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

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| *August 19, 2005* |

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**1. Bar Servers Get TIPS**

By Hieu Pham *– Iowa City Press-Citizen*

August 16, 2005

**City battles alcohol issues**

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| http://cmsimg.press-citizen.com/apps/pbcsi.dll/bilde?Site=D5&Date=20050816&Category=NEWS01&ArtNo=508160305&Ref=AR&Profile=1079&maxw=250&border=1Officer Allan Mebus gives Christa Palmer, from Joe's Place, a hard time during TIPS training.  **Press-Citizen / Jason A. Cook** |

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Classes started for Iowa City bar employees Monday at the downtown Sheraton Hotel.

To date, 364 employees from 26 establishments have registered for the alcohol-training course called Training for Intervention Procedure. That compares to nearly 650 in 2003.

However, Lynn Walding, administrator for the Alcoholic Beverages Division, said he expected the numbers to rise.

"Our goal is to match our numbers from two years ago -- which is a lofty goal," he said. "But given what I see today, I hope we can match or exceed it."

Walding said experience has shown that people sign up at the last minute and bar owners wait until classes begin to hire all their staff.

For that reason, this year's sessions will be in August and September at the request of bar owners, he said.

Leah Cohen, owner of Bo James and co-chairman of the Iowa City Alcohol Advisory Board, said the program was good because it prepares servers to handle different situations, such as excessive drinking.

"That's where a lot of the problem is," said Cohen, who had registered 15 of her employees for the program.

Brian Flynn, owner of Joe's Place and also co-chairman of the board, said the program also makes servers understand the real ramifications of serving alcohol to underage people.

"They realize 'I've got to be careful, I've got to take my job seriously,'" he said.

Iowa City Councilor Dee Vanderhoef agreed.

"They can't say 'I didn't know,'" she said. "There are no excuses."

The Iowa Alcoholic Beverage Division cooperated with the Iowa City Police Department to offer the free TIPS program. During two four-hour courses, servers are taught how to prevent underage sales and sales to intoxicated people and how to intervene effectively.

The sessions were taught by Al Mebus, an Iowa City police officer, and Nicole Gehland Brent Saron, from the Iowa Alcoholic Beverage Division.

Another advantage and strong incentive for establishments to register their employees is the one free exemption the business receives from being penalized for an alcohol violation.

However, none of the establishments with TIPS certified employees have used their one "get out of jail free pass," said Walding.

He said that was a "testament" to how "education equates to compliance."

Also, according to state records, none of the Iowa City participants trained in 2003 have received a citation for illegal alcohol service.

Capt. Matt Johnson of the Iowa City Police Department said the correlation between TIPS trained servers and the decreasing number of citations is difficult to gauge.

"The only way that the education works is if there is an enforcement element," he said. "(But) I've got to believe that one key dynamic is the education."

2. State Beverage Agency Upholds City's Denial of Herky's Liquor License

By Peter Rugg - *Muscatine Journal*

August 15, 2005

MUSCATINE, IA -- Herky's Tap may be forced to shut its doors after an Iowa Alcoholic Beverages Division (IABD) administrator upheld the city's denial of owner Teresa Blanchard's liquor license.

The administrator, Lynn Walding, finds "no valid reason to reverse the City in this matter," according to the final order issued Tuesday, Aug. 9.

The tavern's troubles stem from an Aug. 21, 2004, benefit for Vietnam veterans and troops missing in action held in and around Herky's. The benefit, a motorcycle rodeo, resulted in three criminal complaints against Blanchard n bootlegging, knowingly permitting or engaging in criminal activity on the licensed premise and public indecent exposure in violation of Iowa code.

According to court documents released by the IABD, the charges were the result of reports from three Muscatine police officers who 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.

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

The rodeo had been held at the tavern for almost 20 years. No other rodeos had resulted in criminal complaints against the bar owner.

The Muscatine City Council voted 3-2 in November 2004, not to renew tavern owner Teresa Blanchard's liquor license after the incident.

But it might not be the end of Herky's road just yet. Blanchard still has 30 days from the Aug. 9 administrator's ruling to appeal the decision to a district court.

Blanchard's attorney, John Wunder, could not be reached for comment as of press time this morning. Blanchard, who had not been informed of the decision when questioned by the Muscatine Journal, declined comment Thursday evening.

**3. A Sober Wal-Mart Launches Drive Into Tricky Area: Liquor** **Retailer Teams With Diageo, Adds Shelf Space for Booze; A Web of State Regulations Some Store Managers Balk**

By Deborah Ball and Ann Zimmerman, Staff Reporters – *The Wall Street Journal*

August 17, 2005; Page A1

Two years ago, Wal-Mart Stores Inc. held a series of meetings with the world's top liquor makers at its alcohol-free headquarters in the middle of a dry county. The subject, say several people who were there: What did Wal-Mart need to do to sell more vodka, whiskey and rum?

The results of those meetings are now starting to hit store shelves. In a move partially meant to spur flagging growth at stores open more than a year, Wal-Mart is pushing into hard liquor, one of the rare product categories where the world's largest retailer is very small.

Using its classic strategy that has transformed how Americans buy everything from bread to diapers, Wal-Mart is likely to shake up the booze business with its low prices, carefully chosen products, big displays and fast deliveries. The push is changing how Wal-Mart lays out some stores and influencing where it builds some new ones. Meanwhile, liquor stores and distributors are anxiously watching to see how the giant's moves will affect them.

