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

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***ABD e-News – Special Edition***

**May 17, 2007**

*In one hour, I will be moderating a panel discussion on Global Alcoholic Strategies. One of the panelists is August Busch IV, President and CEO of Anheuser-Busch. Of course, one of the topics anticipated to come up during the presentation is Anheuser-Busch’s possible venture into the world of spirits. As the article suggests, we may soon find out whether the King of Beer will soon become the King of Vodka as well.*

*Joining us on stage will be Paul Walsh of Diageo and Richard Sands of Constellation Brands. Reports of the discussion will subsequently follow. I do, however, hope to see some of you in the room.*

*Best Wishes!*

*Lynn*

**The King of … Vodka?**

**Anheuser Continues To Edge Into Spirits As Beer Loses Market Share**

David Kesmodel

*Wall Street Journal*  
May 12, 2007

Anheuser-Busch Cos. took another baby step into the liquor business earlier this year, applying for a federal trademark for the word "Pomacai," which it described as a vodka.

A vodka rollout by the King of Beers is far from a sure thing, though a new entrant in the high-margin category with Anheuser's marketing muscle behind it could become a significant industry player.

An Anheuser spokeswoman said it doesn't comment "on products that may or may not be in development." Chief Executive Officer August Busch IV has said the St. Louis brewing company would look into all areas of the alcohol industry for ways to drive growth. News of Anheuser's trademark application appeared last month in the Brew Blog, published by rival Miller Brewing Co., the U.S. arm of London-based SABMiller PLC. A Miller Brewing spokesman declined to comment.

Anheuser wouldn't likely jump into vodka too quickly, industry observers say. It might first test a product in limited markets to evaluate its prospects. "They'd have to be convinced they could compete effectively," and "they have not determined that," said Benj Steinman, publisher of Beer Marketer's Insights, an industry publication.

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| [Ku Soju] |
| Ku Soju |

In 2005, Anheuser formed a separate division, Long Tail Libations Inc., to develop, test and market distilled spirits.

The unit has test-marketed its first product, a liqueur called Jekyll & Hyde, in more than 50 markets. Anheuser also began distributing Ku Soju -- a vodka-like product distilled from sweet potatoes and made by a South Korean company -- in seven test markets last year.

The moves come as Anheuser and other beer giants grapple with increasing competition from makers of wine and spirits. Anheuser's domestic beer shipments to wholesalers rose less than 1% in the first quarter. Since 1995, the beer industry has lost about five points of U.S. market share to wine and spirits, and one of the hottest beverages lately has been upscale vodka.

"With the acceleration of the high-end vodkas, you'd think that would be an area Anheuser would want to get into," said beer-industry consultant Joe Thompson, president of Independent Beverage Group. "We've heard rumblings about this for the last year and a half."

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| [Jekyll & Hyde] |
| Jekyl & Hyde |

One route Anheuser could take in entering the vodka business would be to acquire a major distiller or brand, or form an alliance. There has been speculation at times, for example, that the

company might buy Absolut vodka from Sweden's V&S Group.

A foray into the spirits business by Anheuser would make more sense than a move into wine, Mr. Thompson said, because selling spirits would better match the skill sets of Anheuser's independent wholesalers. In spirits, "there are fewer brands and fewer [individual products], and higher margins," Mr. Thompson said. And the beer distributors would be very skilled at marketing these brands, he said.

The application for a trademark for "Pomacai" might mean Anheuser is exploring a fruit-flavored vodka involving pomegranate and açaí, a fruit native to South America, said Mark Swartzberg, an analyst with Stifel Nicolaus. When "you look at what vodkas are growing, not only are they the Grey Goose and Ketel Ones, but the ones that have flavor," he said.

With its branding and distribution skills, Anheuser has the potential to one day become a juggernaut in the spirits business, Mr. Swartzberg added.

Anheuser has shown interest in appealing to consumers' rising appetite for fruit-flavored drinks, having recently rolled out fruit-infused versions of its low-carbohydrate Michelob Ultra beer, including Pomegranate Raspberry.

In some states, local laws prohibit distributors from selling both beer and spirits. But Mr. Thompson, the consultant, said Anheuser already is accustomed to selling its products in only certain regions. It sells Jekyll & Hyde in 14 states, including New York, California and Illinois.

<http://online.wsj.com/services/article/SB117892386981900488-search.html?KEYWORDS=king+of+vodka&COLLECTION=wsjie/6month>

**grapes**