State of Iowa
ALCOHOLIC BEVERAGES
DIVISION

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ABD e-NEWS

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1. Miller Beer Head Toasts High Life During D.M. Visit

By Patt Johnson, Business Writer, *Des Moines Register*
May 25, 2005

A perfect spring afternoon with clear skies, highs in the upper 70s. The Iowa Cubs shut out Sacramento. And the beer was cold - and a round free - at the nearby High Life Lounge on Tuesday.

The retro-1960s corner tap at Southwest Second and Market streets was packed with revelers high from an afternoon of baseball. Few knew, or cared, that the free bottles of Miller High Life were courtesy of the chief executive of the beer's parent company, Miller Brewing Co.

Norman Adami, who has been at the helm of the Milwaukee-based brewery for two years, was in Des Moines for a day, visiting local customers and distributors. He stopped at the Miller-themed High Life Lounge - which the owners say is the only bar of its kind in the nation.

"This bar is a great idea, because this is a great American beer," said Adami, a native of South Africa who moved to the United States to take over Miller, a division of SABMiller plc, South Africa. "This is a great iconic brand with a great taste."

Shawn Miller, no relation to the beer dynasty, was drinking a Miller after having been at the game with co-workers. "Team building," they called it.

"Miller is always a good standby beer," he said. "The bar is great."

Mike Brewington , president of Iowa Beverage Systems Inc., the local Miller distributor, said he was thrilled with the success of the High Life Lounge.

Jeff Bruning, one of the owners of the High Life Lounge, said the bar only serves beers available before 1969.

"We wanted to serve classic beers that your grandfather might have drank," Bruning said.

Bruning said he and the other owners researched the High Life theme by visiting the Miller Brewery archives in Milwaukee for ideas.

2. Court Pops the Cork to Open Wine Traffic
By Reid Forgrave, Staff Writer – *Des Moines Register*
May 23, 2005

Ron Mark spends much of his days overlooking 121/2 acres of grapes and a gorgeous landscape atop a ridge in Indianola. He has views of cattle grazing on the rolling Iowa hills on one side, the Des Moines skyline on the other.

But if the owner of Summerset Winery in Indianola had shipped a bottle of his regionally renowned Sangria-style Caba Moch wine to a customer in Florida, he would have lost his license to operate the beautiful winery. That is, until the U.S. Supreme Court ruled last week to open up the wine industry to more interstate commerce. The court struck down laws in certain states that made it illegal to sell out-of-state wine directly from wineries to customers to protect local producers.

Nearly half the states, including Michigan and New York, currently ban or limit out-of-state wine shipments, and some states even make it a felony. Iowa is one of 13 reciprocity states, meaning Iowans can only buy out-of-state wines from states that allow their residents to buy Iowa wines. Florida has been the most restrictive state.

"The licensed distributors had total control of what customers in some states were allowed to drink," said Mark, who began growing grapes in 1989 for what has become the largest of Iowa's 34 grape wineries.

"If you had a favorite wine in California or Washington or Iowa, you couldn't get it unless you drove to the winery."

For wineries as small as Mark's, which produces 20,000 gallons a year, persuading out-of-state distributors to sell their wines can be a steep, uphill task - which means selling directly to customers over the internet has become the fastest growing part of their business. It now accounts for 9 percent of his total sales.

Players in Iowa's burgeoning wine-producing industry hope the Supreme Court ruling will open up more state borders to out-of-state wine - and help the thousands of small American wineries who use online sales to boost their business.

The court ruled 5-4 that states cannot prevent residents from receiving shipments of wine directly from out-of-state vineyards if they allow in-state wineries to sell directly to residents within the state.

Wine enthusiasts can't wait. Their computers will now open up their refined palates to a sea of cabernets and chardonnays.

"The winners are the wineries who want to export, because this opens up all 50 states," said Lynn Walding, administrator of the Iowa Alcoholic Beverages Division. "But the biggest winners are the consumers because they'll have much more access to other states' wines."

If you stop at Hy-Vee just before dinner to pick up a bottle of red, you won't be affected.

But if the movie "Sideways" spoke to you, and if you can tell the difference between a pinot noir and a pinot meunier, having a nationwide online supermarket of wine now open, it's a big deal.

"There's a built-up market of people who know about our wines in these restrictive states," said Paul Tabor, owner of Tabor Home Vineyards and Winery, which produces 10,000 gallons of wine annually in Jackson County in east-central Iowa. "As soon as the states reconcile their laws with the Supreme Court decision, there will be an immediate impact. And it will best benefit the wineries in regions working to produce the best wines from the best grapes grown there.