Wal-Mart has picked a prime partner. The Bentonville, Ark., company has teamed up with Diageo PLC, the world's biggest liquor company, much as it works with Procter & Gamble Co. and Kellogg Co. Together, Wal-Mart and Diageo are developing new merchandising and products. They have come up with a new plan for a select number of Wal-Marts that triples the shelf space dedicated to spirits.

"We're putting hard liquor in our stores where we can," says John Westling, Wal-Mart's senior vice president for nonperishable food. "This is an area where we are focused on growing sales."

But selling more alcohol raises complicated issues for a company that presents itself as a folksy all-American enterprise and an arbiter of social mores. In addition to banning risqué magazines from its stores and selling sanitized versions of CDs with controversial song lyrics, Wal-Mart forbids alcohol consumption on company property and at company events. When Wal-Mart executives put business meals on expense accounts, they must personally pay for any alcoholic drinks. Some store managers have balked at the effort to promote liquor sales, citing local sensitivities.

Groups such as Mothers Against Drunk Driving question whether busy supermarkets can police liquor sales as adequately as stores that sell alcohol only. Wal-Mart says it requires its salespeople to request ID of anyone who appears to be under 27 and that its training is adequate.

Wal-Mart is also finding that selling booze is a lot harder than selling toilet paper. Twenty-four states allow supermarkets to sell hard liquor, but restrictive rules make it practical for large chains to get into the business in only about 17 of them, liquor-industry experts say. Even among those 17, Byzantine laws regulate selling hours and tough rules for getting a liquor license are common. In some cases, stores must close off aisles or sections during hours when alcohol sales aren't permitted.

The campaign is forcing Wal-Mart to bend some of its most firmly held business tenets. Everywhere it sells alcohol, state laws require Wal-Mart to buy through distributors, a layer it typically eliminates to squeeze costs. And because Wal-Mart forbids alcohol consumption at its home office, sometimes its buyers must jump through extra hoops to test the merchandise they bring into the store.

Wal-Mart's push into alcohol is part of its ambition to be a one-stop store catering to almost all of its customers' needs from coast to coast. The company began selling groceries in a big way only about 10 years ago. For years, Wal-Mart's stores were concentrated in the Midwest and South where many states don't allow supermarkets to sell spirits. As it began competing more directly with grocers who sell hard liquor, it realized it needed to stay competitive. Costco Wholesale Corp. and some other rivals are well ahead of Wal-Mart in the liquor department.

The company also recently has struggled with narrowing profit increases and slowing sales gains at its stores open more than a year. Selling booze should help: Even at a discount, hard liquor carries a large profit margin and is growing faster than beer and wine.

Yesterday, Wal-Mart reported fiscal second-quarter net profit of $2.81 billion, up 5.8% from a year ago, its smallest gain in nearly four years. The company posted $76.81 billion in sales, a 10% increase over last year. Same-store sales increased 3.5% for the period.

In 4 p.m. New York Stock Exchange composite trading, shares of Wal-Mart fell $1.53, or 3.1%, to $47.57. The company's shares are down about 10% since the beginning of the year, compared with a 1% rise for the Standard & Poor's 500.

Wal-Mart has sold beer and wine as well as limited amounts of hard liquor for years. Alcohol sales accounted for about $1 billion out of the company's $285 billion in sales for the fiscal year ended Jan. 31. Wal-Mart executives have privately said the retailer aims to quintuple alcohol sales to $5 billion in the next five years, according to several spirits executives, who were briefed on its plans.

Mr. Westling, the Wal-Mart executive responsible for alcohol products, says the company doesn't have a specific sales target for liquor. Wal-Mart declined to make other executives available to comment for this article, citing the sensitivity of the project.

**Ways to Boost Sales**

Some major liquor manufacturers are eager to get their products into Wal-Marts as they look for new ways to boost sales. "Retailers are very important to Diageo and to our plans for sustainable, profitable growth," says Diageo Chief Executive Paul Walsh, in a written reply to questions.

Executives from Diageo, which recently expanded its office in Bentonville to 13 people from just a handful, say they started lobbying Wal-Mart to sell their brands such as Johnnie Walker Scotch and Smirnoff vodka in about 2001. Diageo had recently acquired U.S. spirits group Seagram Co., lifting its share of the $48 billion U.S. liquor market to 23%. Last year, Wal-Mart named Diageo its first "category captain" for spirits, its term for the coveted position it designates to one supplier in each area. The captain helps Wal-Mart shape plans for a specific range of products.

Wal-Mart buyers, in turn, started giving the spirits maker advice on new products. While the retailer routinely helps food and beverage companies come up with new products, it had never done so in hard liquor.

Early last year, during a visit to Diageo's U.S. headquarters in Stamford, Conn., some senior Wal-Mart buyers and top Diageo marketing executives toured a local supermarket, Diageo executives say. They spotted a milk drink with dulce de leche, a caramel-like flavor that has spread in recent years to ice cream, candies and other desserts. The Wal-Mart buyers urged Diageo to come up with a dulce de leche spirit, something Diageo hadn't considered, Diageo executives say.

Within months, Diageo designed a dulce de leche liqueur it named Caraluna. Wal-Mart pushed Diageo to work quickly to have it ready to test during the critical Christmas shopping season and agreed to a trial in its Arizona stores. Diageo invented a nonalcoholic whipped topping version of Caraluna that it served on ladyfingers in the liquor aisle so shoppers could sample the flavor of the new liqueur.

Diageo managers are now tweaking Caraluna, which it renamed Dulseda for trademark reasons, in preparation for a national rollout.

