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

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| *January 14, 2005* |

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**1. Iowa, Illinois Look to Licenses for Help**

By Shawna Richter – *The Hawk Eye*

January 9, 2005

**States employ vertical drivers licenses to curb underage drinking**

BURLINGTON -- Illinois recently implemented vertical drivers licenses, becoming one of 10 states attempting to curb underage drinking and smoking in such a manner.

The new license will be printed vertically, instead of horizontally, with bolder versions of "under 18" and "under 21." The date of the individual's 21 birthday also will be printed in red.

In 2001, Iowa started issuing similar vertical licenses, following Virginia's lead in 1998. Virginia has reported a 20 percent reduction in underage drinking sales, but Iowa officials do not have exact statistics yet.

"We've had an 89 percent compliance rate (in establishments)," said Lynn Walding, State of Iowa Alcoholic Beverages Division administrator. To test compliance, an underage buyer attempts to purchase alcohol or cigarettes. If the establishment makes the sale, it is cited and fined.

"Every place is checked at least once," Walding said. If they fail, they are checked again that year. Last year, about 541 places were non–complaint, Walding said.

"The vertical license makes it extremely easy to identify an underage person," he added. "What does it mean that Illinois now has vertical licenses? Kids cross borders and take advantage (of the different licenses). Illinois' change is good news for us."

Walding said it was easy for Iowa to make the change to vertical licenses. The Iowa Department of Transportation developed its own software, which it formatted and changed at each location to fit the vertical license.

"It was pure common sense (to change to vertical licenses)," Walding said.

Dave Stutz, Iowa Department of Transportation driver service administration, said, "Before they had to do the math — retailers like the concept of the vertical license."

Travis Brockett, Kum and Go shift manager, agreed. The vertical license makes it easier to tell if a person is underage, he said. But it's not fail safe.

"The main thing is checking dates so you aren't just looking for vertical or horizontal," he said. "A lot of people try to use an outdated vertical license when they are underage."

In Iowa, a red bar is printed around the edge of the underage license, and the 18 and 21 birth dates are printed in red. A security hologram is printed across the ID, making false IDs more difficult to make. However, problems still exist in the system.

Brockett added that some licenses are good for a few years after the individual's 21 birthday, making the vertical or horizontal license less simple. Some people use the outdated license as a fake.

"I have found a few fake IDs," he said, and he has confiscated them.

Walding said fake IDs are one problem Iowa still struggles with.

"A couple times, I've used another girl's horizontal ID," said Heather, whose name has been changed for anonymity. "Now I'm 21, but I still have the vertical ID (until 2008)."

Heather said it is still fairly easy to get a fake ID.

"I had high school friends who could make IDs on their computer," she said. "The only difference was it was missing the hologram."

She added that she and friends used fake IDs in college to go out in Cedar Rapids and Iowa City.

According to Walding, local communities are still in charge of enforcing the law against underage alcohol sales.

"Some communities prioritize it, but some don't," Walding said. "Over time, if it becomes a problem, the communities do something about it."

Walding added that a Tobacco Advisory Committee was established three years ago that enforces underage tobacco sale laws.

**2. Beer Is Still King, But Wine and Spirits Are Close Behind**

By Greg Edwards - *Dow Jones Newswires*

*Printed in Wall Street Journal*

January 10, 2005

ST. LOUIS, MO -- If you sometimes find yourself ordering a glass of wine or a mixed drink when you used to order a beer, you're not alone.

Wines and distilled spirits continue to gain a bigger share of the alcoholic beverage market, at the expense of the beer industry.

It's a trend that has been going on since the late 1990s and continued in 2004. Analysts who follow the alcoholic beverage industry don't see it stopping anytime soon.

"We believe there is an overall image crisis with beer," Smith Barney Citicorp analyst Bonnie Herzog said.

As baby boomers age, they are more willing to buy wine and spirits instead of beer. And the wine and spirit companies are successfully targeting younger drinkers with advertising and promotions.

"Our wholesaler contacts have told us through a survey we conducted recently that beer has lost its 'sexiness' and 'appeal to young consumers,'" Herzog said. "We continue to believe the road ahead is a long one for the beer industry."

Beer remains, by far, the most popular alcoholic beverage in the U.S. But its share of the alcohol market has slipped.