"Iowa wineries won't compete just locally but in the national market as well."

3. Heads Up: Experts Warn About Powdered Alcohol

Source: *DW World / Germany*
http://www.dw-world.de/dw/article/0,1564,1596657,00.html
May 27, 2005

Just as youth advocates hail the fact that sales of "alcopops," sweet drinks containing alcohol, are declining among kids, another product is raising concerns -- alcopops in powder form, which are growing in popularity.

They look harmless enough, the inconspicuous packets often next to the cashier at gas stations, convenience stores, beverage stores and bars. But according to consumer protection officials, that's what makes them all the more dangerous, since the powder inside contains alcohol, and a lot of it -- about 4.8 percent by volume. That is the equivalent of one to one-and-a-half glasses of liquor.

The product is called subyou, manufactured by a company in North Rhine-Westphalia, Germany and is marketed squarely at teenagers with slogans like "taste for not much dough" and "gets a good buzz going." Add the powder to cold water, and consumers have an alcoholic drink containing either vodka or rum. The company subyou sells its alcohol powder online as well.

"These are just as dangerous as the alcopops that came in the bottles," Birgit Rehlender, nutrition expert at consumer affairs organization Stiftung Warentest told Der Spiegel weekly.

Tax exempt

While authorities were able to curtail the consumption of alcopops with a special tax on the drinks last August -- which put them out of the reach of many teenage budgets -- these new alcopops in powder form cost between 1.65 and 2.40 euros ($2.06 and $3.00) per package. Subyou is able to get around the tax because its product comes in powder form.

The powder was first sold over the Internet, and word spread quickly among teenage circles that those under 18 could order off the Internet without fear of being asked for proof of age. However, according to Andrea Schauff, a nutritional expert at Hesse's consumer protection organization, in many stores the powder is being sold to under-age kids even though a warning is printed on the packets: "Alcohol can be addictive -- no sales to minors."

Besides the high alcohol content, youth advocates also worry about the powder's other ingredients, including high levels of preservatives, sorbic acid, and dyes that have not been approved by health experts.

Consumer protection authorities, such as Waltraud Fesser from Rhineland-Palatinate, would like to see the special tax on liquid alcopops be applied to their cousins in powder form.

"As soon as alcohol enters into the picture, we have to protect our young people," she said.

4. Alcohol Forum Proposes Split Bars

By Abigail McWilliam, *Iowa City Press-Citizen*
May 26, 2005

Concept Offered as Compromise on 21-Only Ordinance

A city ordinance that would allow bars to split people older than 21 and those under the legal drinking age into separate sections may be pursued after Wednesday's student-sponsored alcohol forum.

University of Iowa student government leaders invited community representatives to continue discussion about excessive alcohol use while pitching their ideas for change.

The forum was composed of members of Stepping Up, the Alcohol Awareness Working Group, the Alcohol Advisory Board and other city and college officials.

UI Dean of Students Phillip E. Jones suggested the idea of split venues as a compromise between debating groups.

"It may be a way to potentially help the issue of access and availability," he said.

After 90 minutes of discussion, the idea was the only one all parties hoped to pursue.

Iowa City Councilor Mike O'Donnell said he would present the idea to the council.

Mark Kresowik, UI student government president, presented several approaches to excessive drinking that were shot down by supporters of the 21-only drinking ordinance.

"We're a small group of students with a small amount of power bringing up some of these ideas to get your help," Kresowik said.

"As long as we focus on the things we disagree about, we won't get much done."

Educational classes, a bar card earned through educational courses and increasing fines also were discussed by the group but lacked support.

Providing more data and a budget for things such as increasing alcohol education is needed, Jones said.

The idea of implementing a bar card allowing those 18 and older into downtown bars was described as an "enforcement nightmare" by O'Donnell.

"It's another level of bureaucracy that doesn't change what happens when you get in the bar," Stepping Up member Erick Wolfmeyer said.

Kresowik said he would look into split venues and continue working out the logistics of the bar card.

He said he'd like to find something concrete to work on in the next couple of months.

5. Joe Sixpack | Will Last Week's Wine Ruling Affect Beer Sales?
Source: *Philly.com*
May 27, 2005

NOT THAT we need grape-eaters to blaze our trails, but it's looking like the U.S. Supreme Court's pro-winery ruling last week could foam over into the beer world.