When Wal-Mart opened a new store in Pineville, Mo., last January, it borrowed a well-worn trick from the liquor industry: planting a liquor store just over the border of a state or county with restrictive booze laws. Shoppers from Wal-Mart's hometown of Bentonville often make the 10-mile drive to Pineville to stock up on liquor. The new store, featuring a separate 5,000-square-foot section selling 750 milliliter bottles of Johnnie Walker Black Label and Hennessy cognac for less than $29, has been a success, Wal-Mart has told suppliers. By contrast, a nearby independent liquor store, Hilltop Liquor & Tobacco Store, was recently selling the same size bottles of those two brands for about $35 and $34, respectively.

"We would not have enough space in that store, if we hadn't built a separate liquor department," says Mr. Westling of Wal-Mart. "We are looking at our other stores where we are running out of stock quickly in spirits and trying to find where we can get more space from."

Encouraged by the Pineville experience, Wal-Mart recently asked Diageo executives to scout out other similar sites. Wal-Mart has started to include liquor in the prime end-of-aisle spot reserved for special promotions, rotating it with beer and wine. It plans to close a Sam's Club in a town just south of Bentonville because it couldn't secure a liquor license. It will reopen the store several miles away in Fayetteville, where the company recently secured a license.

Wal-Mart is making other adjustments to meet liquor-sale requirements in various states as it struggles to catch up to competitors with large liquor sections. In Florida, it has gotten around a law restricting the sale of liquor in grocery stores by walling off the liquor department and building a separate entrance in some of its new stores.

"If they wanted to pull consumers from their competitors, they had to have bigger spirits departments," says Mark Kyle, international customer director of Allied Domecq PLC, which was recently acquired by Pernod Ricard SA and Fortune Brands Inc.

**Nervous Retailers**

As with other Wal-Mart expansions, the push into booze is scaring some small retailers. To gird against big-box retailers such as Costco and Wal-Mart, Tom Williams, owner of a liquor store in Waltham, Mass., joined with 12 other stores to form a business group that pools its resources to do joint marketing and promotions. "Look what they've done to other categories -- independent pharmacies, optical shops. They've crushed them," Mr. Williams says of Wal-Mart.

Some distributors are also nervous that Wal-Mart could squeeze the profit margins they have long enjoyed because of heavy state regulations. After the repeal of Prohibition, the states established what is called a "three-tier system" that requires the makers of alcohol to use a middle man, or distributor, to sell to bars and stores. The goal of the system was to help in regulating the industry and to prevent the large manufacturers from having too much power over mom-and-pop retailers.

Wal-Mart's entrance into the business could help spur changes already taking place in the distribution business. Over the past few years, Glazer's Wholesale Distributors, the No. 3 liquor distributor in the U.S., has invested in computer software, including some that is compatible with Wal-Mart's systems, to compile inventory and sales data faster, enabling it to restock shelves at individual stores more quickly. While Wal-Mart still must place orders with each Glazer distributor in individual states, Glazer has appointed one manager to run interference should problems crop up with pricing or late deliveries.

Wal-Mart's move comes amid challenges to distributors' role in controlling the sale of alcohol. Earlier this year, the Supreme Court ruled that states could no longer ban the direct sale of wine across state lines. And a closely watched Costco lawsuit challenges a Washington state law requiring retailers to buy wine from a distributor rather than directly from a manufacturer. But liquor industry officials say any significant changes to the sale of hard liquor as a result of these cases would likely be years away.

Wal-Mart's corporate culture, which has long eschewed alcohol, complicates the company's hard-liquor ambitions. It bans the consumption of alcohol at all corporate events -- including a recent barbecue where Diageo won a vendor-of-the-year award. In recent months, Wal-Mart has, for the first time, allowed spirits makers, including Diageo, to display but not open their products at Wal-Mart events such as its big semiannual vendor meetings, say spirits executives who were present at one of the meetings.

Because Wal-Mart executives aren't allowed to drink on company premises, spirits manufacturers sometimes book hotel rooms in Bentonville or take executives to the few local members-only clubs that have liquor licenses to sample products.

Bob MacNevin, head of national accounts for Pernod Ricard, says that when his team flies to Bentonville for meetings with Wal-Mart, they make special arrangements. The executives ship sample bottles of Jameson Irish whiskey and Wild Turkey bourbon to their hotel ahead of time because they can't buy their brands locally. Oftentimes, they leave Arkansas with the bottles unopened. "They are very, very careful," he says.

Unlike many rival grocery chains, Wal-Mart prohibits alcohol ads in its monthly circular and doesn't permit spirits promotions outside the liquor aisle, blocking cross-promotions with food or glassware, for example.

Even when Bentonville headquarters approves a liquor display, some Wal-Mart store managers decline to install it. This is allowed, under Wal-Mart's policy of letting local store managers have some say in adjusting their merchandise and marketing for local taste. To combat that, liquor makers are instructing their distributors to meet with individual Wal-Mart store managers to show them sales data to argue that selling spirits helps overall sales.

"We have held Wal-Mart 101 presentations with our distributors," says Allied Domecq's Mr. Kyle. "We pull the numbers and show them the opportunities."

**4. 'MAXIM' Magazine Goes Into Bar Business**

*AdAge.com*

August 17, 2005

**Plans Chain of Maxim Lounges**

NEW YORK , NY-- In the latest indication that *Maxim* magazine's brand will keep seeping beyond the printed page, owner Dennis Publishing has struck a deal with

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| http://adage.com/images/random/maxim081705.jpg |
| 'Maxim' magazine plans to take its beer-and-babes philosophy into the bar business.  |

nightclub developers to build a chain of Maxim lounges across the country.