Beer Marketer's Insights, a trade publication, estimates that beer's market share has dropped from 59.5% in its peak year of 1995 to 56.7% in 2003, based on absolute alcohol content.

The spirits industry began its big push in 1999, when it had 28.6% of the market. In 2003, its share had risen to 29.7%. During the same period, wine has gone from 12.6% to 13.6%.

The totals for 2004 aren't in, but it was "more of the same," said Benj Steinman, president of Beer Marketer's Insights.

Frank Coleman, a senior vice president at the Distilled Spirits Council of the U.S. in Washington D.C., said increased advertising and relaxed laws permitting Sunday sales and spirits sampling events have fueled the growth.

The spirits industry spent almost $100 million on broadcast advertising in 2004, compared with "almost zero" in 1999, Coleman said.

August Busch IV, president of Anheuser-Busch Cos. (BUD) brewing unit, has said that wine and spirits represent "a threat" to his company and the rest of the beer industry.

Miller Brewing Co. President Norman Adami said, "The single biggest threat facing the American beer business today is the possibility that we will allow the American consumer to get bored with beer."

So what are the brewers doing about it?

For one thing, they are spending more money on promotions, including what they call on-premise spending. That means in bars and restaurants mostly, but also hotels, clubs, concession stands and other places where drinks are consumed on the premises.

On-premise sales account for only 25% of all beer volume in the U.S., but 48% of all beer retail dollars.

Earlier this year, Busch told his company's national sales conference that on-premise sales are the "frontline battleground between beer, wine and spirits," according to Beer Marketer's Insights.

The wine and spirits companies have increased their sales in bars and restaurants with aggressive promotions, Legg Mason analyst Mark Swartzberg said. Think Jagermeister, or small-batch bourbons.

Anheuser-Busch, the brewer of Budweiser and Bud Light, has said it plans to spend an additional $30 million for on-premise promotions in fiscal 2005, a 150% increase.

With that money, Anheuser-Busch "has put more feet on the street," Goldman Sachs analyst Marc Cohen said. The brewer will be calling on bartenders and owners more often and offering suggestions for selling and marketing beer in bars and restaurants.

It also will hold more tasting events, emphasizing its "freshness" campaign, Cohen said.

In addition to more promotions, Anheuser-Busch is repackaging old products and introducing new products, such as its B-to-the-E caffeinated and flavored beer. Budweiser Select, a beer with lower calories and carbohydrates, is being tested in seven markets.

Milwaukee-based Miller Brewing, whose beers include Miller Lite and Miller Genuine Draft, also has increased spending.

"Miller is spending about 40% more on advertising and promotion than 18 months ago," Swartzberg said.

Adolph Coors Inc. (RKY), the Golden, Colo., brewer of Coors Light, plans to increase its marketing in bars, restaurants and other on-premise locations but has not disclosed the details of its plans for competitive reasons, Coors spokeswoman Laura Sankey said.

Miller already has been holding blind taste tests at bars and restaurants to compare its beers to Anheuser-Busch's. Adami believes that is one way to overcome the boredom that he fears, because it encourages people to talk more about beer.

Miller has set a goal of getting 5 million people to take a taste test in 2005, not only in bars and restaurants, but at events such as the Super Bowl, NASCAR races and the Taste of Chicago festival.

"It's good they've seen the issue," Swartzberg said about the brewers. "A lot of companies go through longer periods of denial. It's also good they recognize that going at it requires resources."

Will the strategy work?

"It's very early to tell," Swartzberg said. "The wine and spirit guys are seeing more growth in the U.S. market than five years ago because they made a decision to spend in the late '90s."

"They're fighting on so many fronts," Cohen said. "It's an open question whether they can get their arms around this one."

And a little generational rebellion must be overcome, as well, Swartzberg said. Younger drinkers may choose wine and cocktails because their parents chose beer.

"Any given generation wants to be different than its parents," he said. "It's the natural ebb and flow."

**3. A-B Opens New Responsible Drinking Campaign**

By Gregory Cancelada - *STLToday.com*

January 11, 2005

**TV spots feature company chairman, August A. Busch III**

Anheuser-Busch Cos. will launch a new television advertising campaign Wednesday night aimed at promoting responsible drinking and encouraging parents to prevent underage drinking.