The court, in a 5-4 decision, ordered Michigan and New York to stop discriminating against out-of-state wineries in favor of their own because it's a violation of interstate commerce rules. Though the court upheld the right of states to regulate booze, some experts believe the ruling is an opening shot at those arcane state regs that have controlled beer sales nationwide since the Prohibition.

And that's good news - or bad news - depending on who's holding the crystal ball.

The battleground here is the so-called "three-tier" system of distribution, which holds that brewers cannot distribute their products directly to consumers. It's a vestige of the days when Al Capone and the Mob controlled liquor and cheated government out of its alcohol taxes. The middle tier - wholesale distributors - ensures those taxes are collected.

The U.S. Supreme Court ruled that Michigan and New York unfairly favored their in-state wineries by allowing them to sell directly to consumers. Some liquor industry people believe that opens the door to mail-order sales via the Internet.

States presumably could fix that by requiring everyone to go through a distributor (as New Jersey has), but let's just pretend that won't happen, if only because it would screw struggling local wineries, some of whom are already supported by the taxpayers.

First, about those mail-order sales.

Currently, Pennsylvania doesn't allow breweries to send their beer through the mail.

But it does allow consumers to mail-order wine from in-state wineries. And it's OK to buy wine from out of state over the Internet as long as the bottles are delivered first to a state liquor store. It's a nice, if clunky, arrangement for wine fans.

Here's my question: How is it not a violation of interstate commerce rules to prohibit, say, some California microbrewery from making a similar mail-order delivery deal in Pennsylvania? If it's OK for wine, if it's OK to buy a pinot grigio from Napa on the Internet, howcum I can't click on Firestone Walker Brewing's Web site and order a case of Double Barrel Ale?

But hold on - some small brewers aren't so sure they're ready for mail-order beer.

Dan Weirback of Weyerbacher Brewing in Easton noted that any brewer looking to get into Internet sales should be ready to face a gantlet of state fees for label registration. In Pennsylvania, it costs breweries $75 a year for every flavor, from pale ale to double bock; in New York, it's $150. In Michigan, it costs $1,000 just to start doing business.

"The laws are so convoluted and every state is different," Weirback said.

The brewers speak

Greg Koch of Stone Brewing in San Diego said in an e-mail exchange that, though he supports the idea, his brewery has no plans to get into direct shipping.

"Currently," he wrote, "we are brewing 24/7 and not able to brew enough to meet demand, so additional ways to sell a few cases are not really on the radar for us... building our new brewery is."

And Bill Covaleski of Victory Brewing in Downingtown doesn't see much of a market for it, either.

"It makes no sense to package up a $26 case of beer and send it to Erie, Pa., or Wichita Falls, Kan.," Covaleski said. "It's a different story for a $140 case of wine."

The issue, though, is not just about making it easier for wired beer fans to procure obscure flavors. The battle here is over that entire middle tier. As one Wisconsin microbrewer told the Milwaukee Journal Sentinel last week, "If it becomes legal to ship beer, then it's legal for Anheuser-Busch to ship [directly] to Wal-Mart."

No surprise, beer wholesalers are unanimously freaked by the idea that breweries and consumers might someday bypass the middleman. Imagine spending all that dough to promote and sell someone else's product (not to mention the thousands in licensing fees), only to have the high court declare your piece of the action null and void.

Most beer-drinkers, I suspect, aren't going to shed many tears over the demise of wholesalers, not if deregulation means a 30-pack of Bud Light drops below 10 bucks.

But there's some belief in the industry that this whole trend is bad news for small brewers.

For one thing, by licensing (and limiting) the number of beer wholesalers, the state levels the playing field between micros and megabrewers, giving them an equal shot at all consumers. Without those controls, a small brewer like Weyerbacher would find itself spit out of luck in the shelf space race at your neighborhood CVS.

Moreover, a good wholesaler is a craft brewer's best friend. Victory or Stone don't have Anheuser-Busch's advertising dough, but they do have a sound network of distributors who market and retail their product.

"You can bet if my wholesaler in Minnesota is negated by the absence of three-tier system, I'm sure as hell not going to drive trucks out to Minneapolis and distribute beer myself," Covaleski said. "Direct shipping from breweries is unnecessary and counterproductive. The distribution system is working."

I'm not so sure change is all that bad, though.

Small brewers faced bigger challenges 20 years ago when they created an entire segment of the beer industry out of nothing. Today, there are too many consumers who enjoy craft beer.

