple, according to Thomson Financial Baseline (see At a Glance). Yet analysts expect Anheuser's earnings to be flat in 2005, while the S&P's earnings should rise 6%.

"At a market multiple for slow growth, we are just not that attracted," says Patrick Hogan, a portfolio manager at Associated Trust in Green Bay, Wisc., which recently sold Anheuser shares.

The stock trades below its five-year median P/E of 20.3x forward earnings but in line with other brewers, according to Baseline.

Anheuser's overseas business, from which it got more than 20% of net income in 2004, ultimately may boost earnings growth.

Anheuser owns half of Grupo Modelo, Mexico's leading brewer. Last fall, it acquired Harbin Brewery Group, the fourth-largest brewer in China. It also operates a Budweiser brewery in China and has a 10% stake in the popular Tsingtao Brewery.

But competition is stiff in China and it will take time "before they are making a lot of money, because beer is low priced there," says Shepard of Beer Marketer's Insights.

That, combined with a tough pricing environment and declining interest in beer, may give investors in Anheuser-Busch a stale after-taste in their portfolio.

**9. Tracking of Kegs Growing in States**

By John Ingold, Staff Writer - *Denver Post*
February 05, 2005

Laws requiring beer kegs to be registered to better track whether they end up with underage drinkers are gaining in popularity.

Twenty-three states and the District of Columbia have keg- registration laws, according to figures kept by the National Institute on Alcohol Abuse and Alcoholism's Alcohol Policy Information System. That's up from 20 states with such laws in 2003.

Utah bans kegs altogether.

But experts say there has been little research into how effective keg registration is.

Traci Toomey, an associate professor at the University of Minnesota who is one of the few academics to tackle the topic, said research indicates that keg registration's results vary from state to state.

"What we found is many of the policies that have been passed at the state level are not likely to be very effective," she said.

The problem isn't in the concept of keg registration but in following through. Toomey said many states don't require a significant deposit on a keg, leaving buyers little incentive to return the keg or not to rip the registration tag off.

"Keg registration by itself is not likely to create a substantial reduction in underage drinking," Toomey said. "It's keg registration with other policies to reduce the sheer amount of alcohol available to young people."

One bright spot in keg- registration research is a 2001 report that says keg registration is tied to a lower rate of alcohol- related traffic deaths. The Louisiana State University Health Sciences Center report compared various alcohol regulations in 97 cities across the country.

The report found that cities with keg-registration laws were likely to have lower alcohol- related traffic-fatality rates.

"That says there's a strong association," Deborah Cohen, one of the report's co-authors, said in explaining the findings. "We can't prove causality. ... Here we're just seeing an association, and that association is not happening by chance."

National groups such as the American Medical Association and Mothers Against Drunk Driving support keg registration as part of a broader policy to limit alcohol's availability to minors.

Kegs often are a source of cheap alcohol for teens at large parties, said Janet Williams, the communications director for the AMA's Reducing Underage Drinking Through Coalitions. At such parties, kids can easily lose track of how much they are drinking because they use the same cup throughout the night, Williams said.

"(Keg registration) is one of many strategies," Williams said. "It's not as if we pass a keg- tracking bill, underage drinking is going to be solved. The whole issue of underage drinking is about place, it's about promotion, and it's about price. And attacking any one of those issues can reduce underage drinking."

**10. Diageo Net Falls on Reduction of General Mills Stake (Update1)**

By: Gabrielle Monaghan – *Bloomberg*

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Feb. 17 (Bloomberg) -- Diageo Plc, the world's largest liquor maker, said first-half profit fell 2.5 percent after the company reduced its stake in General Mills Inc. and the dollar's decline against the pound crimped U.S. earnings.

Net income declined to 869 million pounds ($1.64 billion), or 29 pence a share, in the six months through December from 891 million pounds, or 29.3 pence, a year earlier, the London-based maker of Johnnie Walker whiskey said today in a Regulatory News Service statement. Sales fell 1.5 percent to 4.98 billion pounds.