**Promotional events**

According to the company, the agreement envisions *Maxim*-branded venues that can host Maxim promotional events but will more often accommodate after-work and late-night crowds of drinkers. Dennis’s partners in the deal, Rande and Scott Gerber, have created nightspots like Stone Rose, in New York City’s Time Warner Center, and the Whiskey bars that are often located in chic W hotels.

Maxim has previously extended its brand into radio programming and consumer products.

While the magazine’s beer-and-babes ethos seems like a slam-dunk model for a certain type of bar, it could prove difficult for *Maxim* to play hotspot. Some big-dream brand extensions like the World, the WWE’s Times Square store, restaurant and entertainment venue, have struggled and closed.

**'GQ' Lounges**

Then again, magazines have played house before. For one month in 2002, Conde Nast Publications’ *GQ* transformed clubs in Los Angeles and New York into “GQ Lounges” to promote the magazine’s 45th birthday -- and its advertisers.

But the bid for multiple, permanent venues is more ambitious. It may also surpass the audacity that *Maxim* displayed in 2003, when it licensed its name to a line of hair dye for young men. That fits the DNA of the magazine, which stormed the U.S. in 1997, rapidly scooping up readers who would soon be called “lads” and seducing advertisers away from more established, less irreverent men’s books.

**2.5 million paid circulation**

Eight years and a pack of imitators later, *Maxim* magazine has cooled and solidified. Its average paid circulation over the first half of this year totaled 2.5 million, unchanged from the first half of 2004, even as newsstand sales declined, according to figures filed with the Audit Bureau of Circulations. From January through July of this year, *Maxim* ad pages slipped 1% from their total during the same period last year, according to the Publishers Information Bureau.

But the *Maxim* appetite for brand platforms seems to have gotten bigger. Dennis hopes to open the first Maxim venue early next year.

**5. Top-Shelf Liquors, With Sky-High Prices**

By William Spain, *MarketWatch*

August 12, 2005

CHICAGO (MarketWatch) -- Talk about a stiff drink.

From a $600 bottle of scotch at the local liquor store to a $3,300 shot of whisky at an Atlantic City casino to a $7,500 cognac in a Baccarat crystal decanter, the drive to create the very highest of high-end hooch has turned into something of an arms race among spirits sellers large and small.

And, to the surprise of even some of the people behind the stuff, it is selling like beer at a ballpark: Some consumers, already hooked on super-premium tipples seem ready to move up to what might be called the "stupendously premium" category.

Vodkas, tequilas and bourbons may be the big sellers but they typically top out at prices in three figures, leaving the truly rarefied heights to scotch and cognac. (Beer isn't even in the running, topping out at about $120 a bottle for Samuel Adams Utopia. See related story on the efforts of brewers to dampen spirits' market-share gains.)

"It surprises me every day that products like this are purchased," said Timo Sutinen, marketing director of Cruzan Ltd. (RUM: news, chart, profile) , which distributes Hine's, a line of cognac that includes the $7,500 bottle of Talent. "I just don't know if there is a limit."

**Bragging rights**

Of course, the market -- much like the products themselves -- is limited. Top buyers include wealthy connoisseurs and casinos as well as bars and liquor stores that are looking for bragging rights.

Wynn Resorts (WYNN: news, chart, profile) bought no less than seven bottles of Talent for their new Las Vegas gambling hall, Sutinen said. "And they sent their own people to France to pick it up from the warehouse."

The priciest single drink in the world, however, may well be at the Borgata in Atlantic City, a casino and hotel owned jointly by Boyd Gaming (BYD: news, chart, profile) and MGM Mirage. At the property's Old Homestead Steakhouse, a dram (1.25 fluid ounces) of a 1926 Macallan scotch goes for $3,300. (A full bottle, if it can be obtained at all, would be about $36,000.)

"We put it out last year and we have about half the bottle left," said Victor Tiffany, the Borgata's vice president of food and beverage. "Nobody has ordered a double yet but one person ordered a 1926 and then ordered another."

It was, said Tiffany, reminiscent of the idea that once a lion gets a taste of human blood, it will never want any other kind again.

**'Tied-up capital'**

While independently owned, Macallan is marketed by France's Remy-Cointreau (REMYF: news, chart, profile) (FR:013039: news, chart, profile) . In addition to the 1926, the company offers more modestly priced whiskies, including a 30-year-old for $600.

"The ticket price is backed up by whiskies that are incredibly complex and rich," said Mark Izzat, Macallan's brand manager. Plus, "there is a lot of capital tied up in those casks and over 40 or 50 years, you may lose more than half the volume to evaporation."

Fortune Brands (FO: news, chart, profile) , best known for its Jim Beam and small-batch bourbons, recently entered the pinnacle of the spirits spectrum via its purchase of Courvoisier, which it got as part of the buyout and subsequent break-up of Allied Domecq.

The company's L'Esprit de Courvoisier (retail price: $5,000) contains cognacs that date back 200 years and are said to be part of Napoleon's original reserves. L'Esprit comes in a numbered, handcrafted Lalique decanter valued at more than $500. Said spokeswoman Sarah Devaney: It isn't just a bottle of cognac but "a work of art."

While expensive to produce, few of these brands need to spend much on promotion. In the case of L'Esprit, said Devaney, "It is marketed through word of mouth and public relations only. No advertising dollars are spent."

Buyers have included basketball player Chris Weber and rapper P. Diddy; it is also popular with Japanese and Korean connoisseurs, she said.

One of Pernod Ricard's (FR:012069: news, chart, profile) most expensive bottles ever is the 50-year-old Chivas Regal Royal Salute.