Someone will sell it.

6. New Bill Shows Promise for Shipping Across U.S.
By Cyril Penn - *SF Chronicle*
May 26, 2005

California residents will be able to buy wine directly from any winery in the United States if a new bill in the state Senate becomes law.

Last week, the U.S. Supreme Court struck down laws in New York and Michigan that allowed in-state wineries to ship to residents, but not out-of- state wineries.

California currently has a policy of "reciprocity," which allows direct- to-consumer wine shipments only from the 25 states that also allow some form of direct-to-consumer shipments. This law may be vulnerable to a court challenge in light of the Supreme Court's ruling.

State Sen. Wes Chesbro, D-Arcata, is introducing legislation that would eliminate California's reciprocal direct shipping policy and replace it with an open-door policy allowing any winery from any state, or any wine club in any state, to ship directly to California consumers. The bill is co-sponsored by Family Winemakers of California and the Wine Institute.

More shipping news: Wine Institute president Bobby Koch encourages wineries to prepare for challenges from wholesalers who are lobbying state lawmakers around the country to ban all direct shipments.

"This is a time when our base needs to be energized," he said.

State legislators are sometimes reluctant to disappoint constituents and contributors, many of them liquor distributors. Some have been more comfortable putting the issue on hold pending direction from the high court. With a decision in, direct shipping is likely to move up on many states' agendas.

This week, New York Gov. George Pataki submitted a bill to the state Legislature that would permit all wineries to ship directly into the state.

"The focus now is on the most egregious states where there's an outright ban," said Wine Institute director of state relations Steve Gross.

Direct shipping to Florida is currently a felony, and a lawsuit challenging Florida's direct shipping ban is pending. Florida's legislators, however, have already adjourned for the year. Indiana's Legislature has also adjourned for the year.

The legislatures are still in session in Vermont, Ohio, Connecticut and Massachusetts -- all of which appear affected by the high court's ruling. In Illinois, there are reports that distributors are lobbying for a ban on all direct-shipment wine orders, including those from in-state wineries.

"We're anticipating a lot of action," Gross said.

Editor's Note: On the eve of the Memorial Day weekend, good news from the beer industry.

7. US: Summer Beer Price War Brewing
Source: *just-drinks.com editorial team*
May 27, 2005

A price war in the US beer market is being widely predicted as executives at leading brewer, Anheuser-Busch, promised investors that it would do "whatever is necessary" to grow its market share and increase profits.

However, A-B said it wasn't a question of undercutting competitors but simply reducing its premium to competitors' prices.

Nevertheless, analysts are expecting a summer of extremely tough competition. "If everyone was playing nice in the sandbox, this would be OK," Marc Greenberg, a Deutsche Bank analyst, told Down Jones News Service. "But we sense a much more competitive attitude among domestic brewers." Greenberg added that A-B's main competitors, SABMiller Miller and Molson Coors Brewing, "seem unlikely to let A-B off without a worthy fight."

A host of other investment analysts have forecast a price war but Norman Adami, chief executive of Miller, has repeatedly cautioned against a discounting battle, saying that any progress made would simply be a question of "renting share." But Adami still expects the coming summer to be "one of the most competitive," and said Miller would match competitors' moves on pricing.

8. Tequila Brand Placed in Broadway's 'Sweet Charity'

By Lisa Sanders - *AdAge*
May 23, 2005

Neil Simon OKs Script Change to Hype Product

NEW YORK (Adage.com) -- As part of a product placement campaign in Broadway's *Sweet Charity,* playwright Neil Simon approved a script change to promote Gran Centenario tequila, according to the deal makers.

The arrangement was the latest brand integration success by Amy Willstatter, president of New York-based Bridge to Hollywood/Broadway, who specializes in inserting product promotions in and around live theater productions.

Jose Cuervo's tequila has been woven into the script, the stage sets and the advertising and promotion for 'Sweet Charity.'

Last fall, spirits marketer Jose Cuervo was looking for a unique way to generate buzz in the U.S. for its little-known premium tequila Gran Centenario, but the company only had a modest budget to work with.

Anatomy of a deal

Executives at Jose Cuervo's advertising agency, Omnicom Group's Arnell Group of New York, introduced Carlos Arana, Jose Cuervo's managing director, and Onute Miller, Gran Centenario's brand director, to Ms. Willstatter. She brokers agreements between various marketers and Broadway productions and works on retainer with Spotco, a New York agency focused on theatre advertising (clients include *Dirty Rotten Scoundrels, Avenue Q* and *Sweet Charity*). After hearing about Gran Centenario's goals, she reviewed Spotco clients and came up with *Sweet Charity,* the Neil Simon revival about a hard-luck dancehall hostess searching for a good man, as the show that best met the tequila's brand attributes. The show opened in April.

