NACRA

Baileys Irish Cream

By Kevin F. McCrohan, George Mason University, and Barra O'Cinneide, University of Limerick, Ireland. Originally presented at a meeting of the World Association for Case Research and Application, June 1992. Management cooperated in the field research for this case, which was written solely for the purpose of stimulating student discussion. Some characters and events have been disguised.

Introduction

Tara McGrath and Ken Murphy were very concerned as they drove into Dublin for lunch at the Shelbourne Hotel. They were coming from Baileys' corporate headquarters, where Grand Met's objectives for Baileys had been announced for 1991. R. & A. Bailey is a subsidiary of International Distillers and Vintners (IDV), which controls the worldwide operations of Grand Metropolitan's (Grand Met) wines and spirits related products.

As regional managers for Baileys' two largest markets, Europe and the United States, respectively, they felt that Grand Met's goal of an 11 percent increase in sales could only be achieved if sales in Europe and the United States grew by at least 10 percent. Both doubted that this was possible, but both agreed that Ken's European operations had a better chance of reaching the goal because of the recent success of Baileys in Europe's southern countries, particularly Spain.

They were hesitant to voice their doubts because the management of Baileys was justly proud of its accomplishments over the past 16 years. Against industry trends, Baileys had developed a new product that had successfully attained an increasing market presence in the drinks sector. By 1990 Baileys was the world's best-selling branded liqueur, with 3.6 million cases sold. However, Ken and Tara had two major reservations over the 4 million case goal for 1991.

First, they feared that the decision to reach 4 million cases had more to do with Grand Met's profit objectives, a $30 million bottom-line contribution, than hard analysis of trends in the liquor industry. (See the Appendix for background on the liquor industry.) Second, Baileys sales in the

U.S. had been stagnant at around 1 million cases per annum over the past 3 years. Social and industry trends in the United States indicated that any growth Baileys could achieve would have to come from taking market share from its competitors. The situation in Europe was not quite as bleak. However, Europe was a much more complex market, with competition coming from numerous local producers who enjoyed intense local and national loyalty.

If Ken and Tara were to get Grand Met to consider modifying the sales objective, they would need to convince Baileys' CEO that the 400,000-case growth would be impossible to achieve, particularly in light of Grand Met's desire for a proportional increase in profits. Over lunch they decided to review industry trends and Baileys' experience in the United States and Europe, and to meet again in 2 weeks to discuss the results of their review. They knew there were risks involved in raising alarms, particularly if they turned out to be false alarms, but there were also risks inherent in trying to achieve overly ambitious goals.

Baileys, Grand Met, and IDV

Baileys

Baileys Original Irish Cream was produced by R. & A. Bailey & Co. Ltd. at their new facility (built in 1988) in the Western Industrial Estate on Nangar Road in Dublin as well as in an older plant, located a short distance away on the Naas Road. The new plant had a 4 million case capacity, with an additional 2 million case capacity coming on line by the end of 1992. In addition to Irish Cream, they also produced Smirnoff Vodka under license for sale in the Irish market.

The plant itself was highly automated. With the exception of labeling operations for some of the smaller bottle sizes, Baileys was produced, bottled, and packaged without any human handling. Prior to bottling, the product was held in one of their fifteen 70,000-liter holding tanks. Since there was some variation in the product to meet country or regional tastes—for example, the product produced for the United States had a slightly stronger chocolate flavor—these tanks were keyed to their final destination.

Grand Metropolitan PLC

Grand Met was a $15 billion sales public limited company registered in Great Britain. The company owned subsidiaries in the food, drinks, and retailing sectors in Europe and in the United States. They were also not averse to entering into agreements with competitors to enter new markets, and in fact were part of a four-firm joint venture with Seagrams of Canada in the Far East. Over the past 5 years, Grand Met had followed a strategy of aggressive investment in brands created to serve emerging markets. By 1990, Grand Met was the leading firm in worldwide liquor sales.

Grand Met was divided into three major groups: a drinks division, a foods division, and a retail division, contributing 44 percent, 28 percent, and 28 percent, respectively, toward operating income in 1990. Overall, Grand Met's earnings per share had grown at an annual rate of 18.5 percent from 1986 to 1990. Its corporate goal was to maintain a minimum 15 percent rate of growth in EPS. Analysts believed that this was feasible for two reasons. First, Grand Met, as the world's largest producer of spirits, was benefitting from the rise in "real" prices and consumer preference for premium quality products, which was providing higher margins. Second, Grand Met had a strong management record of turning around poorly performing assets. Industry analysts felt that Grand Met might turn out to be the only company in the spirits industry to realize volume gains in 1991. They had become a tightly focused company with solid strategies in place to emphasize brand development and retailing concepts. Exhibit 1 shows some of Grand Met's subsidiaries in 1991.

International Distillers and Vintners (IDV)

IDV, a wholly owned subsidiary of Grand Met, controlled the worldwide distribution of Grand Met's wines and spirits related products. IDV owned 11 of the world's top 100 spirits, more than any other company in the world, and held the highest percentage of the world's spirits market share—10.6 percent. Exhibit 2 lists some of IDV's holdings.