"It went for $10,000 a bottle and we sold out the first day," said Kevin Fennessey, senior vice president of marketing for Pernod Ricard USA. Only 10 bottles landed in the U.S., with one going to a restaurant at the Bellagio in Las Vegas, were it sells for $1,050 a shot -- and whoever buys the last one gets to keep the bottle. Further down the Pernod product line is a 1964 Glenlivet scotch that runs about $2,000.

Fennessey said that individuals who purchase these products do so as gifts or because the vintage year has special meaning to the customer.

"A brand like the 1964 was actually released in 2004 when a lot of people were celebrating their 40th birthday," he said

Adding to the allure is their singular quality. "Once it is gone, it is gone," Fennessey said. "That will be it forever. In the luxury goods area, there really aren't that many unique products."

John Hansell, publisher of Malt Advocate magazine, said there's a steady supply of older whiskies from the 1950s and 1960s coming to market. "The high prices are primarily due to the age and rarity of the whisky [and] the packaging, which is often extensive" and not necessarily to the taste.

"Some are excellent whiskies; others aren't," Hansell said. But that might not even matter since many are purchased by "collectors who don't intend on opening the whisky in the near term."

Some of these products are, quite literally, beyond price. In honor of the 200th birthday of its founder, Johnnie Walker created the "John Walker 1805 Pack," a blend of 45- to 70-year old whiskies, most from distilleries that are no longer in existence.

The 1805 has an estimated retail value of $20,000 but the company isn't going to sell any of it. The 200 bottles available will instead be presented to "individuals from around the world judged to have made a significant impact on modern life," said Chris Parsons, vice president of scotch marketing for Diageo (DEO: news, chart, profile) , which owns Johnnie Walker.

For the less accomplished, the company offers a $3,500 anniversary pack, although only about 700 will be made.

**6. A Makeover is Brewing**

By William Spain, *MarketWatch*

August 12, 2005

**Beer makers fight to reclaim America's hearts and bellies**

CHICAGO (MarketWatch) -- If the first step toward solving a problem is to acknowledge that it exists, then the beer business is at Step 1.

Aggressive competition from other alcohol marketers -- particularly distilled spirits -- has had American brewers over a barrel for several years. But it wasn't until the volume trends really began to deteriorate in 2004, and worsened this year, that the beer industry publicly acknowledged some serious woes.

Beer's share of the beverage market slipped for the fourth time in five years in 2004, according to Beer Marketer's Insights, an industry tracker in Nanuet, N.Y. Additionally, a recent Gallup poll found that of the 63% of Americans who say they drink alcohol, 39% drink wine prefer wine, with beer coming in second at 36%. On top of it all, the low-carb diet craze, though waning, has also hurt sales of non-light beer offerings.

And yet the nation's beer industry, reluctant to equate their product with liquor, has long resisted the idea that it's even in competition with wine and spirits.

**Until now.**

Some of the larger players are mounting a multi-pronged publicity push on what they regard as the virtues of beer -- from how well it goes with food to its potential health benefits. In addition, they're launching new kinds of beverages with unusual flavors -- often packing a higher alcohol content -- along with more innovative packaging and aggressive promotion.

"There has been an incursion by other forms of alcohol [into areas] that are rightfully ours," said Bob Lachky, a senior executive with Anheuser-Busch (BUD: news, chart, profile) . "I don't think people paid attention to this 10, or even five, years ago. It is time to talk up our benefits."

**Blunt talk**

Two weeks ago, with the summer drinking season in full swing, Anheuser-Busch reported its third straight quarter of domestic volume declines. The same day, in an unusually blunt admission, the chief financial officer told investors that the company is "fighting for share of alcohol," and needs to "improve the image of beer and desirability of beer."

In a management shuffle one week later, the St. Louis-based maker of Budweiser, Bud Light, Michelob appointed Lachky, a Bud veteran, to a post that the company created "to enhance the overall image of the beer industry."

Lachky has vowed, in his words, to be an "evangelist" for beer and a cheerleader for the industry, which "in the last couple of years has been complacent about extolling the benefits of the products."

In addition to pushing for "crucial" innovations in products, packaging and marketing -- typical approaches for consumer industries -- Lachky plans to take a somewhat more risky tack.

"We are going to get very, very vocal about the health benefits of moderate consumption of alcohol, especially beer," he said. "We have ceded this ground to wine and that is absolutely wrong. A Budweiser is just as good as a cabernet in terms of its health benefits."

With nearly 50% of the U.S. market, Anheuser-Busch may be suffering more than most of its peers. But Molson Coors (TAP: news, chart, profile) , SABMiller (UK:SAB: news, chart, profile) and other mass-market brewers have also been under pressure by current trends. And the impact is being felt further down the line.

Total beer sales in the U.S. grew less than 1% in 2004 and it "would have been slightly down if you take out the flavored malt beverages," said David Rehr, president of the National Beer Wholesalers Association

**On the offensive**

"We have got the message and we are thinking about how to regain the offensive," he said. "We are in an environment where we know we have issues with growth and we are trying to figure out a way to get the trend lines up."

Key focuses include packaging and marketing efforts at bars and restaurants -- two fronts where the competition has been drinking Big Beer's lunch.

Rehr said many of the spirits sides' promotions "have been quite brilliant," citing as an example one where "brides can create their own wedding cocktail. They have made themselves more mainstream."

In addition to pushing their way into mass advertising mediums like television that were long the exclusive domain of the beer industry, the distilled-spirits industry has played a stronger ground game. Lavish product launch parties and in-bar promotions build excitement with wholesalers and club-goers. At the same time, value-added packaging -- including everything from cocktail shakers to brandy snifters to decks of cards with a bottle -- make for eye-catching store displays.

