

The Whisky Year

That Was

Scotch whisky continue breaking records

Scotch whisky has enjoyed a terrific surge during the past couple of years and inevitably, the market must be getting nearer a point where sales at least increase at a slower rate but 2007 was definitely not the year that happened. Instead we saw new records being broken and more markets evolving.

Scotch whisky exports rose by 14% compared to 2006 and reached £2,818m, the highest ever value beating a previous high of last year's £2,478m.

In terms of volume, a new record high was set with shipments reaching the equivalent of 1,135 million bottles, an increase by 8% compared to the previous year. The picture, if broken down into malt and blends is as follows (note that bulk shipments are not included):

Bottled Malt - export

Value: +11% to £454m
Volume: -5% to 72m bottles

Bottled Blended Scotch - export

Value: +15% to £2.22bn
Volume: +15% to 874m bottles

If we look at the different markets it is probably USA that gives most joy to the whisky producers. It is the

most important export market for Scotch in terms of value but many had fears that the recent economic slowdown would affect sales. The volume actually did decrease by 5% but instead the Americans bought more expensive brands, thus the value of the export went up by 5% and is now worth £419m. In Asia, Taiwan can be a bit of a roller coaster and we have seen figures doubling or being halved in just a year. In 2007 the value of the export went down by 23%. Singapore on the other hand showed an impressive increase of 84%. Part of the reason behind this figure though is that Singapore serves as a hub for re-exports to, for example, China. Another market in Asia which was a cause for celebration was India which, due to a tariff reform with lower duties, increased by as much as 36%.

In Africa, South Africa continued to show strength with an increase of 9% and the country is now firmly settled amongst the top 10 export markets for Scotch. In Europe, finally, some figures raised more than one eyebrow. Usually considered a mature market with small movements the EU increased totally by 27%. Germany increased by 62% but the situation is the same there as with Singapore, since Germany re-exports to Central and Eastern Europe. Spain was also a reason for celebration; with the exception of 2003 this market had been going down since 2000 but suddenly the volume increased by 38% and the value by 57%. This means that France

was overtaken as the second important market in terms of value, after USA. Looking at volumes though, France is still the largest market.

It is clearly evident from the first four months of 2008 that the success of single malt is a continuing trend. Total exports rose by 22% compared to January-April 2007. Some EU countries in particular have noted considerable increases in exports, namely Spain (165%), Italy (65%) and Germany (62%).

Total export of bottled blends increased with a more subtle 2% in which EU saw a 14% increase while all other markets fell by 5%.

If we look at malt and blend together there are some markets, particularly in Asia, which have begun with a negative trend in 2008; China (-19%), Hong Kong (-13%) and Thailand (-11%). The winners are to be found notably in eastern Europe, where countries like Poland, Romania and the Czech Republic have advanced.

The big players

Diageo

As usual Diageo presented a convincing report for the year ending in June 2008.

Net sales increased by 8% from £7,481m to £8,090m and profits increased by 3% from £2,159m to £2,226m. Johnnie Walker's success continues and the brand grew in net sales by 12% and now sells over £1 billion in a year. The other big Scotch brand in the portfolio, J&B is now making strides after the successful "Start a Party Campaign". Sales increased with a total of 9% during the year. South America remains a strong market for Scotch and efforts in Eastern Europe and Russia are starting to be reflected on the balance sheet. Operating profit fell by 12% in Asia Pacific which may seem strange but can be explained by Diageo being without an import license for more than half the year. Their licence had been revoked by the authorities after Diageo used unlicensed wholesalers. It was not reinstated until February 2008.

Even if CEO Paul Walsh believes in a continued growth for Diageo, he advocates caution due to the more challenging economic trends that could lie ahead.

Pernod Ricard

Pernod Ricard announced a weaker year than the previous when summing up the fiscal year ending 30th June 2008. Sales did, however, increase but only by 2.3% to €6,589 million. It is unclear what that means for the profit at the time of writing. The preliminary results were published a little later than usual due to the acquisition of Swedish Vin & Spirit earlier in the year. It is, however, obvious that premiumisation is the key to growth. The 15 strategic brands were responsible for a 5% volume increase and 11% value increase.

Among these are e. g. Glenlivet (+14%), Chivas (+11%) and Ballantine's (+11%). The Asian market

increased and China (+29%) and India (+39%) were responsible for 2/3 of the growth. All major Western European markets increased, excepting Italy, but greatest success occurred in the East; Russia for example increased by 38%.

United Spirits

United Spirits Limited (part of the Indian UB Group) took their first steps into the Scotch whisky market when they bought Whyte & Mackay last year, thereby also becoming the world's number 3 spirits producer after Diageo and Pernod Ricard. In the fiscal year of 2007/2008 (ending 31 March) the net income rose by 16% to R31,663m whereas the profit before tax decreased from R6,216m to R5,004m. United Spirits also reports that the total number of sold cases went up from 66,4 million to 73,9 million.

Looking at Whyte & Mackay separately, the new owners managed to turn a loss of £1,2m to a profit of £13m. During the year, the two most important single malt brands of Whyte & Mackay, Dalmore and Jura, were both introduced in India and the company also revealed plans to launch a low-cost Whyte & Mackay for that market. The domestic version will be bottled in India but the original Whyte & Mackay bottled in Scotland will still be sold separately.

United Spirits, headed by the charismatic owner Vijay Mallya, has so far shown great success but like its rivals it is affected by raised commodity prices. Higher prices of molasses, the base of Indian whisky as barley is in Scotch, affects United Spirits. The increase in price is caused by lower sugar production and a growing demand for ethanol. Recent rumours mention an interest from both Diageo and Bacardi in buying a small share of United Spirits to get a foothold on the Indian market.

Edrington

The Edrington Group increased sales by 4.9% to £291,5m in the year to March 2008 and the profit increased by almost 10% to £75,6m. Sales of The Famous Grouse blended range increased by 7% to 37 million bottles. The malt range of Famous Grouse on the other hand backed considerably from 2,1 million



Pierre Pringuet, Pernod Ricard's CEO from November