

Paul Walsh - WSET Annual Lecture, 1 June 2005

Introduction

I appreciate very much the opportunity to deliver this year's annual lecture. I am honoured to join the company of your previous speakers. Among them some of the most distinguished names in winemaking, as well as some of the most astute observers of this industry.

I am very proud of Diageo's wine business. We are blessed with some of the finest labels from the vineyards of North America. And equally blessed by being able to bring some of the oldest and most prestigious labels of Europe to our American customers through our Chateau & Estates import business.

I am much involved with the issues most pressing specifically to wine makers. From the vexations of over abundant grape production, to the subtleties of the relationships we all enjoy with our industry's most discerning critics and reviewers, who remind us that winemaking is an art, as much as a science or commercial enterprise.

I thought it might interest you to hear me speak from Diageo's unique perspective as a key player in all three major parts of the beverage alcohol business – beer, wine and spirits.

One of the pleasures I get to experience in my position is seeing how much these parts actually have in common, and how much they can learn from each other in pursuing the goal that matters most to each one of us – pleasing our consumers.

Tonight, I'd like to share some of that experience with you, touching on what spirits and wine have learned, and can learn, from each other in:

- > marketing to consumers
- > providing innovative ways to satisfy our consumers
- > and in tackling alcohol and responsibility

Bringing together wine and spirits like this may strike some people as a very brash, new idea - I know that won't be the case with you! You know how deep the connection goes between spirits and wine. In fact, some would say that spirits owe their origin to wine.

One of the earliest spirits, brandy, is quite literally 'burnt wine'. It comes from the practice of distilling the wine for transport and then adding water back in once the wine reached its destination.

At Diageo, we see the deep connection in our own history. J&B, one of our great Scotch whiskies, began life at Justerini and Brooks, which remains – as part of Diageo – one of the most distinguished wine merchants.

Marketing

The most fundamental thing that the wine and spirits industries have in common is that they want to please their consumers.

At Diageo, we put the consumer at the heart of everything we do. For us, that means we want to understand what goes into the choices our consumers make about what to drink, when they choose to drink. We've done a huge amount of research on that question – 10s of millions of pounds - and here are some of the most important things we've found out...

Most consumers do not tend to think of themselves as exclusively wine drinkers, or spirits drinkers, or beer drinkers. Consumers think about the different kinds of occasions for enjoying a drink.

Those occasions can range from a night out with friends, a fine dinner at home with family, a weekend picnic, a time to reward oneself with a particularly high quality and special drink.

Consumers associate different kinds of drinks with different kinds of occasions. But, those different kinds of drinks can come from across all the categories. The same occasion may bring to mind a spirit, a beer or a wine. 'Pairing' then, is not just something we do with wine and food. 'Pairing' is built into the experience of enjoying a drink. The right drink for the right occasion.

Our understanding of consumers has implications for at least three critical areas of marketing: the product itself, the way we talk to consumers about our products, and the way we build relationships with our consumers.

As good marketers – as well as producers – our first interest is to provide a product that consumers can trust. All our consumers expect that the products they choose will provide the value they expect, appropriate to the occasion. And it will do so *consistently*. Consumers expect us to provide them quality in a bottle. That's quality of product and quality of experience – every single time.

The ease at which spirits and wine makers can provide consistent value and quality sometimes seems one of the ways they differ. To vintners, distillers seem to have an easier time of it. Though I guarantee you that you will get a vigorous argument on that point from our distilling community on Islay or any other of our distilling communities for that matter! Fortunately our increased knowledge and understanding of vineyard management and winemaking has enabled us as an industry to narrow the gaps between good vintages and great vintages. Quite simply, we are making better wine more consistently.

Past this interest in consistent quality in our products, consumers expect us to offer them products that satisfy their sense of the occasion. 'Shaping' products to fit consumer tastes and motivations is probably easy enough to see and understand for beer and spirits.

In the US, for instance, brewers have been tracking and adjusting what are called the 'bitterness' units in their beers for decades. Similarly, distillers in the UK will offer a variety of blended whiskies with different flavour profiles to fit different consumer tastes and occasions.

On the face of it, the concept of 'shaping' may seem less applicable to wines. We often seem to think that what you get out of the vineyard, is what you get. But as all of us in this room know, vineyard management and winemaking techniques radically affect the final taste profile of a wine. This is not a new concept. For centuries winemakers have been 'perfecting' or adapting their craft so as to please their consumers. They've done so through: barrel aging regimens, canopy management, fermentation techniques...to name just a few.

Bordeaux producers in the last 20 years have made great progress in removing the green tannins out of their wines to please consumers. Napa Valley vintners are letting their fruit hang for longer than ever before in an attempt to make wines that are massively powerful. And more to the point, we create wines specifically for the discernment occasions many of us in this room favour.

By the way, this focus on highly specialised products is something the spirits part of our business also has in common with wines – and arguably learned from wines. We now see single cask or batch

Scotches, whiskeys and bourbons produced and marketed in a similar manner to the finest vintage wine.