"The play is a fun environment," Ms. Willstatter said. What's more, with a new-to-Broadway leading lady, Christina Applegate, best-known for her long-running role on TV's *Married with Children, Sweet Charity* potentially brings to Broadway a new generation of theatergoers -- just the sort of upscale, experience-oriented consumers Gran Centenario was looking for.

Other theater projects

Ms. Willstatter previously signed Pfizer Women's Health, Procter & Gamble Co.'s Olay Regenerist and Anheuser-Busch's Michelob Ultra to sponsor the Broadway and national tour productions of *Thoroughly Modern Millie.* She also made British Airways the official airline of the National Theater in New York and arranged for Hennessy to be the opening night sponsor of *Raisin in the Sun* at the Royale Theater.

Marketing competition in the tequila category is increasing as its reputation has evolved from a drink often associated with frat-house bashes to one that's increasingly common at more sophisticated affairs. U.S. sales of high-end and super-premium cases rose 29% to 1.2 million cases in 2004 over the prior year, said David Ozgo, chief economist of the Distilled Spirits Council of the U.S.

With Ms. Willstatter as the go-between, *Sweet Charity's* producers Barry and Fran Weissler and the Gran Centenario team hammered out a deal. Talks began with the suggestion of putting the tequila logo on *Sweet Charity* ads. For the marketer, "that wasn't enough," Ms. Miller said. "Ours is a unique brand." She and Mr. Arano concluded they wanted a deal with three components: a product mention in the show,

incorporated in a natural, unobtrusive manner; an uncontrived product placement; and promotional and public relations programs to build brand awareness among the marketer's target audience.

Amy Willstatter is selling product placements into Broadway theater productions.

To Mr. Weissler, having products placed or mentioned in his shows is not a new concept. "There's nothing different here than in sports or movies where marketers co-promote a film," he said. But he sets limits on what he'll do to marry art and commerce. "We never, ever distress a script." With this Gran Centenario example, the producers and playwright replaced a line, "I'll have a double scotch on the rocks" with a mention of the premium tequila. "We didn't bastardize the script, and [playwright Neil Simon] OKed the change," Mr. Weissler said. "We always pass sponsors by authors."

Script changed, logos on set

In addition to having the Gran Centenario mention written into the script, the tequila's logos are integrated into the show's set in one scene, and the product has been the drink of choice at Gran Centenario-sponsored parties thrown during the pre-Broadway shows as well as its New York opening, all attended by the cast, their friends and a select group of invitees. Specialty cocktails featuring Gran Centenario created by wellknown bartender Dale deGroff are featured at those fests as well as in the Al Hirschfeld Theatre where *Sweet Charity* plays and at nearby bars.

A print ad, adapted from the tequila's current print campaign, runs in *Sweet Charity* Playbills (where, on one of the credits pages, Gran Centenario is thanked for its "generous support"). Gran Centenario promotes the show through ads and events, and the show's ads mention the tequila.

Neither the marketer, Mr. Weissler nor Ms. Willstatter would comment on the financial specifics, other than to describe the arrangement as a flat-rate package structured as a "step deal," in which payments were made in increments. Ms. Willstatter, a proponent of cash deals rather than barter agreements for branded entertainment on Broadway, explains that she's trying to "make Broadway competitive with other forms of media, such as TV and radio."

Measuring effectiveness

One major difference, of course, between Broadway and TV or radio, is that measuring the effectiveness of a product mention or a sponsorship is art rather than science. While Mr. Weissler and Ms. Willstatter deliver their marketing partners demographic data like income of their audiences, the definite impact on audiences is not tracked. "We don't poll theatergoers," Mr. Weissler said.

But Gran Centenario's Ms. Miller does monitor Gran Centenario consumption in the theatre as well as in nearby bars. She watches the tequila's distribution in stores and bars where theatergoers shop or frequent for indications that Gran Centenario is gaining popularity.

Asked whether she's concerned about the outcry from some over the inclusion of the tequila in the play's dialogue (one paper wrote, "Sponsorship should not mean authorship, or the license to tweak creative work to make it sell when it should simply sing."), Ms. Miller said no. "We believed it was the correct fit. The press has built brand awareness."