IDV's top spirits included Smirnoff, J&B Scotch Whiskey, Popov Vodka, Baileys Original Irish Cream, Black Velvet, Orcher Brandy, and Christian Brothers. Furthermore, IDV was the number one player in the U.S. distilled spirits market, shipping 28.6 million cases in 1990 for 17.6 percent of industry volume. Worldwide, IDV's sales were almost $2 billion in 1990. Consequently, IDV generated a tremendous amount of cash flow for Grand Met. IDV followed Grand Met's overall strategy of achieving a dominant position in a market, in most cases through making acquisitions and then capitalizing on economies of scale in marketing. In Europe, they worked through other subsidiaries of Grand Met and associated or joint venture partners in the national markets. In the United States, Baileys was distributed by a local distributor, Paddington, which was a subsidiary of IDV. Although IDV allowed Baileys significant flexibility in terms of product strategy, advertising, and pricing, Baileys was committed to some IDV channels, particularly in the Far East, and operated under fairly rigorous financial objectives. However, their strengths would be tested, since continued growth would have to take place in an industry that was experiencing increasing global consolidation as well as an overall decline in sales.

A Global Strategy for Baileys Irish Cream

In spite of the gloomy state of the global liquor industry Baileys' top management was confident that they could crack the 4 million case barrier during 1991. Their product had a well-established position in the market as being an upscale, "friendly" product that appealed to more highly educated and sophisticated consumers. Additionally, they were beginning to reposition their product away from the liqueur category towards liquor in general. The result of these moves, they felt, would fit with the emerging trends in the global liquor industry. Additionally, as Exhibit 3 indicates, Baileys had consistently been one of the world's fastest growing brands since 1988.

Although there were regional variations in the marketing strategies for Baileys, all subsidiaries and distributors had to support the overall positioning strategy and all were constantly on the lookout for new market segmentation dimensions. Baileys' major regions were the United States, Europe, duty free outlets at international airports, and Oceania (including the Far East). Additionally, Baileys worked closely with regional distributors to develop and implement strategies.

While each region faced its own unique set of problems and opportunities, Baileys faced a number of basic issues in all of them.

- Although Baileys was repositioning itself away from liqueurs in general and cream liqueurs in particular, there were a number of much lower priced competing brands of Irish cream liqueur.
- Baileys produced other brands under license, but they were in essence a one-product, multimarket firm. As such, they were very interested in introducing or acquiring new products.
- The fastest growing markets were in the Far East, and these markets were proving difficult to open up.
- The time horizon for new market development was approximately 5 to 7 years.
- The rapid pace of concentration in the global liquor industry pointed toward an even more intense competitive environment.
- Baileys was in the process of attempting to maintain an upscale image and at the same time position itself away from the liqueur segment to the broader drinks market. This was particularly important in light of the fact that the global liqueur segment had been stuck at the 50 million case mark since 1986. Exhibit 4 gives liqueur consumption figures for selected world markets in 1986, 1988, and 1990.

Positioning

Product positioning allows a firm to identify its product or products in terms of the consumers' preferences and perceptions in comparison to competing products. In 1979, Baileys introduced the product positioning advertising theme "Taste the Magic," promoting the brand's sociability and using a traditional bottle and shot approach. The product was positioned as a premium liqueur and quickly created its own niche, cream liqueurs.

By 1984, sales had levelled, and Baileys decided to retire "Taste the Magic" and introduce a new message, which would stand out among the sea of similar advertisements then currently on the market. They wanted an ad that would be fresh and innovative, yet capable of effectively dramatizing Baileys image, its taste, its pleasureableness, and its sales success. Therefore, in November 1984, they launched a magazine campaign featuring a blue sky, an Irish airliner, and a small photo of the Baileys bottle package. The text and pictures had a multilevel message:

- Prior to its introduction into the market, to taste Baileys would have cost the price of an airline ticket to Ireland.
- Baileys was now the most bought, served, and shared liquor in the world.
- Baileys must be magic.

In 1985, the company attempted to reposition its appeal to a more diverse and generally younger market. Baileys began to focus on the growing younger, affluent professionals in the 21- to 34-year-old age group. They also reduced their advertising budget approximately 20 percent and increased their sales promotion efforts. They offered incentives such as free photo enlargements with each purchase, and participated in food and beverage festivals to encourage consumers to taste Baileys and try new beverage recipes. Although tastings were not used in the United States, they had been an integral part of Baileys strategy in the European countries. In all cases, the objective was to reach those consumers who had heard of Baileys but had never tried it.

Baileys also tried to strengthen its promotional efforts by developing good relations with its wholesalers and retailers, for example, by implementing co-op promotions. Baileys was determined to promote itself aggressively and tried techniques ranging from direct mail sweepstakes to joint promotions.

In addition, Baileys started to work on changing its primarily "winter" image, using a widely advertised recipe for a new mixed drink called the Baileys Fizz, made with Baileys, club soda, and whipped cream, to promote a "summer" image. These efforts were effective. Sales in 1987 increased 15 percent over 1986, and once again Baileys sales volumes started to increase steadily.

In early 1991, Baileys planned to launch a new ad campaign aimed at positioning Baileys as part of the mixed drinks group. Their own research indicated that consumers still typically considered Baileys as a drink for special occasions only, not for daily consumption. Furthermore, the people who were purchasing Baileys were not necessarily the young, affluent drinkers who would carry the taste with them as they aged. They tended to be from all age groups.

Competition

Within 5 years of Baileys' introduction in 1974 the market for Irish cream liqueurs became cluttered with a host of domestic competitors such as Royal Tara, Ryan's, and Waterford, as well as a large number of non-Irish cream liqueurs such as Greensleeves Devon Cream (United Kingdom), Chantre Cream (West Germany), Conti Cream (Australia), and Dunphys (United States). Then, in 1984, competition really escalated in the Irish cream niche, with at least six new entrants. The entries of Saint Brendan's Irish Cream and Hiram Walker's Haagen-Dazs Cream Liqueur were made in the fall of 1984 in the United States. Until 1987 the United States was the leading liqueur market. One industry truism went: "If you can get it right in the U.S. you've got it right."