The new spot, which features A-B Chairman August A. Busch III, also marks the 20th anniversary of A-B's responsible-drinking advertisements on TV.

The "Know When to Say When" spots were the first network TV responsible drinking ads by any company in the alcohol industry.

Since 1982, A-B and its wholesalers have spent more than $500 million to raise public awareness of these issues, Francine Katz, the brewer's vice president of communications and consumer affairs, told reporters on a conference call.

Spending now averages about $40 million a year, Katz added.

Though Busch III has been in TV spots about A-B's quality and heritage, this is the first time he has been in a responsible-drinking ad.

"What better spokesman to deliver this message than our own chairman, August Busch III, who led the charge in creating our 'Know When to Say When' campaign?" Katz said.

A-B kicked off "Know When to Say When" in 1982 with print ads and point-of-sale material, such as table tents. In 1985, it brought the campaign to television viewers.

The St. Louis brewer later raised the issue of underage drinking with its "Family Talk" campaign in 1990. Besides ad spots, about 5.3 million videos, brochures and parent guides - available at www.familytalkonline.com - have been distributed since 1990.

After A-B launched its effort, other brewers followed suit. In 1986, Adolph Coors Co. launched its anti-drunk driving TV ads called "Gimme the Key." Its most recent TV campaign is the "21 Means 21."

Meanwhile, SABMiller PLC began its first foray into TV ads against underage drinking in the United States last year with the "Let's Keep Talking" campaign.

Though underage drinking and drunk driving deaths are down from 20 years ago, they remain significant problems.

A 2004 study by the National Institute on Alcohol Abuse and Alcoholism found underage drinking has fallen since hitting a peak in the late 1970s, but the level has remained stable at a relatively high level since the early 1990s.

Some critics have blamed alcohol industry advertising for these problems, though no clear causal link has been found between advertising and underage drinking.

4. Beer Has an 'Image Crisis;' Wine and Spirits Gain

*USA Today*

January 11, 2005

ST. LOUIS (AP) — Beer, the most popular alcoholic beverage in the United States, has an image crisis, analysts say.

While it is still the nation's favorite alcoholic beverage, it continues to lose ground to wine and spirits.

*Beer Marketer's Insights*, a trade publication, estimates beer accounted for 59.5% of the alcohol market in its peak year, 1995. That had fallen to 56.7% in 2003.

In 1999, the spirits industry had 28.6% of the market. In 2003, its share had risen to 29.7%. Wine went from 12.6% to 13.6%.

Final figuress for 2004 aren't in, but it was "more of the same," says Benj Steinman, president of Beer Marketer's Insights.

Analysts who follow the alcoholic beverage industry don't see it stopping soon.

"We believe there is an overall image crisis with beer," says Smith Barney Citicorp analyst Bonnie Herzog.

As baby boomers age, they are more willing to buy wine and spirits. And wine and spirit companies are successfully targeting younger drinkers with advertising and promotions.

"Our wholesaler contacts have told us through a survey we conducted recently that beer has lost its 'sexiness' and 'appeal to young consumers,'" Herzog says. "We continue to believe the road ahead is a long one for the beer industry."

The spirits industry spent almost $100 million on broadcast advertising in 2004, compared with "almost zero" in 1999, says Frank Coleman, a senior vice president at the Distilled Spirits Council of the U.S. in Washington.

August Busch IV, president of Anheuser-Busch Cos. brewing unit, has said wine and spirits represent a threat to his company and the entire beer industry.

Miller Brewing. President Norman Adami said, "The single biggest threat facing the American beer business today is the possibility that we will allow the American consumer to get bored with beer."

So what are brewers doing about it?

For one thing, they are spending more money on promotions, including what they call on-premise spending. That means mostly bars and restaurants, but also hotels, clubs, and concession stands.

On-premise sales, as opposed to store sales, account for only 25% of beer volume in the United States, but 48% of beer retail dollars, making it an important battleground.

Wine and spirits companies have promoted themselves aggressively in bars and restaurants, increasing sales, says Legg Mason analyst Mark Swartzberg.

Anheuser-Busch, brewer of Budweiser and Bud Light, has said it plans to spend an additional $30 million for on-premise promotions in fiscal 2005, a 150% increase.