9. 'Accessible Luxury' by the Bottle

By Laura Rich – *New York Times*
May 20, 2005

This spring, a potential bidding war has broken out in the spirits business as competitors vie for the drinks maker Allied Domecq of London. On April 21, the French company Pernod Ricard offered $14 billion for the company. That offer was topped last week by a $14.3 billion rival bid by the Constellation Group of New York, the world's largest wine producer. Pernod is said to be favored by Allied's board.

Until now, the highly fragmented industry has been dominated by Diageo P.L.C.,, a British concern that boasted a 10.5 percent market share. Ivan Menezes, chief executive of North American operations for Diageo, spoke recently about trends in consumer taste for spirits and the shrinking landscape. Following are excerpts from that conversation.

Q. Are people drinking more high-end spirits?

A. There’s no question there’s growing interest in consumption of high-end brand experiences in beer, wine and spirits. I think one of the reasons you’re seeing what’s going on is that there are certain underlying demographics and societal shifts that are pointing toward people enjoying what I would call "accessible luxury" in a much bigger way, as we’ve gone into the new millennium. The example I like to use is, if you’re an average New Yorker, it may be tough to spend a night at the Four Seasons Hotel, but you could walk into the Four Seasons bar and enjoy a glass of Johnny Walker Blue Label on the rocks. And that’s what I think is really magical about the brands we have and the territory in which we play. And that is really what’s driving the growth at the high end of the market.

Q. Is the high end the biggest area of growth?

A. Over all, the marketplace is very healthy. I like to refer to the United States as the world’s biggest emerging market when you look at it from a consumer standpoint.

Q. What do you mean by that?

A. For our industry, you look at the growth in the 21- to 29-year-olds, the boomers, and the ethnic shifts in African-American, Hispanic and Asian groups. People want more premium experiences and are looking for taste and variety. You put that all together, and well-crafted brands with great products and great experiences are doing very well. And that’s why we remain very optimistic about steady, sustained growth in premium wine, spirits and beer.

Q. What about the rest of the world? Isn’t China a big emerging market?

A. We do have a strong global footprint. As we look at markets like China, Russia and India, we have strategies to build and grow our businesses there.

Q. Are those customers at a different stage than those in the U.S.?

A. Yeah, exactly. And I think when – there's kind of the conventional wisdom that the markets in Europe and the U.S. are kind of developed, mature markets, but we actually have an unbelievably vibrant consumer marketplace in the U.S. And a lot of shifts are happening that provide a lot of opportunity for innovating and building brands.

Q. What is your responsibility program?

A. In a nutshell, the thing I feel most proud about is that our company is built on a bedrock of responsible consumption. Just a few things of what we do and believe in: We have the most stringent code of marketing that we apply and many in the industry are adopting it. We spend 20 percent of our advertising – or one in five of our advertisements are targeted at specific responsibility messages. They're done in a very creative and compelling way around our brands. And I think the culture of our company – we are, at the end of the day, a company of parents and mothers and fathers and aunts and uncles. The values of the company are deeply ingrained around making sure no underage consumption and no excessive consumption of alcohol. We don't need any of that business. It's really something we feel very proud about and are driving an agenda. Our core value is around it, we're proud of what we do.

Q. Is there a need to increase responsibility efforts right now?

A. We've been at this for four years. In fact, Diageo's a young company, it only came together seven years ago. It's at the core of what we believe in, right from the creation of our company. Right now, something we're driving in the state legislatures – we have an initiative underway to really tighten up — If you look at underage consumption, two-thirds of kids get their alcohol from adults. Not from going into a store or into a bar. So we're moving legislation in the states right now to up the penalties for adults who provide alcohol to kids around automatic license revocation. We've just got the bill passed in Virginia, we're moving it through other states.

Q. What's the business motive behind this?

A. It's much deeper than that. It's driven by a core belief and values that we have that really every employee in the company truly believes in. As I said, we don't need any irresponsible consumption of our products.

Q. And Diageo itself could be in trouble whenever alcohol lands in the wrong hands, right?

A. We don't do or condone any activity that would encourage that.

Q. The industry is rapidly consolidating, especially with Allied Domecq potentially merging with Pernod Ricard or the Constellation Group. How does consolidation change the business for Diageo?