Saint Brendan's was supported by a multimillion dollar campaign emphasizing Saint Brendan's panache: "Though high priced, it is worth it." Their advertisements, with the concept that the price is right and the taste is heaven, were placed in national magazines. Because Baileys was so strongly positioned, Saint Brendan's executives felt the only way to enter was to price their product above Bailey's by as much as $2. Haagen-Dazs was the most formidable of the new entrants, with a first-year sales goal of 200,000 cases and a long-term goal of 250,000 cases per year. The Haagen-Dazs' introduction was viewed with some concern by Baileys. However, Haagen-Dazs was a subsidiary of Grand Met, and the introduction was aimed at the lower end of the Irish Cream market.

Haagen-Dazs and the other five new entrants into the market significantly impacted on Bailey's market share, dropping it to slightly over 50 percent in the United States. Because the market for cream liqueur was still growing at that point, Baileys' volume did not drop significantly. With the exception of Saint Brendan's, the six competitors were priced lower than Baileys and not offered as premium products.

By 1990, there were six major competitors to Bailey's in world markets, along with a number of minor competitors in individual countries. They were Carolan's Irish Cream, Devonshire Cream Liqueur, Emmets Irish Cream, Irish Mist, O'Darby's Irish Cream, and Saint Brendan's Superior Irish Cream. Although Baileys enjoyed a market share of approximately 80 percent, there was still concern over these brands as well as other brands in the liqueurs group. However, as Exhibit 5 indicates, Baileys was the world's leading liqueur, and none of the competing cream liqueurs were among the top 15.

All of the competing Irish Creams were priced significantly lower than Baileys, which was approximately $18.00 to $20.00 per 750-milliliter bottle. Their retail prices ranged from about $11.00 to $12.50. Although Saint Brendan's had retained its "upper-crust" name, "Superior," it was no longer priced at $2.00 above Baileys but was under $13.00, at $12.40. The competing noncream liqueurs ranged from Kahlua and Amaretto di

Saronno in the $18 to $20 range to Drambuie, Grand Marnier, and Benedictine in the $29 to $31 range. Interestingly, Grand Marnier had introduced a Creme Grand Marnier in the $18 to $20 range. Although there was price variation throughout the world, these basic relationships were mirrored in most markets.

Baileys' Marketing in the United States

In the United States, Baileys was distributed by Paddington Corporation, a subsidiary of IDV. In addition to Baileys, Paddington also sold a number of other brands such as Matzxa Ouzo and Malibu Coconut Rum. However, Baileys was their best-selling product.

The prospects for continued growth in the United States seemed questionable to regional managers McGrath and Murphy. There were the lingering recession (or lingering recovery), the continuing concern with alcohol consumption, and the prospect of increasing state and federal excise taxes. Additionally, the lower priced Irish creams were a continuing problem.

Evolving Demand in the U.S. Market

Soon after product launch in the United Kingdom, the potential of North America attracted the attention of Baileys. However, the entry into the U.S. market was purposely delayed to allow experience to be gained in European and other world markets and to ensure that adequate production capacity would be put in place. By the early 1980s, North America had emerged as the predominant market region, but by 1987, sales of Baileys in the faster-growing European market had exceeded the U.S. level.

Since 1980, sales in the spirits industry had been declining steadily as consumers, aware of the benefits of moderation, refrained from heavy drinking. The primary products affected were the brown liquors such as whisky, scotch, and bourbon. Consumers turned away from these products to "lighter" alcohols, such as vodka products and cordials and liqueurs (of which Baileys was a unique subcategory because of its cream base). However, demand for fruit-flavored cordials such as De Kuyper's Original Peachtree liqueur peaked in 1987, and some observers projected that unless something was done to reverse the trend, the life cycle for that type of product was nearly over. Other industry analysts, however, believed that the fruit-flavored liqueurs would do for the industry in the nineties what the cream liqueurs had done in the eighties.

The shrinking liquor market had caused a great deal of reshuffling of leading distillers, aligning them with global giants such as Grand Met. Many had been consolidated through acquisitions, such as Heublein's purchase from Pillsbury by Britain's Grand Met. This had given the distillers the power to properly support new brand launchings and afford the risks associated with failure. As a result, Baileys had the ability to invest substantial funds in advertising as they sought to expand into the more broadly defined drinks market.

Finally, distillers were reviewing the consumers themselves, especially the baby-boomers, who seemed likely to continue their health-oriented drinking habits. However, although the boomers were drinking less, they were spending more as they switched to more upscale brands. Since by the turn of the century, baby-boomers were expected to account for approximately 50 percent of alcohol consumption, there was a push towards converting consumers to the higher margin premium brands. Additionally, some distillers were beginning to address the developing segment for low-calorie, low-proof spirits among young, affluent, professionals. The growing influence of professional women and minorities was also being felt by the industry.

Product History

Baileys Original Irish Cream was introduced to the U.S. market in 1979 with phenomenal success. Baileys was so well received that cases sold jumped from the initial 17,000 in 1979 to roughly 1 million by 1983. Baileys' objective at that time was to double its U.S. sales over the next 5 years from 1984's sales volume of 900,000 cases. The hoped-for growth rate, however, did not materialize. Sales actually levelled off from 1983 to 1986. Since 1987, Baileys had shown steady increases in sales volume, with an average yearly increase between 5 and 6 percent. (See Exhibit 6 for Baileys' 1986–1990 sales figures in cases.) This growth occurred during a time when the per capita consumption of liqueurs (liters per person over 18) had declined slightly, from 1 liter in 1986 to 0.90 liter in 1990. To counter this trend, as well as the entry of competitors, Baileys emphasized print advertising, and as Exhibit 7 indicates, they were one of the top advertisers in North America.