The "spirits people have done a phenomenal job with packaging and flavors," Rehr said. "Look behind the bar and it now reminds you of a cosmetics counter when, 20 years ago, it reminded you of a medicine chest." See story on super-high-end spirits.

Anheuser-Busch took a big step in that direction earlier this week with the roll-out of "Tilt," a berry-flavored, caffeine-infused beverage with an alcohol content that ranges as high as 6.6%, compared to they typical 4% buzz factor.

The stuff, aimed at the "fast-paced, highly social lifestyles" of "contemporary adults," according to the launch announcement, comes in snazzy 16-ounce silver cans. The company has also launched a limited run of more traditional products, but in aluminum bottles.

**Stout volume**

There is some good news elsewhere in the industry. Many imported and specialty beers continue to show growth. At Guinness, a unit of British spirits empire Diageo (DEO: news, chart, profile) , volumes of its eponymous stout were up about 6% in the fiscal year that ended last June.

Growth has slowed down from the torrid double-digits of the late 1990s but is now coming off a far larger base, said David Eickholt, president of Diageo-Guinness USA, which also sells Smithwick's, Harp and Red Stripe. "What we are seeing here is in step with a lot of other craft and microbreweries."

The relative stand-out performance of the pricier suds, Eickholt said, "has really been about premiumizing the categories" in response to demand.

"Consumers continue to have a seemingly unlimited capacity to indulge themselves," he said.

At Constellation Brands (STZ: news, chart, profile) , beer also remains a sweet spot. The company's portfolio of imports, which includes Modelo, Tsingtao and Corona, posted a 10% sales increase in the latest reported quarter.

Benj Steinman, editor of Beer Marketer's Insights, thinks the recent market share drops for the lower-brow brews may be somewhat overblown but agreed that "the time is now" to try and reverse them.

"I wouldn't characterize it as an emergency," he said "We are talking about an industry that is declining slightly rather than growing slightly. Beer gained share from 1970 to 1995 when it started losing it slowly and then losing it a little more rapidly."

At first, he said, "the industry was in a bit of a denial and now they are in the mode of trying to do something about it."

Steinman said it's too early to judge the result and declined to speculate on whether the industry's efforts are apt to meet with any success.

But for Tom Pirko, president of consultancy Bevmark, "we are watching the evolution, or should I say devolution, of action and response. We are really wondering if they are just doing the same thing but more of it."

Convincing people "to think and behave differently requires a new mindset and so far we have seen largely tactical moves."

The base challenge, he added, is that "beer has become the boring drink. Spirits deliver the primary ingredient of beer -- alcohol -- and they deliver it faster and better."

In the stepped-up battle for the hearts, minds and beer-bellies of American drinkers, Anheuser-Busch's Lachky takes comfort in the versatility of his time-tested beverage of choice. Beer still goes down better on more occasions, he says, adding: "You aren't going to drink vodka gimlets after you mow the lawn."

**7. Adolescent Alcohol Abuse, 10.4 Million Drinkers, USA**

Source: *Medical News Today*

August 15, 2005

Year after year, more money is spent promoting the use of alcohol than that of any other product. Perhaps through its elaborate and creative marketing, the most basic, yet important fact about alcohol is often overlooked - alcohol is a drug - the most commonly used and widely abused drug in the world.

According to the most recent national Household Survey on Drug Abuse (NHSDA), there were 10.4 million drinkers ages 12 to 20 in 1998. Of these, 5.1 million were binge drinkers, meaning that they drank five or more drinks on at least one occasion in the month before the survey. Two million were heavy drinkers, binge drinking at least five times that month.

The average age when youth first try alcohol is 11 years for boys and 13 years for girls. According to research by the National Institute on Alcohol Abuse and Alcoholism, adolescents who begin drinking before age 15 are four times more likely to develop alcohol dependence than those who begin drinking at age 21.

"Generally, an adolescent's risk for alcohol dependence at some point in life decreases by 14 percent with each additional year that drinking is delayed", states Joanna Young of [http://www.DrugAddictionHelpLine.com](http://www.drugaddictionhelpline.com/).

Data from National Household Survey on Drug Abuse indicates that while 915,000 youth ages 12 to 20 reported alcohol dependence in the past year, only 16 percent of them (148,000) received treatment.

Several large-scale school surveys suggest that 4 to 20 percent of teenagers have either a current or past history of alcohol abuse or alcohol dependence. For help with overcoming addiction or to request drug education personnel to your school or group go to; <http://www.DrugAddictionHelpLine.com>

**8. After Night of Drinking, 20-Year-Old Shot by Police is 'Critical'**

By Abby Simons, Staff Writer – *Des Moines Register*

August 16, 2005

**D.M. police say he'd shot a friend earlier**

DES MOINES, IA -- Investigators say a man critically wounded by police Monday after a car chase on Des Moines' south side had earlier shot a friend who tried to keep him from driving drunk.

Officers said they opened fire on Darrell Johnson, 20, of Ottumwa after he pointed a handgun at the finish of a roughly 24-block chase that ended about 1:30 a.m. near Southeast 14th Street and Bloomfield Road.

No officers were hurt.

Johnson was in critical condition Monday at Iowa Methodist Medical Center. He faces three counts of attempted murder. His friend, Jerry Miller, 21, also of Ottumwa, was in fair condition at the same hospital with bullet wounds to the upper body.

Two police officers are on paid leave while the shootings are investigated.

Sgt. Todd Dykstra said officers were dispatched shortly after 1 a.m. to a fight at the South Port Sports Bar, 1101 Army Post Road. A second caller reported a shooting.