A. The first point I'd make is like most other businesses – consumer and other businesses – the forces of consolidation are inevitable in our industry and in fact, seven years ago, we took the first game-changing move when Guinness and Grand Met merged to form Diageo. We see consolidation as inevitable. I think the implications are, certainly as we look at us, it's very much around focusing and executing against the strategy we happily adopt. Diageo is a young company, we're seven years old, we have brands that go back hundreds of years. These brands have robust growth potential and the name of the game really is winning with the consumer.

We see consolidation leading to upping our game and continuing our strategy to win with the consumer, win with the customer, bring new products to the marketplace, and continue to reinforce our platform with responsibility in how we build and grow our business.

Q. How will you be upping your game?

A. It's what we're doing: building our brands and innovating around our brands, strongly. If you look at some of the recent innovations we've brought to the marketplace, be it Smirnoff Twist and the flavors we have there, Smirnoff Ice, we've introduced new variations we're just about to launch in Captain Morgan's. In wines, we've recently acquired a wonderful selection of premium high-end brands called Challone, which gives us an opportunity to expand our footprint and our ability in residents and the on-premise. And it really is taking this wonderful collection of brands we have and making these brands greater through strong marketing and responsible marketing and winning with our channels of distribution, our distributor and retailer networks. And as a company, we have a huge focus on innovation because we really think this category is ripe for new products and new experiences to bring to the consumer.

Q. Some people have said that these brand extensions are starting to lag. How are you responding to that?

A. If you look at Smirnoff Ice and the flavored malt beverage category, we see that as a sustainable category, but what it requires is innovation and the ability to market and bring compelling reasons for consumers to drive consumption.

We're launching a new advertising campaign this summer for Smirnoff Ice which I think is going to be terrific. We have, with the Smirnoff Twist, brought more flavor and product variance into the marketplace, which is doing very well. But in the category, it is all about new news, innovation and staying ahead of the game and staying relevant to consumers. And that's demanding.

Q. With an acquisition of Allied will the industry reach a level of maturity?

A. The marketplace is not mature, so we have good growth prospects in the United States and around the world. If you look at Diageo, over the past seven years, we've gotten out of the food business, with General Mills and Burger King. We acquired a big piece of the Seagram's business and set our strategic direction as being focused on premium drinks. And we see this as a very attractive sector where, with our collection of brands and our global distribution reach, the ability to drive and generate high returns and high cash-flow for our shareholders, and a sustainable rate of growth is really what we're all about.

Q. Shares of Diageo have grown at a rate about half that of other drinks companies. Why is there such a lag?

A. We're a young company. The last seven years, we've refocused our business, getting out of food and into premium drinks. We're very pleased with that business, but more importantly, we're optimistic about the future and the platform for growth we've created with our brands. Our strategy is working and we think the return to shareholders and cash generation is very healthy for the long term.

Q. Are you saying that Diageo has been in ramp-up mode, so that's why returns haven't been so great?

A. We've been in the mode of shaping the company to strategically what we wanted, which was to create this strong position in premium drinks. We have all the elements in place now and are executing against them to drive a core strategy of organic growth, which will deliver the returns and cash generation.

Q. So you expect that gap will narrow between the share price of Diageo and that of competitors'?

A. Sure.

Q. What acquisition targets have you had your eye on?

A. First, our core stratetgy is around organic growth – building out the platform we have. Point two, we always look at opportunities for acquisition. The most recent was the Challone Wine group before the holidays. We will be on the lookout for it, but the core strategy is around growing what we have. The third thing is, we have very strong financial criteria and discipline around looking at acquisitions. We apply very tough hurdles on the returns we expect, so we're going to look at opportunities all the time, but also apply stringent criteria.

A good example would be the Challone Wine Group. In the wine businesses one of the challenges is getting the kinds of returns that we expect. With Challone, because it was such a strong fit with our portfolio, we were able to make that acquisition and it was able to return what we call an economic payback return within three years.

Q. Speaking of wines, is wine becoming a big business? There have been many mergers recently.

A. The long-term trends in wine are favorable. The U.S. is a relatively underdeveloped market in wines. The challenge is delivering economic returns and returning your cost of capital. There are many parts of the industry right now that don't do that. We're looking at organically growing that business, but also looking at acquisitions.

Q. From a consumer perspective, people love to talk about vineyards, but that makes it seem more like a small business. How do you maintain that small business aspect while the ownership gets bigger?

A. That is the challenge. Getting the advantages of scale while connecting with the consumer in a relevant way. You have examples in wine of brands that get too big and then get in trouble. As you look at the number of players in wine, the consumer behavior in wine, you have to find that sweet spot of having scale and yet connecting to the consumer in a relevant way. Staying small is where that sweet spot needs to be struck.