However, Baileys, along with the rest of the industry, was facing significant price pressure, primarily as a result of various taxes. In the United States retailer and distributor (Paddington and IDV) margins were fairly uniform—between 15 and 20 percent for retailers and 10 percent for distributors. Additionally, there was a $22 per case import duty, with state excise taxes ranging between 0 and 20 percent of the retail price.

Segmentation

Baileys had been fairly successful in promoting Baileys Irish Cream Liqueur to the young, affluent, urban professionals in the 21- to 34-year-old age group. However, they had been less successful with the 35- to 49-year-old group. Baileys had also had difficulty in increasing usage among males. For example, Amaretto, De Kuyper, and Kahlua all appealed to males to a greater extent than Baileys did.

In general, the typical Baileys drinker had a college degree, was employed in a professional/managerial position, and earned more than $60,000 per year. (See Exhibit 8 for a profile of consumers of Baileys, Amaretto, De Kuyper, and Kahlua.) However, the competition for these consumers was particularly intense, and Baileys was interested in expanding into underserved segments.

Baileys' Marketing in Europe

As Europe 1992 fast approached, Baileys realized that the unified European market would offer significant opportunities. Although demand was stable, there had been a marked shift to more expensive products, and nowhere was this more evident than in the southern European countries, and particularly Spain.

In the European market Baileys was marketed by a number of distributors that for the most part dealt with individual national markets. During 1991 Baileys sought to increase its sales by 10 percent.

Evolving Demand in the European Market

Success in Europe in recent years had been the result of a strategic approach to the marketplace based on the corporate philosophy of "thinking globally, acting locally." In 1986, Baileys first formally discussed the advent of "1992," the target date for the abolition of trade barriers between the European community (EC) nations. While seeking to gain from the consolidation of the European market, Baileys' management knew that there was no such person as the "standardized Euro-consumer." Consequently, Baileys planned a marketing approach based on taste and culture, rather than on geographical lines. The appropriateness of this had been shown in the consolidation of older "established" markets such as the UK and Germany, and in the emergence of high sales growth states such as Spain, Italy, and Greece. Consumption of whiskey in both Spain and Greece had doubled since 1985.

Throughout Europe, Baileys was sold through other subsidiaries of Grand Met in the IDV Group and to associated and joint partners. Ahead of "EC 92," marketing structures and trading arrangements had been significantly reorganized to gain maximum benefits from consolidation of the European internal market. Baileys worked closely with local distributors in a system of dual control and investment, with Baileys contributing approximately 50 percent of promotional expenditure, which in Europe was nearly $US40 million. As Exhibit 9 indicates, Baileys was one of the most highly advertised brands in Europe.

As noted earlier, sales in the European spirits industry had been declining steadily for a number of years. Although the year the decline began varied from country to country—for example, it was 1960 in France and 1984 in Denmark—the effect was felt throughout Europe. The reasons for the decline were very similar to those responsible for the drop in U.S. sales. Heavy consumption had become less socially acceptable as the harmful effects of alcohol abuse became widely recognized by consumers. However, as overall use declined, the gap between the ranges of consumption in different countries closed considerably. For example, in 1960 the extremes ranged from a low of 2.5 liters (of pure alcohol) in the Netherlands to a high of 18.2 liters in France. In 1991, the low was 6.2 liters in Greece and the high was 13.2 liters in France.

In Europe, as in the United States, consumers had turned toward lighter alcohols, such as vodka products and cordials. One important difference was in the use of fruit flavored cordials such as De Kuyper's Original Peachtree liqueur. De Kuyper had been particularly successful in those countries where the habit was to drink liqueurs as long drinks (drinks served with mixers, over ice) as opposed to drinking them after dinner. This had resulted in very favorable sales in countries such as Greece, Italy, and Spain, but it had also resulted in a host of "me-too" brands. Additionally, each of these national markets had some unique preferences. For example, Germans were particularly fond of fruit liqueurs, and black current and apple were the favorites in the early 1990s.

Baileys was under some price pressures, particularly as a result of national state excise taxes. Although one of the EC 92 objectives had been the removal of fiscal frontiers and the creation of common excise taxes, that had been rejected by all parties. The result of this was that for the foreseeable future country excise taxes would be subject to the same type of variation that existed among the states in the United States. For example, the excise taxes for spirits ranged from a low of ECU1.42 per liter of pure alcohol in Greece to a high of ECU35.1 per liter of pure alcohol in Denmark. The exchange rate for a European Currency Unit (ECU) was approximately US$1.35. Liqueurs are approximately 15 to 20 percent pure alcohol. Although distributor margins were approximately half of the U.S. level, Baileys paid more of the promotional costs directly.

Product History

Baileys Original Irish Cream was introduced to the Irish Market in late 1974 and shortly after that to the United Kingdom. By 1976 the product was being sold throughout the U.K., and within 3 years was being sold in approximately 70 countries throughout the world. By 1981, Baileys was firmly entrenched as one of the leading liqueurs, with sales of approximately 2 million cases. In fact, sales had increased about 50 percent per year from 1978's 600,000-case volume. The European markets accounted for approximately 40 percent of sales. As Exhibit 10 indicates, growth since 1986 had been particularly rapid in countries such as Austria, France, and Italy. Those increases had offset the stagnation in the home market and the declines in the U.K.