So winemakers do shape the flavour and other characteristics of wine to suit the most discriminating palates. But they also must produce wine to suit other consumer occasions.

That occasion may be an ordinary family dinner. A time when parents sit down with their family and open a bottle of wine that suits them and the occasions and may cost no more than four or five pounds. Satisfying this consumer on this occasion is as important to us as satisfying you on more elegant occasions. This is a large part of the reason that Blossom Hill is the number one wine brand at retail in the UK.

For a great many consumers it is the right wine for the occasions that matter to them. The reason this is so important is that it brings consumers into the category. It provides us the opportunity to trade them up. As we increase our knowledge of our consumers we can get better at providing them with what they are looking for.

Our understanding of our consumers also goes into how we communicate with them in our marketing communications. For consumers who favour discriminating experiences with wines we emphasise quality, prestige, provenance, heritage... Just the same areas as form our communication focus for our specialty whiskeys – in particular our single malts and luxury or high end blends such as

Johnnie Walker Gold or Blue Label. Their consumers tend to have a great deal in common with discerning wine consumers – and often are the same consumer. They, too, value knowing the heritage, provenance and quality of the drink they are enjoying.

Our research also shows us that these consumers – in both the wine and spirits industries - have an interest in exploring other brands that may measure up to their discriminating tastes. They may have one or two core brands they prefer, but will experiment with other brands as part of their repertoire of drinks. In communicating with them, we emphasise the breadth of experiences they can enjoy with the breadth of our product offering.

Since the other major occasion that matters a great deal to our consumers is dining, the wine industry puts a great deal of emphasis on 'pairing' wine with foods. 'Pairing' is so central to wine communication that I probably don't need to say much about it to you. But pairing is one of those areas in which spirits is learning from wine.

Scotch whisky marketers have blatantly borrowed from the wine industry by matching whiskies with food – in order to demonstrate to the consumer the wide variety of flavours available to them and to help them enter and explore the whisky category in a way they can easily understand. So we at Diageo run whisky dinners specifically for this purpose – not because we want people to drink whisky with food – but to educate our consumers about taste and variety.

For example – take our Classic Malts. Glenkinchie as an aperitif with canapés. Talisker with a peppered steak. A deeply chilled 15 year old Dalwhinnie with banana ice cream for dessert.

We see the same sort of thing when vodka distillers pair their brands with caviar and smoked fish. The other focus of our marketing communications is on what you may consider basic consumer education. Many consumers may wish to enjoy the occasion where the emphasis is on taste and discernment, but feel they don't know enough to do that. Equally true for superior whiskeys, vodkas and tequilas, as much as for wines.

To meet this consumer need, we offer extensive seminars in tasting and appreciating these products. From the quality and notes of what's in the glass, to the story the label can tell, education makes consumers more comfortable with the discernment occasion, it connects them with the product and brand. Education makes them ambassadors for this kind of experience, and overcomes a huge barrier to trial.

Of course, we have to acknowledge that some wine education can come in surprising forms. Take what is happening in America with the popular movie *Sideways*. The movie -- and the ensuing press coverage -- gave Americans two insights into Pinot Noir. That it is cool to drink it, and how to pronounce it.

That may sound funny, but something as simple as knowing how to pronounce a brand or varietal when ordering goes a long way to increasing the chances of sale. Since the movie's release, Pinot Noir sales have skyrocketed – by some estimates – doubled.

Our aim, though, is to do more than communicate with our consumers, we want to create a personal relationship with them, and between them and the brand. Both vintners and distillers have been doing this by making the winemaker and the master distiller an integral part of the brand. They quite literally become the face of the brand.

Labels bare winemaker and master distiller's signature. They are featured in media campaigns, and even conduct celebrity tours in their own right. Using the maker as part of the brand humanises the product. It creates point of differentiation and distinction. It connotes quality when a person is willing to put their name on the product.

Vintners would argue that the distillers adapted this relationship building approach from them. Our distillers may say the case is the other way round, pointing to John Walker, whose signature is still on all bottles of Johnnie Walker.

Our distillers do like to claim, with some justice, that they were the first to adopt true relationship marketing to the industry. The aim here is to create a sense of belonging and club membership between consumers and the brand.

For instance, Crown Royal Canadian blended whisky has attracted a fiercely loyal customer base ever since it was created in 1939 to commemorate the grand tour of Canada made by King George VI and Queen Elizabeth. For its passionate consumers the Society of the Crown was established, an affinity programme where members receive direct mail offers and loyalty rewards. This Society now has millions of members, who consume over 1/3 of total Crown Royal production. Similarly, the Classic Malts reach hundreds of thousands of consumers directly through the Friends of the Classic Malts.

Vintners are now really beginning to focus on this type of marketing. In the US, they do this through branded wine clubs. This creates brand loyalty and unparalleled targeted messaging. And it has only really just begun.

Innovation

Innovation is a key driver of growth in all parts of the drinks industry. People are fascinated with what's new. They constantly redefine and refine their desires and tastes. They fully expect a brand worthy of their loyalty will satisfy these needs.

