Vodka was once just vodka. Not anymore.

As consumer interest in the spirit continues to grow, new vodka brands proliferate, many of them targeted at very specific interest groups with distinct attributes, running the spectrum from flavored and organic to micro-distilled and premium. The good news is that quality continues to improve at all levels.

“The vodkas today are so much better than they were ten years ago – it really keeps you on your feet,” says Dave Katz, president of Zyr Vodka. In 2007, vodka continued its solid, unabated growth as the leading category in the distilled spirits industry. Vodka sales were $4.3 billion, or 23.6% of the $18.2 billion US spirits market, according to David Ozgo, the chief economist at the Distilled Spirits Council, who calls vodka the “backbone of the industry.” He notes that much of the growth is concentrated in high-end and super premium brands like Stoli, Absolut and Grey Goose. Those top three brands accounted for more than 17 million cases, or a third of all vodka volume in 2007. “It shows that vodka is a super value center and a profit center for us,” he says. This high valuation touched off a bidding war for vodka’s second-leading brand, Absolut.

What’s Driving Consumers?
David van de Velde has a greater perspective of the vodka market than most, having founded Luctor International in 1988 and launching Van Gogh in 2000, where he is the president and co-owner. Van Gogh positions itself as a high-end premium vodka and lifestyle brand. It uses very little advertising, instead relying on word-of-mouth. “The strength is that it was the consumer who made the brand big,” says van de Velde. “We didn’t pay a penny.”

He points out that vodka has a demographic tailwind in young adults, who like its versatility: “Some want to drink it as shots, some want tall drinks, some like martinis and others like it with juice. They want variety.”

Mixologist Gary Regan sees why vodka is so popular. “Vodka continues on its upward path simply because it’s easy to drink, and although many consumers are brand loyal, unless they are drinking it neat, or perhaps in a very dry vodka martini, I doubt very much that many of them can tell the difference from one brand to the next. That said, there are some stunning vodkas out there, and quality seems to be a buzzword throughout the industry. It’s about time, too,” he says.
Consumers continue to trade up to premium brands despite the slowing economy. “As in the past six to seven years, the rule of thumb has been: the higher the price, the better the growth,” says DISCUS’s Ozgo. He reveals that the slowing economy has impacted how consumers drink: on-premise growth is stalling, while off-premise volume is sprinting ahead. Rather than spend $12 on a martini at a bar, consumers can make one at home for a fraction of the cost. “When the economy slows, one of the first things that people give up is going out to dinner,” Ozgo observes.

If they’re not going out to get their vodka fix, then that means more attention will be paid to purchasing bottles of vodka. While this may mean it’s harder for brand loyal vodka drinkers to step out of their comfort zone, it also means that the array of bottles awaiting curious consumers on their local liquor store’s shelves can prove to be exciting, providing more variety than ever before. This is a chance for other vodkas to differentiate themselves and stand apart from the bigger brands usually getting the most play. Customers can now look forward to buying a bottle of Irish vodka distilled five times, like Boru; Russian Standard’s striking bell-shaped bottle hinting at a majestic past; or Poland’s leading premium brand, Sobieski, made with rye harvested from the country’s rich Mazowsze fields. Whether there’s a slowdown in the economy or not, customers seem poised to continue buying whichever brands of alcohol best fulfill their distinct needs.

Phyllis Valenti of Georgi worries about the slowing economy, though she believes her brand is positioned to weather the storm. “As time goes on, consumers will dictate what they’re willing to pay,” she remarks. “There’s no crystal ball. The industry is changing – you just don’t know. You just hold on.”

American drinkers certainly aren’t monolithic, and there are indeed key markets that take to vodka quicker than others. One thing seems common to most new vodkas: they get introduced in New York and the Northeast, then jump down to Florida. When a brand makes it to the West Coast, it usually starts in San Francisco. That’s because New York, Miami and San Francisco are havens for sophisticated vodka drinkers moving away from gimmicks and seeking out fresh ingredients instead. These are aspirational consumers who drink as a lifestyle choice, and their brands reflect their values.

“The foodie craze has filtered into the bar and cocktail creations,” adds Cecile Meunier of Florida-based Orzel, a super premium vodka recently launched in South Florida, New York, Dallas and Atlanta. “They want the best vodka to be paired with the freshest mixers for the ultimate taste experience.”