Segmentation

While Baileys' global strategy was to appeal to the young, affluent, urban professionals in the 21- to 49-year-old age group, segmentation in Europe was also based on the differing levels of per capita consumption of liqueurs within the European countries. As Exhibit 11 indicates, in terms of per capita consumption of liqueurs Spain was by far the leading market. Except in Spain, where more than 60 percent of consumers are male, the majority of European consumers of liqueurs are female.

Conclusion

Having reviewed the situation, Tara and Ken met again at the Shelbourne in order to reconsider Baileys' sales and profit objectives for 1991. They knew that the social and competitive situations in their regions made reaching Grand Met's 4 million case target problematic. After the waiter took their orders, they began to discuss their options.

APPENDIX

The Global Liquor Industry in 1991

The success of the IDV group in general and Baileys in particular is even more impressive when the trends in the global liquor industry are considered. In 1990 approximately 525 million cases of liquor were sold, representing a 1 percent decline from 1989. (This estimate is for what used to be referred to as the noncommunist world.)

The worldwide market for liquor is dominated by the United States, which is the single largest national market. However, overall consumption in the United States is expected to decline between 2 and 8 percent in 1991, following a more than 3 percent decline in 1990. Europe, which is the largest regional market, is also experiencing declines. In addition to generally declining sales in established markets, the industry has undergone an intense wave of consolidations, doubling the percent of sales held by the top four firms in the past five years. Although the gross margins on upscale liquors are quite attractive—at 70 to 75 percent—the industry is under significant price pressure due to increases in excise taxes. The following sections discuss some of the unique factors in the United States and Europe.

The United States Market

First Wheat Securities' Maxwell Consumer Report of the liquor industry estimated that the U.S. liquor industry would decline about 2 to 8 percent in sales, with brown goods (brown-colored liquors like whiskey) continuing to decline faster than white goods (clear or transparent liquors like vodka). These classes of liquor account for approximately two-thirds of U.S. liquor consumption. The remaining third is made up of rum, tequila, brandy, cognac, and cordials and liqueurs. Baileys fits into this last category, which accounts for approximately 11 percent of U.S. liquor consumption.

This continued decline, following the 2 to 3 percent decline in 1990 and a flat 1989 performance, is attributable to a number of factors. First, import growth was weak in 1990 following a 4.0 gain in 1989. This was a function of a weaker dollar, which effectively raised the retail price to the consumer. Second, declines attributable to health and social concerns are expected to continue. Third, the federal excise tax (FET) increased $1.00 per proof gallon to $13.50 as of January 1, 1991.

How much dollar volume will decline will also be influenced by how much manufacturers raise prices over and above the incremental FET. According to the *Maxwell Consumer Report*, distilled spirit prices could rise another 4 to 8 percent, with manufacturers of premium goods more likely to raise prices in greater percentages than mid- to lower-priced goods as U.S. consumers consume less alcohol overall, but drink more upscale brands.

The battle for the number one brand in the U.S. liquor industry has become a virtual tie: Bacardi has dropped 1.2 percent in volume while Smirnoff has increased 0.5 percent. Bacardi remains number 1 in absolute cases, with 5 percent of the market. Smirnoff has 4.9 percent of the market. Exhibit A-1 lists the industry's best-selling brands in the United States in 1990.

Looking at the industry's top companies, Heublein took over the number one position from Seagram, helped in part by its acquisition of Christian Brothers and the strong sales of Jose Cuervo, Finlandia, and Black Velvet. Heublein, like Baileys, is part of the IDV/Grand Met family.

Merger and acquisition activity slowed during 1990, with no major acquisitions occurring. However, a few brands did change ownership or were discontinued, and it appears that companies are focusing more on individual segments.

The overall market for spirits remains in what best can be described as a somewhat controlled slide. While the negative forces at work in the alcoholic beverage market slowed beer growth and led to modest declines for wine, distilled spirits have been in an almost continual spiral, falling at a compound annual rate of 2.2 percent for the 1980–1989 period. Additionally, stiffer penalties for driving while intoxicated, more restrictions on establishments that sell liquor, and the lack of access to broadcast media all point to further declines. Exhibit A-2 gives U.S. consumption of beer, wine, and distilled spirits for the period 1986–1990.

The European Market

Europe is the world's largest spirit market, and the corporate headquarters of the majority of the "top ten" global drink companies are based in Europe. In fact, the European nations are the world's leading exporter of spirits: EC whiskeys and brandies (cognac, armagnac, etc.) dominate export markets, followed by gins, vodkas, and liqueurs. However, within the EC, consumption of alcohol appears to have peaked in the first half of the 1980s. Exhibit A-3 notes per capita European alcohol consumption in 1990.

French, Dutch, and Danish brand liqueurs can be found everywhere, as can British and Irish cream liqueurs. Ten countries in the world represent over 85 percent of international trade in spirits; five of these—Germany, France, Britain, Italy, and Belgium/Luxembourg—are EC countries. Intra-Community trade represents a major share of each member state's imports and also a considerable share of domestic consumption. The free movement of goods within the EC will provide excellent opportunities in this sector.

Over the last 20 years, the once highly traditional drinks market has become adventurous. Marketing firms have accelerated change by providing a greater variety of choice. Spirits are now being marketed on the basis of their taste, and this has contributed to the success of vodka, German wine, and flavored liquors like Baileys Irish Cream.

However, palatability has not eliminated the importance of image. Image has helped products such as Croft original, a sweet sherry, and Piat d'Or, which bridges German and French wines. In the mid-1980s, developments in the wine sector led to new packaging forms, and this trend "spilled over" to the spirits sector. In fact, manufacturers in the United Kingdom attempted to change the image of established brands. Baileys Irish Cream has been successfully introduced to the public with a unique package design. For fear of offending their older, more conservative consumers, many spirit producers kept their conservative package designs and appeals, which resulted in a loss of market share for several distillers.