Milwaukee-based Miller Brewing also has increased spending.

"Miller is spending about 40% more on advertising and promotion than 18 months ago," Swartzberg says.

And a little generational rebellion must be overcome, Swartzberg says. Younger drinkers may choose wine and cocktails because their parents chose beer.

"Any given generation wants to be different than its parents," he said. "It's the natural ebb and flow."

**5. Analyst’s Rethink Leaves Diageo and Allied in Low Spirits**

By Nick Hasell – *Times OnLine*

January 11, 2005

**Larger capitalization shares**

Diageo and Allied Domecq weighed heavily on the FTSE 100 on fears that a five-year-long rerating of the spirits sector could be drawing to a close.

Both stocks have recently labored under the effects of a weak US dollar, but Deutsche Bank lent weight to those concerns yesterday by downgrading the beverages sector from “overweight” to “neutral”.

Graeme Eadie, analyst, says that a rerating of spirits makers since 2000 has taken the likes of Allied to a 10 per cent premium to the rest of the market although their forecast earnings growth is no better than the rest of the FTSE 100.

Mr Eadie suggests that, unless there is a sudden rally in the dollar, the reported pace of earnings growth is likely to slow. Further, he claims that much of the recent impetus behind strong growth in the spirits market — the break-up of Seagram, a recovery in emerging markets and a lifting of restrictions on advertising spirits on US television — has started to wane. On those grounds, Deutsche yesterday moved **Allied Domecq** from “buy” to “hold ”, leaving the shares off 9p at 494p.

Dresdner Kleinwort Wasserstein applied corresponding pressure to Diageo by moving the Johnnie Walker and Guinness maker from “add” to “hold”, suggesting the shares are likely to pause for breath ahead of next month’s first-half results. Although the German broker thinks trading in the US remains buoyant, it says evidence of US market share gains remains patchy, while margin growth during the first half is likely to have been driven by lower spending on advertising and marketing. **Diageo** dipped 10½p to 739½p.

That weakness in spirits, together with a retreat in **Standard Chartered**, off 24½p to 928½p as UBS and Cazenove placed 117 million shares at 920p to fund the $3.3 billion purchase of Korea First Bank, left the FTSE 100 13.4 points lighter at 4,840.7.

**6. Spirits and Wine Review: Winners and Losers of 2004**

Source: *just-drinks*

January 11, 2005

The past year has been a busy one in both the spirits and wine markets. Chris Brook-Carter reports on the ups and downs in the international wine market and a year in the global spirits sector which saw Diageo consolidate its position as the world's number one producer, in a market environment continually overshadowed by the threat of more regulation.

**SPIRITS**

The message from authorities around the world to the spirits industry was clear throughout 2004: "Do something about binge drinking, or we will." The pressure has brought about a sea change in the attitude of the spirits industry towards social responsibility as the threat of legislation hangs over it. Anti-binge drinking messages and promises to clean up advertising practices now abound.

It doesn't appear to have had a negative affect on sales yet, though, with spirits continuing to take market share from beer and wine in their traditional Western markets.

The slide of the RTD continues, with big markets like the UK and the US in what looks like terminal (and rapid) decline, and, blockbuster names such as Smirnoff Ice and Bacardi Breezer apparently unable to halt it. But the continued success of Hypnotiq in the US and the recent acquisition by Diageo of Ursus Roter - a red vodka drink blended with sloe berries - may point to the kind of product innovation that could fill this growing gap in sales.

All the major spirits companies benefited from a strong year, though negative currency trends meant they were unable to take full advantage of a healthy US market.

Cardhu aside, this was a good year for industry leader Diageo, which is finally the fully focused drinks operation CEO Paul Walsh has aimed for, and it is fine-tuning its portfolio to impressive effect. There were solid figures all year and the promise of better to come.

Pernod Ricard too benefited from a strong US performance and continues to prove the doubters, who felt it had bitten off more than it could chew in Seagram, wrong. That acquisition is now well and truly digested and, though the French group pulled out of buying Glenmorangie at the eleventh hour, it is now once more a serious contender for further consolidation.