Innovation encompasses every aspect of the wine and spirits business: new product development, line extensions, even packaging and forms of dispense.

The boldest way to innovate is to create a whole new brand, often based on a true product differentiation. That's a big bet. We take it only when we've identified a real opportunity through consumer research.

When you win that bet, though, you can win big. That's the story of us in spirits with the development of Ciroc - a new kind of vodka made from French grapes, but based on solid insights into what kind of experience consumers expected from a super premium vodka.

That's also the story in wine with the phenomenal rise of the Australia wine industry in US and UK markets. Australian vintners conducted research on what consumers wanted and made wine that matched the taste profile of their target audience. There were other factors that contributed to Australia's success, but for the most part it was because consumers were looking for a fruit forward, simple to understand, easy to drink wine at an affordable price and Australia was there, willing to provide it.

We've also had some success at Diageo in creating new wine brands with Solaris in North America. Although this innovation was somewhat production driven, we found what we thought to be a sweet spot in the 'reserve' wine category and produced a wine that matched (exceeded) consumers expectation of price to quality. As a result, we have launched an entire line of Solaris brands.

Line extensions work to provide consumers with a slightly different experience with a brand that they already trust. On the spirits side of our house, we've had great success with flavour extensions for Smirnoff vodka. Providing consumers something trusted and something new.

And we've been able to give consumers an even more premium experience with some of their favourite brands. Tanqueray 10 for Tanqueray. Johnnie Walker Blue, Gold and Green Labels for Johnnie Walker. In wines, we've extended the BV brand with Century Cellars and the Sterling brand with Vintners Collection. Both extensions are designed to fit consumer occasions that might not quite fit with the parent brands, like an outdoor picnic or barbecue.

Our research shows the BV and Sterling loyalist consumer making exactly that kind of choice. A Napa cabernet for steaks inside by candle light. A Century Cellar by the pool with a hamburger.

We also have evidence that consumers who begin with something like a BV Century Cellars will choose the parent brand when they see the occasion for an more aspirational wine – up to and including a Georges de Latour - pretty aspirational at \$100 USD per bottle.

While line extensions like these are good news for consumers, they are also good news for makers and their shareholders. They are a major engine of growth, and they provide a great means to strengthen the overall brand.

For packaging innovation, I think it is clear that spirits have a great deal to teach the whole drinks industry. Spirits brands effectively use packaging:

- > to differentiate themselves
- > to speak more directly to target consumer and to communicate the brand's premium quality and approachability
- > and to satisfy consumers' need for convenience, with different package sizes and features

From handles to twist off caps to single servings and PET containers Wine is slowly moving in this direction. For years the basic wine package has been all about tradition. It communicates, character, origin and quality. It hasn't addressed convenience or attempted to speak to consumers in anything other than a traditional way. Over the last 10 years that has begun to change.

We are now seeing more irreverent labelling on branded products. Heavier, more premium packaging/labelling for prestige brands. Box Wine, screw tops...

In fact, Diageo Chateau & Estate Wines has just launched an entire line of screw top wines - unoaked Chardonnay and Sauvignon Blanc and a Dry Rosé. And it won't be long before people who want to enjoy wine while at a sporting event or while lounging by the swimming pool will be able to order it in a single serving container.

Alcohol and Responsibility

The final area I want to touch on where wine and spirits can learn from each other is in social responsibility. At Diageo, this area also begins with the consumer. We know we make unique products, and that these products are very often the source of great pleasure for consumers. Misused alcohol can be the source of pain or worse.

We also know that the vast majority of consumers want to achieve an enjoyable experience, and avoid pain, or even embarrassment. because we care about our consumers, we believe we have special responsibilities.

To market our products responsibly so that consumers are encouraged to use them enjoyably and not in ways that would cause harm for themselves or others. To acknowledge the problems misuse can cause and do our part to help solve them.

We also know that if we did not make ourselves part of the solution, others might force solutions on us and our consumers that may not respect the place our products can have as part of a good life. Others include most national governments and even international bodies like the WHO and European Commission, who take a hard look at all parts of the drinks industry – beer, wine and spirits, and see all involved in the problems that most concern societies.

We exercise our responsibilities by having the most comprehensive marketing code in the industry. We support programmes around the world that address the most urgent problems associated with misuse. And we encourage our consumers to make wise decisions about how to have beverage alcohol in their lives.

In this last area, spirits and beer have good lessons to learn from wine. Wine has been long treated as a part of a healthy lifestyle, combined with food, family and friends. In many respects, wine has set the standard.

Volume consumption is not the goal. But responsible consumption as part of an overall approach to a balanced and positive lifestyle, as well as a balanced and positive role in society, is. That is, after all, why we are all in this business. We are all striving to provide brands and products that can increase our consumers' enjoyment of life's celebrations – both big and small.

So there you have it. Spirits. And wine. Are they really different animals? I don't think so. Can each learn from the other?
Assuredly.

Thank you.