Note: Appendix exhibits follow case exhibits.

EXHIBIT 1

Grand Metropolitan PLC
(Wholly-Owned Subsidiaries)

Food
ALPO Petfoods, Inc. (U.S.)
Express Dairy Co. Ltd (Eire)
The Haagen-Dazs Co. Inc. (U.S.)
The Pillsbury Co. (U.S.)
Pillsbury Canada Ltd (Canada)
Pillsbury GmbH (Germany)
Pilstral SA (France)
Drinks
R. & A. Bailey & Co. Ltd (Eire)
Carillon Importers Ltd. (U.S.)
Gilbey Canada Inc. (Canada)
Grand Metropolitan Brewing Ltd.
Heublein Inc. (U.S.)
International Distillers and Vintners Ltd.
International Distillers and Vintners UK Ltd.
Justerini & Brooks Ltd.
S&E&A Metaxa Distilleries SA (Greece)
The Paddington Corp. (U.S.)
Ruddles Brewery Ltd.
Samuel Webster & Wilsons Ltd.
Watney Truman Ltd.
Wyvern International Ltd.
Retailing
Burger King Corp. (U.S.)
Grand Metropolitan Estates Ltd.
Grand Metropolitan Retailing Ltd.
Pearle Inc. (U.S.)
The Dominic Group Ltd.
Wienerwald GmbH (Germany)
Grand Metropolitan Cardholders Ltd.

Source: Adapted from *Moodys International Manual,* vol. 2, 1991, pp. 4069–4070.

EXHIBIT 2

International Distillers and Vintners
(Wholly-Owned Subsidiaries—Partial Listing)

Croft & Co. Ltd.
Gilbeys Ltd.
IDV UK Sales Ltd.
W. & A. Gilbey Ltd.
W. & A. Gilbey (Wine & Spirit Merchants) Ltd.
International Distillers Africa Ltd.
Justerini & Brooks Ltd.
Morgan Furze & Co. Ltd.
Norton & Langridge Ltd.
IDV UK Wholesale Ltd.
Percy Fox & Co. Ltd.
Saccone & Speed Ltd.
Wyvern International Ltd.
J&B Scotland Ltd.
Gilbeys of Ireland Ltd.
R. & A. Bailey & Co. Ltd.
Paddington Corporation

Source: Adapted from *Moodys International Manual*, vol. 2, 1991, pp. 4099–4100.

EXHIBIT 3

Top 15 Growth Brands within Top 100 Worldwide—1985–1990
(Millions of 9-Liter Case Shipments)

Rank	Brand	Company	Type	1988	1989	1990
1	Suntory Kakubin	Suntory Ltd	Japanese Whisky	0.9	2.5	3.0
2	Absolut	V&S Vin & Spirit AB	Vodka	2.9	3.6	3.9
3	Suntory Royal	Suntory Ltd	Japanese Whisky	0.7	1.5	1.7
4	Santa Teresa	CA Ron Santa Teresa	Rum	1.7	1.9	2.2
5	Dreher	Heublein Inc (IDV/Grand Met)	Brandy	1.5	2.4	2.9
Total top 5				7.7	11.8	13.6
6	Suntory VSOP	Suntory Ltd	Brandy	1.8	2.0	2.0
7	Jose Cuervo	Tequila Cuervo SA (Grupo Nuevo)	Tequila	3.5	3.8	4.2
8	Chantre	Peter Eckes KG mbH	Brandy	1.2	1.3	1.8
9	Cacique	Licorerias Unidas SA (Seagram)	Rum	1.0	1.1	1.4
10	Stolichnaya	V/O Sojuzplodoimport	Vodka	1.3	1.5	1.7
Total top 10				16.5	21.6	24.7
12	Grant's	William Grant & Sons Ltd	Scotch Whisky	2.1	2.5	2.8
13	Captain Morgan	The Seagram Co Ltd	Scotch Whisky	2.1	2.5	2.8
14	Baileys	IDV (GrandMet)	Liqueur	2.9	3.3	3.6
15	Passport	The Seagram Co Ltd	Scotch Whisky	1.4	1.4	1.4
Total top 15				25.9	32.0	36.1

Source: Adapted from Impact Databank.

EXHIBIT 4

Liqueur Consumption in Selected World Markets
(Millions of 9-Liter Case Depletions)

Market	1986	1988	1990
United States	20.18	18.81	17.50
Spain	4.55	4.55	4.45
West Germany	4.33	4.29	4.25
France	3.78	3.87	4.00
Italy	2.92	2.93	2.80
United Kingdom	1.80	1.91	1.90
Canada	2.03	1.98	1.90
Argentina	2.15	1.52	1.20
Netherlands	1.31	1.15	1.10
Australia	0.78	0.86	0.90
Austria	0.71	0.65	0.64
Japan	0.37	0.51	0.62
Portugal	0.55	0.56	0.57
Mexico	0.45	0.43	0.50
Greece	0.36	0.44	0.48
Brazil	0.37	0.40	0.45
Belgium	0.48	0.44	0.39
South Africa	0.20	0.27	0.32
Finland	0.27	0.27	0.27
Switzerland	0.16	0.19	0.19
New Zealand	0.11	0.12	0.12
Sweden	0.14	0.12	0.12
Denmark	0.12	0.11	0.08
Ireland	0.07	0.07	0.08
Norway	0.05	0.05	0.04
Hong Kong	0.02	0.03	0.03
Iceland	0.02	0.02	0.01
Singapore	0.01	0.01	0.01
Total Selected Markets	48	46	45
Other Markets	3	3	3
World*	51	49	48

*Addition of columns may not agree because of rounding.