The Glenmorangie sale produced two winners in the end, the Scotch whisky distiller itself and the winning bidder LVMH. Following a painless sale, Glenmorangie fell to LVMH for a fair amount, with jobs guaranteed and the likelihood of significant amounts of investment in the near future. Meanwhile, LVMH bolstered its impressive premium portfolio and stepped into the niche but fast-growing malt category.

The other deal that set tongues wagging during 2004 was the sale of Grey Goose vodka to Bacardi-Martini. Sidney Frank must still be wondering how he did it. But his US$2bn sale of Grey Goose to Bacardi must go down as the sale of the century so far. Have Bacardi paid over the odds? Almost certainly. Have they got a great brand? Definitely yes. Will it make them money? Yes, but only so long as the ultra-premium vodka boom continues in the US. It was all part of a strange year for the privately-run Bermudan giant. Figures that came out in June showed that Bacardi had seen a 21% fall in net profit to US$331m in the year up to 31 March. However, the company was hit by a weakness in the RTD market and a number of one-off items. Growth in its core brands and cash flow remained strong. The real uncertainty surrounds the corporate future of the group.

Rumours at the start of the year were of an imminent IPO, but the year closed with the resignation of CEO Javier Ferran. Ferran is not the first Bacardi boss to leave unexpectedly - Chip Read threw in the towel when he found his plans to take Bacardi public had run aground on the vested interests of family shareholders.

Read's departure was a victory for those Bacardi family members who argued that there was no need to go public in order to compete against the likes of Diageo and Allied Domecq. Though his reasons for leaving may be personal, Ferran's decision also favours the private camp. It will certainly put any plans for an IPO on ice while the company searches for a successor.

**WINE**

Supply and demand the world over finally started to come back into balance in 2004, reflected in the growing confidence amongst the Australian and US wine groups, particularly Southcorp.

The Australian winemaker could hardly have plunged to the depths it did in 2003, but the solid year Southcorp turned in still surprised a number of observers. Its restructuring and cost-cutting programme has been reaping rewards, and CEO John Ballard has a head start over rivals, such as Beringer Blass and Mondavi, who are having to make similar efforts now.

Mondavi's chances of survival are all but guaranteed now after a horrible start to the year, where falling sales and infighting threatened to see the historic company literally torn to pieces.

Constellation has stepped in and, in swallowing Mondavi whole, has at least thrown a protective blanket over some important brand names - not to mention jobs. Despite the final outcome, and the fact that shareholders will doubtless be laughing all the way to the bank, the sight of such a proud company being ripped apart was still an unpleasant one, akin to some kind of drinks industry blood sport.

From Constellation's point of view, paying US$1.2bn for Mondavi was maybe over the odds, but it gives the company a critical mass that is threatening to rewrite the rule book on quite how big a wine company can become. And it's not unreasonable to expect more acquisitions in the future.

Political infighting may still rarely reach dangerous levels within the Californian wine industry, but it is almost second nature to the French. The scale of ill-feeling within the world's largest wine producing nation is reaching critical point. Could things get much worse? The Loi Evin remains immovable, with both Bordeaux and Burgundy's generic bodies feeling its bureaucratic sting when they fell foul of its draconian rules on advertising. The situation at home is hardly helped by stringent drink-driving laws that have seen consumption tumble, and abroad the French continue to lose market share to the New World. Meanwhile, no effective rescue plan has materialised and desperate winemakers continue to take to the streets in order to bully the authorities for more aid rather than looking for a commercial solution to their woes. Dark days indeed.

Whilst one national disaster raged, another was largely averted in 2004, when the vast majority of South African winemakers were cleared of adding flavourants to their Sauvignon Blancs. Of course there were still casualties. South Africa's reputation has not escaped unscathed. Despite the general "not guilty" verdict, there were many who accused the investigations of being toothless. Though no one is seriously suggesting a cover-up many believe authorities could have delved much deeper if they had really wanted to uncover wrongdoing.

The real casualty though was KWV. Having worked hard to shed its sluggish image and paint itself instead as a modern, go-ahead company, the news that two of its winemakers had been adding flavourants to Sauvignon Blanc wines undid a lot of that good work and will not be easily repaired.

By contrast South Africa's leading export brand, Kumala, had a bumper year when it was purchased by Canadian giant Vincor. The deal will open up not just Canada but also the US to what is becoming one of the biggest wine brands in the world.