Officers saw a car speed out of the nearby AutoZone parking lot and head east on Army Post.

Dykstra said Officers Chris Latcham and Trevor Spear, in separate squad cars, gave chase and tried to stop Johnson as the car sped down Army Post. One of the officers got close enough to ram Johnson's vehicle and spin it out of control at Southeast 14th Street and Bloomfield Road. The objective of the maneuver is to cause the fleeing vehicle's engine to die.

Johnson got out of the car and pointed a silver handgun at officers, Dykstra said. Johnson was shot at least twice.

Dykstra said investigators learned that Johnson and Miller had been drinking together at the South Port Sports Bar, and that Miller had tried to pull Johnson from the driver's seat when the pair left the bar. Miller was shot several times, police said.

Latcham and Spear will remain on leave until the investigation is complete, Dykstra said. Officer-related shootings - Monday's was the sixth in Des Moines this year - are typically handed to grand juries, which decide whether charges are warranted.

The attempted-murder charges against Johnson are justified, Dykstra said, whether or not he fired at officers.

"He was an individual who has just shot somebody, and he pointed the gun at the officers with the intent of shooting them," he said.

Latcham has been an officer since April; Spear since July 2004.

As with any shooting, Dykstra said, Monday's incident was "very difficult for the officers."

"They do not want to be confronted with this type of situation, but it's their job," he said.

Officers are familiar with the South Port bar. Since August 2004, police have been dispatched there to investigate incidents ranging from fights with weapons to indecent exposure.

Bartender Mark Messer did not work Sunday but contends there are no problems with the bar's regular customers. He acknowledged that a Sunday drink special crowds the bar with younger customers, but he said bouncers handle most problems.

"We have a wonderful crowd of people that come in here," Messer said.

At least one neighbor feels otherwise.

"It's constant problems with the bar next door, as far as trashing the parking lot, broken glass and fights," said Cory Holden, assistant manager at South Side Liquor and Tobacco Outlet next door. "I'm not one to complain, but what happened last night was too much."

Holden, who has been in business 21/2 months, said the bar employees are good neighbors, and he admits that patrons bring business to his store. Nevertheless, he thinks tighter regulations are in order.

Johnson "was only 20, but he was drinking in a bar all night. . . . If he's not old enough to be in a bar, that alone should be enough for an infraction," Holden said.

Johnson's criminal record includes aggravated misdemeanor harassment, interference with official acts causing bodily injury, and numerous traffic violations. One woman has a no-contact order against Johnson until 2009.

**9. Brewers Try to Get Hip on the Hop**

By Jeremy Grant – *Financial Times*

August 19, 2005

Tomorrow on Randall's Island in New York, the Red Hot Chili Peppers and rapper Snoop Dogg - not forgetting Garbage, Fat Joe and hip-hop's Mos Def - will share the stage for what is being billed as the biggest ever "mash-up" concert. At mash-ups, musicians of differing styles combine their talents to perform together.

Heineken is sponsoring the event - known as AmsterJam - which Andy Glaser, brand director for the Netherlands-based brewer's US unit, calls "a prototype for potential future development". The idea is to persuade consumers that Heineken is a "very progressive and innovative brand".

The event signals that Heineken is raising its profile in the US, a month after launching its first light beer in a market dominated by three domestic brewers: Anheuser-Busch, Miller Brewing and Molson Coors. But it is also a sign that brewers are recognising that beer needs a promotional boost. Not only is beer losing share of the alcoholic drinks market to wine and spirits but it is also struggling with low growth, poor pricing power, a battle among the big three for market share and an image badly in need of sprucing up.

Mr Glaser says: "There's almost a collective responsibility within the industry to step up and innovate, to demonstrate to consumers that beer is just as aspirational [as other alcoholic beverages]. We've perhaps taken our eye off the ball over the past few years."

Heineken has some advantages over domestic producers. It is an importer of beer into the US, and imports - as well as small, independent breweries - are doing well. Imported beers have a 12 per cent market share but account for about 25 per cent of a $5bn "profit pool" shared by the US industry, Goldman Sachs estimates.

Consumers are also "trading up" to more expensive beers - typically imported ones - leaving the domestic three to battle it out at the lower end of the price spectrum. Harry Schuhmacher, editor of Beer Business Daily, says: "People are trading up and the domestic brewers are leaving money on the table by discounting." Just how much they are leaving on the table was in evidence last month as Anheuser, maker of Budweiser, reported disappointing second-quarter earnings and sales.

The domestic brewers long relied on a few, standard-priced volume brands as they fought each other on market share. Massive advertising campaigns tended to divide the beer drinking population into broad swathes of Bud, Miller or Coors drinkers. Norman Adami, Miller Brewing's chief executive, says: "For many years the basis of competition in the industry had really become one of image and brands were not differentiated in any [other] way. People started to believe that all beers were the same."

Jennifer Sonstelie, research analyst at Euromonitor, says the biggest challenge facing the large brewers is "how to make standard, domestic beer exciting again". Miller has instigated "taste tests" in bars as a way of persuading consumers that its beer is different from Budweiser. A television advertising campaign, entitled "The Truth Hurts", shows the shock on a young Bud drinker's face when he is told that Miller is a better-tasting beer.

Mr Adami says: "We know that we're not going to discount our way through to growth, we're going to market our way to growth. We know the consumer landscape is changing and we've got to change our marketing model accordingly. We needed to re-awaken [drinkers] to the fact that there are choices."

Anheuser is also not sitting still. In addition to this month's launch of a malt beverage called Tilt, the brewer has repackaged its high-end Michelob beer in slim aluminium bottles to attract sales among the younger bar set. Bar traffic is also the focus of Bistro, a beverage made from grape juice and grains, which has been in a pilot testing phase since March.