Source: Adapted from Impact Databank.

EXHIBIT 5

Top 15 Liqueur Brands Worldwide
(Millions of 9-Liter Case Shipments)

1989 Rank	Brand	Company	1986	1988	1989	Estimated 1990
1	Baileys	IDV (Grand Met)	2.50	2.90	3.30	3.60
2	De Kuyper	Johs De Kuyper & Zoon BV	4.30	3.90	3.70	3.50
3	Kahlua	HWAV (Allied-Lyons)	2.40	2.50	2.60	2.80
4	Southern Comfort	Brown-Forman Corp	1.90	2.42	2.58	2.70
5	Hiram Walker	HWAV (Allied-Lyons)	1.80	1.80	1.80	1.80
Total top 5			12.90	13.52	13.98	14.40
6	Amaretto Di Saronno	Illva Spa	1.70	1.65	1.68	1.64
7	Grand Marnier	Societe des Produits Marnier-Lapostolle	1.50	1.50	1.52	1.55
8	Bols	Koninklijke Distilleerderijen Erven Lucas Bols NV	1.50	1.50	1.50	1.50
9	Malibu	IDV (Grand Met)	1.30	1.40	1.45	1.50
10	Marie Brizard	Marie Brizard	1.16	1.29	1.35	1.44
Total top 10			20.06	20.86	21.48	22.00
11	Cointreau	Cointreau SA	1.50	1.40	1.35	1.32
12	Berentzen Appel	IB Berentzen	1.10	1.00	1.00	0.98
13	Tia Maria	Alfred Lamb International (Allied-Lyons)	0.80	0.83	0.84	0.86
14	Ponche Caballero	Luis Caballero SA	0.79	0.80	0.84	0.87
15	Leroux Cordials	JE Seagram & Sons Inc	1.10	0.91	0.83	0.77
Top total 15			25.35	25.78	26.33	26.80
Other brands			25.92	23.64	22.05	21.20
Total liquers*			51.27	49.42	48.38	48.00

*Addition of columns may not agree because of rounding.
Source: Adapted from Impact Databank.

EXHIBIT 6

Baileys Original Irish Cream Liqueur
Sales in the United States

Year	Sales (Thousands of Cases)
1986	830
1987	918
1988	985
1989	1000
1990	1010

EXHIBIT 7
Top 10 Print-Advertised Distilled Spirits Brands in North America—1990
(Millions of U.S. Dollars)

Rank	Brand	Type	Expenditure
1	Absolut	Vodka	$14.2
2	Bacardi	Rum	13.8
3	Dewar's	Scotch whisky	11.4
4	Smirnoff	Vodka	10.9
5	J&B	Scotch whisky	9.4
Total top 5			59.7
6	Jack Daniels	Bourbon	8.3
7	Tanqueray Sterling	Vodka	7.4
8	Grand Marnier	Liqueur	7.2
9	Crown Royal	Canadian whisky	7.1
10	Baileys	Liqueur	6.8
Total top 10			96.6
Others			218.4
Total print advertising			$315.0

Sources: LNA, The Auditor (IMS), Impact Databank.

EXHIBIT 8
U.S. Consumer Profiles

	Brand (Percent of Users)			
Characteristic	**Baileys**	**Amaretto**	**De Kuyper**	**Kahlua**
Gender				
Male	37	40	48	39
Female	63	60	52	61
Age				
28–34	42	37	48	40
35–49	33	38	30	36
50+	25	25	22	24
Education				
College graduate	34	37	25	32
Attended college	25	19	24	23
High school graduate or less	41	44	51	45
Occupation				
Professional	36	41	35	38
Technical/clerical	46	23	30	36
Other	24	26	35	26
Income				
$60,000+	33	35	20	27
$40,000–59,999	24	24	30	27
Under 39,999	43	41	50	46

EXHIBIT 9

Top 10 Print-Advertised Distilled Spirits Brands in Western Europe—1990
(Millions of U.S. Dollars)

Rank	Brand	Type	Expenditure
1	J&B	Scotch whisky	$ 8.4
2	Johnnie Walker Black	Scotch whisky	7.3
3	Gordon's Gin	Gin	7.1
4	Chivas Regal	Scotch whisky	7.0
5	Johnnie Walker Red	Scotch whisky	6.9
Total top 5			36.7
6	Glenfiddich	Single malt	6.8
7	Hennessy	Cognac	6.0
8	Remy Martin	Cognac	5.7
9	Martell	Cognac	5.4
10	Baileys	Liqueur	5.1
Total top 10			65.6
Others			170.7
Total print advertising			$236.3

Source: Adtrack.

EXHIBIT 10

Baileys Irish Cream—European Sales—1986–1990

	Thousands of Cases		
Country	1986	1988	1990
Austria	5	10	18
Belgium/Luxembourg	15	17	22
Denmark	21	17	18
France	79	116	154
Germany	159	233	325
Greece	10	15	22
Ireland	24	24	24
Italy	35	55	90
Netherlands	55	53	50
Norway	8	9	9
Portugal	6	8	12
Spain	180	250	260
Sweden	11	11	11
Switzerland	2	8	15
United Kingdom	345	320	290
Total	955	1146	1320

EXHIBIT 11

Consumption of Liqueurs in Europe—1986–1990
(Liters per Person—18 + Population)

Market	1986	1988	1990
Spain	1.49	1.43	1.41
Austria	1.10	1.01	0.99
France	0.84	0.85	0.87
Netherlands	1.07	0.92	0.87
West Germany	0.80	0.79	0.78
Australia	0.61	0.66	0.70
Portugal	0.68	0.68	0.69
Finland	0.65	0.65	0.65
Greece	0.44	0.53	0.57
Italy	0.60	0.60	0.57
Belgium	0.57	0.52	0.45
United Kingdom	0.38	0.40	0.40
Switzerland	0.28	0.34	0.34
Ireland	0.25	0.26	0.28
Denmark	0.28	0.24	0.18
Sweden	0.19	0.16	0.16
Norway	0.15	0.14	0.13
Average of selected markets	0.66	0.64	0.64

Source: Adapted from Impact Databank.