Diageo in October sold part of its stake in General Mills, the second-largest U.S. cereal maker, as it wrapped up its exit from the food industry to concentrate on the drinks business. The U.K. company is focusing on boosting sales of spirits and Guinness stout in the U.S. as slower economic growth and bans on smoking in pubs hurt demand for alcohol in Europe.

``The big issue for Diageo at the moment is America, as 35 percent of its sales come from America,'' said Stuart Fraser, who helps oversee the equivalent of $28 billion, including Diageo shares, at Brewin Dolphin Holdings Plc in London.

The company's share of profit from associates, before one-time items, declined 60 percent to 109 million pounds after Diageo sold more than half of its 21 percent stake in General Mills, the maker of Cheerios, in two transactions for $2.26 billion and ceased to account for the shares as equity. The liquor maker also was hurt by the dollar's 5.3 percent drop against the pound in the period.

**Smoking Bans**

The British company has been selling stakes in foodmakers since its $5 billion purchase in 2001 of liquor brands such as Captain Morgan rum owned by the former Seagram Co., in an effort to focus solely on the beverage industry. Diageo sold Burger King, the second-largest hamburger chain, in 2002.

Diageo's European sales dropped 1 percent as smoking bans that started in Ireland and weaker economic growth in the region prompt more people to drink at home instead of in bars.

Ireland banned smoking in bars, restaurants and cafes in March. Norway and Italy have followed suit, and Scotland and England plan to outlaw the habit in pubs.

Economic growth in the dozen countries sharing the euro slowed in the fourth quarter to 0.2 percent from 0.3 percent in the previous three months, the European statistics office said this week. Rising unemployment has restrained spending and investment in Germany and Italy, leaving 2004 economic growth in the euro region at half the pace of the U.S.

**Johnnie Walker Green**

Diageo Chief Executive Paul Walsh, 49, described the European market as a ``challenge'' in September, when the company reported a 1 percent decline in annual net sales for the region.

Still, the liquor maker has said first-half volumes increased 5 percent in the U.S. as it added products such as the Smirnoff Twisted V mixed drink and Johnnie Walker Green, a $50 blended scotch that costs about $20 more than the brand's black label. Diageo also finished introducing dedicated sales teams across the country to benefit from American drinkers' increased preference for cocktails, spirits and wine over beer.

Sales of all spirits in the U.S. rose 3.1 percent in volume terms and 5.8 percent in value last year, valuing the industry at $14.7 billion, the Distilled Spirits Council of the United States has said. Spirits' share of the U.S. alcoholic-beverage market rose to 29.7 percent from 29.3 percent a year earlier, according to the council.

Allied Domecq Plc, the world's No. 2 liquor maker with brands including Stolichnaya vodka and Malibu rum, in October posted a gain in six-month profit for the first time in two and a half years as it benefited from higher U.S. demand for spirits.

**Guinness**

Diageo also is pushing Guinness in the U.S. to make up for lackluster beer consumption in Ireland, where the drink was first brewed in 1759. It introduced a series of television commercials featuring the slogan ``Brilliant,'' turning the word into a catchphrase among American Guinness drinkers.

The liquor maker also beefed up its wine business in the first half by agreeing to buy Chalone Wine Group Ltd., the owner of California's Provenance and Moon Mountain vineyards, for $260 million.

The U.S. will become the world's largest wine market by 2008, overtaking France, Germany and Italy in terms of the amount of wine sold, a study commissioned by the Vinexpo wine industry trade fair showed last month.

Diageo was expected to say profit declined 4.5 percent to 850.5 million pounds, according to the median estimate of four analysts surveyed by Bloomberg before today's report. They expected sales to climb 0.9 percent to 5.11 billion pounds.

Shares of Diageo dropped 6 pence, or 0.8 percent, to 745 pence in London yesterday, for a 12-month gain of 4.3 percent. The stock is the worst performer over that period in the 13-member Bloomberg Europe Beverages Index, which has advanced 14 percent.