Bob Lachky, Anheuser's vice-president of global industry development, says the industry is "in a bit of a re-evaluation and re-awakening". A trend towards individualisation and greater consumer choice means brewers also have to change, he adds. "A lot of people want variety and non-conformity. Look at the way McDonald's has redone its menus."

**10. TIPS Shows Promise, Merits Help**

By Editorial Board – *Daily Iowan*

August 19, 2005

It did not seem to us like an outlandish idea that employees of alcohol-serving establishments could sign on to workshops that would help teach them new techniques for maintaining good relations with customers and responsible serving strategies. Yet, the numbers tell a different story.

According to Derek Lippincott, an information specialist at the Alcoholic Beverages Division, approximately 649 people attended the Intervention Procedures (TIPS) training program two years ago. Since then, the number of attendees has decreased, hovering at a little above 400 attendees representing 32 establishments at this month's session.

We believe that the decrease in the number of people taking advantage of this workshop is discouraging. TIPS is an opportunity, not simply for the good of the server, the customer, or the establishment, but the community as a whole. More TIPS training means more TIPS-certified servers; more TIPS-certified servers means a higher prevention rate of alcoholic-related incidents. According to the TIPS handbook, the program is aimed to help servers "detect the signs of intoxication and to intervene effectively."

There are some problems that the training can't solve. At a seminar Thursday at the Sheraton Hotel, TIPS trainers explained to servers that pregnant women were allowed to drink alcohol on request. This is because of a ruling by the Iowa Supreme Court, and there is some reason to it: Just as one could not refuse to serve alcohol to a man with no leg or refuse to serve a blind person, one can also not "discriminate" against a woman with a "medical condition" - in this case, pregnancy. The trainers might not think well of this rule, but it is beyond their control.

The biggest problem with the program lies in its voluntary nature: The 32 establishments participating are far from the only dispensaries of alcohol in this community. A more aggressive approach would simply be to make TIPS training mandatory, although certainly no one wants to be pushed. Given the perennial nature of disputes over Iowa City's bar culture, however, if it proves beneficial for the good of our city and our campus - maybe saving a single life or preventing that one guy from drinking and driving that one Friday night - it is worth compelling bartenders to do something they should already be doing.

This is not the only seminar to be available this year, so enrollment may yet increase. We encourage bartenders and other civic-minded citizens to log onto http://www.gettips.com/ to nominate a TIPS trainer, find out when new workshops are, and to simply learn more about the TIPS program.


# 11. PRESS RELEASE: Distilled Spirits Industry Issues Semi-Annual Report on Alcohol Advertising Complaints

DISCUS

August 4, 2005

**Code, Review Board Process Cited As Model For Corporate America**

WASHINGTON, DC – The Distilled Spirits Council (DISCUS) today issued the second edition of its Semi-Annual Code Report detailing complaints about 17 alcohol advertisements, actions taken by the industry’s internal review board and the response by each advertiser. The Report covers Code complaints for the period of January 1, 2005 through June 30, 2005.

“Incorporating transparency into our Code review process is having an immediate and positive impact,” said DISCUS President Peter H. Cressy. “Our members continue to achieve 100% compliance and we are seeing a quicker response time and an increased compliance rate among non-members. American distillers, large and small, member and non-member, continue their commitment to adhering to a tough and effective advertising and marketing Code.”

Meanwhile, regulators, industry watchdogs and the media have taken notice of the distilled spirits industry’s approach to self-regulation, calling it a model for other industries, including food product manufacturers and the pharmaceutical industry.

The director of the Federal Trade Commission’s alcohol advertising program stated in a March 9, 2005, Washington Post article about the first Report that self-regulation permits the spirits companies to “address things that couldn’t be touched by a government agency because of the First Amendment.” The director commended the spirits industry’s self-regulatory efforts stating, “[t]his is a far step above and beyond what other companies are doing.”

It was also reported recently in Adweek that the pharmaceutical industry has looked to the DISCUS Code in developing their own self-regulatory advertising guidelines. Congressional Quarterly stated, “PhRMA is writing voluntary guidelines similar to those the liquor industry has had for years.”

And according to BusinessWeek, “[t]he DISCUS approach to revealing all its policing actions is a breath of fresh air that food companies might consider…”

“In an era where corporate responsibility is of great concern, our advertising Code with its complaint review process is an example of how an industry can effectively regulate itself and raise public confidence,” said Cressy. “For decades the distilled spirits industry has effectively addressed complaints about spirits advertising but the decisions of the Code Review Board were not made public. We knew our process was effective but without transparency the rigor of the Board’s review process was not widely known or understood by the public.”

Unique among the beverage alcohol industry, the DISCUS 70-year-old Code of Responsible Practices for Beverage Alcohol Advertising and Marketing provides for a Code Review Board, comprised of senior member company representatives, that is charged with reviewing complaints about advertising and marketing materials in the marketplace. Additionally, the Code has an advisory board made up of outside independent experts from academia, government and broadcasting.

“We believe the Code Report is an important element of our longstanding corporate responsibility efforts,” said Cressy. “In addition to being one of the most highly-regulated industries in America, we hold ourselves to a standard higher than mandated by any law or regulation.”

Future public complaint reports will be issued semi-annually. To view the Report, go to www.distilledspirits.org. To view the DISCUS Code of Responsible Practices for Beverage Alcohol Advertising and Marketing, go to www.distilledspirits.org/industry/code/code.htm

<http://www.discus.org/mediaroom/2005/release.asp?pressid=224>