10. Whiskey Floats Brown-Forman's Profits
By Bruce Schreiner – *Associated Press*
May 26, 2005

Growing Sales Buoy Weaker China, Luggage Brands

LOUISVILLE - Jack Daniel's whiskey packed a strong sales kick for Brown-Forman Corp., which yesterday reported a 7 percent gain in fourth-quarter profit and a 21 percent upswing for the year amid strong demand for its premium spirits.

The Louisville-based liquor company also said favorable foreign-exchange rates and lower expenses offset weaker revenue as its consumer durables segment struggled.

Brown-Forman posted earnings of $60.7 million, or 49 cents per share, for the three months ended April 30, compared with $56.8 million or 46 cents per share in the same period a year ago.

Sales totaled $612.8 million for the quarter, down 2 percent from $625 million a year ago as the consumer segment posted lower revenue. Besides spirits, Brown-Forman also makes Hartmann luggage and tableware under the Lenox, Dansk and Gorham names.

The results matched Wall Street's consensus forecast of 49 cents per share, but missed analyst revenue expectations of $658.8 million, according to a survey by Thomson Financial.

"Our financial performance in the beverage segment was exceptional for the year," Brown-Forman Chairman and Chief Executive Owsley Brown II said in a conference call with industry analysts. "We remain optimistic about the global environment for premium spirits."

Leading the way was its flagship Jack Daniel's brand, which posted record worldwide sales growth of more than 680,000 cases to nearly 7.9 million during the past year.

Jack Daniel's posted its 13th straight year of volume growth, and last year's global sales rose by more than 9 percent, its best rate in more than two decades.

For the full fiscal year, Brown-Forman posted earnings of $308.3 million, or $2.52 per share, up from $254 million or $2.08 a share for the previous year. Full-year sales rose 6 percent to $2.73 billion. Analysts expected full-year earnings of $2.46 per share on $2.76 billion in revenue.

Looking ahead, Brown-Forman forecast fiscal 2006 earnings between $2.70 and $2.80 per share. Wall Street's current average full-year forecast is $2.71, according to Thomson Financial.

Meanwhile, Brown-Forman is part of a consortium mulling an offer for United Kingdom-based Allied Domecq PLC, which has already agreed to a buyout offer from its smaller French rival, Pernod Ricard SA.

Brown-Forman has teamed with Constellation Brands Inc., the world's biggest winemaker, and private equity firms Lion Capital and Blackstone to consider an offer. The consortium has a June 29 deadline from Britain's mergers and takeover watchdog to make an offer.

Brown-Forman executives offered no hints about whether an offer was forthcoming.

"There is no certainty that this will lead to an offer, or that any offer made would be successful," Brown said in the conference call yesterday.

11. Pernod Ricard: FTC Ruling on Allied Domecq Bid by June 2

By Christina Passariello - *Dow Jones Newswires*
May 25, 2005

PARIS -(Dow Jones)- French drinks group Pernod Ricard SA (12069.FR) is expecting a ruling from the U.S. Federal Trade Commission on its takeover bid for Allied Domecq PLC (AED) by June 2, a decision that could pave the way for the acquisition to close by the end of July.

In a document prepared for its shareholders and published on its Web site Wednesday, Pernod said that it filed documents relating to the takeover on May 3 and that the initial waiting period will expire June 2.

The timing of rulings by antitrust authorities will be critical to Pernod wrapping up the acquisition quickly, analysts have said.

However, analysts have also said that any delay in antitrust approvals could provide enough time for a consortium to put together a concrete counterbid.

Pernod stated in the document that it expects the bid to close on July 26 if it receives approvals on time and is not tripped up by a counterbid.

Constellation Brands Inc. (STZ) has formed a consortium with Brown-Forman Corp. (BFA) and two private equity firms, but they have not yet come up with a firm offer.

The company is also waiting for a ruling from European Union authorities by June 10.

Pernod Ricard could refile its takeover bid with amendments to antitrust authorities if the company does not win approval in the first phase, the company said.

In particular, analysts have warned that the company's share of the U.S. gin market could pose a problem.

The document also revealed that chairman Patrick Ricard's salary rose 15% last year to EUR2.16 million from EUR1.88 million a year before. In addition, the salaries of the two co-managing directors, Richard Burrows and Pierre Pringuet, increased 19% to EUR1.44 million.