EXHIBIT A-1
Brands Selling 1 Million Cases and Over in the United States

1990 Rank	Brand	Company	No. of Cases, 1990 (millions of cases)	Total Market Share (%)	Change from 1989 (%)
1	Bacardi	Bacardi Importers	7.003	5.0	(1.2)
2	Smirnoff	Heublein (IDV/GM)	7.831	4.9	0.5
3	Popov	Heublein Inc. (IDV/GM)	4.234	2.7	2.4
4	7 Crown	Seagram Co. Ltd.	4.150	2.6	(5.3)
5	Seagram's Gin	Seagram Co. Ltd.	3.900	2.4	5.4
6	Jim Beam	James Beam (AB)	3.760	2.4	1.2
7	Canadian Mist	Brown-Forman Corp.	3.594	2.3	1.9
8	Jack Daniels	Brown-Forman Corp.	3.413	2.1	(1.9)
9	Absolut	Carillon Importers	2.730	1.7	9.2
10	Canadian Club	Hiram Walker (AL)	2.365	1.5	(6.0)
11	VO	Seagram Co. Ltd.	2.350	1.5	
12	Gallo Brandy	E&J Gallo	2.350	1.5	(6.0)
13	Jose Cuervo	Heublein Inc. (IDV/GM)	2.349	1.5	(13.2)
14	Gordon's Gin	Schenley (G)	2.325	1.5	(1.5)
15	Gordon's Vodka	Schenley (G)	2.300	1.4	1.3
16	Dewar's	Schenley (G)	2.215	1.4	(4.5)
17	Velvet	Heublein Inc. (IDV/GM)	2.039	1.3	7.6
18	Winsor Supreme	James Beam (AB)	2.055	1.3	2.8
19	Kahlua	Maidstone (AL)	1.760	1.1	
20	J&B Rare	Paddington (IDV/GM)	1.750	1.1	(3.8)
21	Kamchatka	James Beam (AB)	1.600	1.0	(5.9)
22	Kessler	Seagram Co. Ltd.	1.500	0.9	25.0
23	Early Times	Brown-Forman Corp.	1.440	0.9	7.2
24	Tanqueray	Schieffelin & Somerset	1.392	0.9	
25	Ancient Age	Ancient Age	1.360	0.9	0.1
26	Crown Royal	Seagram Co. Ltd.	1.350	0.9	5.5
27	Southern Comfort	Brown-Forman Corp.	1.349	0.8	0.4
28	Gilbey's Vodka	James Beam (AB)	1.300	0.8	(3.7)
29	Skol	Glenmore Distillers	1.200	0.8	
30	Gilbey's Gin	James Beam (AB)	1.200	0.8	3.0
31	Stolichnaya	Monsieur Henri (PepsiCo)	1.170	0.7	6.4
32	Lord Calvert	Seagram Co. Ltd.	1.150	0.7	(4.2)
33	Johnnie Walker Red	Schieffelin & Somerset	1.085	0.7	(5.9)
34	Baileys Irish Cream	Paddington (IDV/GM)	1.010	0.6	.1
35	Wolfschmidt	Seagram Co. Ltd.	1.000	0.6	
Grand Total			84.713	53.1	

Key to parent corporations:
AB American Brands
IDV/GM IDV/Grand Metropolitan
G Guiness
AL Allied Lyon

Source: "The Liquor Industry in the 1990," *The Maxwell Consumer Report*, January 8, 1991, p. 4; Wheat First Securities Inc., Philadelphia, Pa.

EXHIBIT A-2
Trends in U.S. Alcohol Consumption
(Gallons per Capita)

Category	1986	Market %	1988	Market %	1990	Market %
Beer	24.1	85.5	23.7	86.2	23.7	86.8
Wine	2.4	8.5	2.2	8.0	2.0	7.3
Distilled spirits	1.7	6.0	1.6	5.8	1.6	5.9
Total	28.2	100.0	27.5	100.0	27.3	100.0

Source: Adapted from *International Drinks Bulletin.*

EXHIBIT A-3

European Alcohol Consumption—1990
[Litres (0.95 gallon) per Capita]

	Spirits*	Wine†	Beer‡	Total*
EC	2.00	45.00	80.00	10.00
Belgium	2.15	23.00	121.00	10.70
Denmark	1.50	20.60	118.10	9.60
Germany	2.24	25.80	144.20	10.60
Greece‡	.80	31.80	32.30	6.07
Spain	3.00	54.00	64.50	12.70
France	2.30	75.10	38.90	13.20
Ireland	1.70	6.00	75.00	5.40
Italy	1.00	79.00	25.60	10.00
Luxembourg	2.50	58.50	116.50	13.00
Netherlands	2.07	14.60	84.30	8.30
Portugal	.80	64.30	40.00	10.50
United Kingdom	1.73	11.00	110.50	7.30

*In litres of pure alcohol
†In litres in state—wine contains 11% pure alcohol and beer 4%.
‡Beer and wine only.
Source: Adapted from and Produkschap voor Gedietilleerde Dranken.