Consumer education often starts with bartenders. For example, Finlandia offers a “Finnishing School,” a one-day course taught by master mixologists Dale DeGroff and Tony Abou-Ganim, that has been well-received in 40 cities throughout 6 countries. Whether there’s a slowdown in the economy or not, customers seem poised to continue buying whichever brands of alcohol best fulfill their distinct needs.

“Lately I’ve been asking bartenders and servers in my travels to recommend a vodka; so far, the same four brands have been recommended over and over,” laments Kevin Egan of Blue Ice, a vodka made with Idaho Russet potatoes. “When the bartender/server is asked about other brands, either they poo-poo them, have never tasted them or often have no real knowledge of the product.”

Many mixologists say this is because popular classic cocktails are often made with gin and whiskey, and vodka is a latecomer to the cocktail game. Yet ultimately, consumers decide what they want. As actor Ron Howard told Homer in an episode of The Simpsons, “We need more vodka!”

News from the Vodka Front
Market leader Smirnoff from Diageo is not only the largest vodka brand, it is the second largest spirit brand, surpassed only by Bacardi Rum. Smirnoff sold an astounding 9 million cases in 2007, according to Adams Advance 2008, with a 6% increase in volume. It accounted for nearly one out of five bottles of vodka sold, and nearly twice as many as the second-leading vodka, Absolut (5 million cases.) It’s no wonder Ozgo of DISCUS refers to it as the “800-pound gorilla.”

Smirnoff has earned its seat at the top. It has a popular price, and bartenders like it for its mixability. “We continue to ensure the quality of our product, communicate that quality to consumers and support our retailers in getting product on the floor with the best possible visibility and the right price point at key selling periods,” says Smirnoff brand director Kate Price.

In early 2008, Diageo acquired 50% of the Dutch brand Ketel One. Yet that news was overshadowed by Pernod Ricard winning the bidding war for Absolut after the Swedish government auctioned off Vin & Spirits. It paid more than $8 billion for the widely-recognized global brand.

“We anticipate the brand will retain its distinct character and culture of bold, creative innovation,” remarks Sarah Bessette, an Absolut spokesperson. Absolut’s bottle-shaped advertising campaign built it into a global brand, but after 27 years, the company is replacing it with “In An ABSOLUT World.”

Crossing over into popular culture, one of the biggest 2008 vodka market campaigns was SKYY’s promotion for the movie Sex & The City. It included magazine ads, an online presence and consumer promotion. Kirsten Van Sickle, senior brand manager, calls the show, “One of the pop icons of cocktail culture,” noting its importance in making...
IN AN ABSOLUT WORLD

New ad campaigns like ‘In An ABSOLUT World’ and SKYY Vodka’s ‘Sex and the City’ promotion are utilizing pop culture to capture attention and increase sales.

the Cosmopolitan popular. SKYY created cocktail recipes for all four lead characters plus Mr. Big.

Capitalizing upon one of the country’s most contested presidential races, Swedish premium brand Svedka launched the slogan “Svedka wants to put the “Party” Back in Politics,” blurring the line between one’s political inclinations and social life.

Flying the Goose With Super Premiums

Grey Goose is the third-leading vodka, one that grew an eye-popping 25% in 2007 to 3.3 million cases. It’s now the defining super premium vodka, one that its competitors benchmark themselves against. That end of the market is getting increasingly crowded with new entrants.

Why the heady growth? “We continue to see that consumers are looking for quality and luxury, and that they’re trading up in brands and cocktails,” says Grey Goose brand manager Emil Jattne. He calls it “an aspirational luxury brand that appeals to a broad range of consumers.”

Gold Flakes Supreme was introduced this spring, one with an unusual twist: 24 karat gold. President Philippe Pichetto got the idea when he noticed that some bartenders were sprinkling gold flakes atop cocktails. “That should allow us to compete in this very crowded market,” he remarks.

“Our strategy is to roll-out our brand in sophisticated consumption markets where the demand for ultra premium vodka is the highest,” adds Meunier, calling her Orzel “Poland’s best-kept secret.”

Patrón acquired the Polish brand Ultimat in 2007 which launched in 2002. The company developed a label to match the Patrón label, hoping to replicate its tequila success with vodka. It is the only vodka made from wheat, rye and potato, and includes a neck booklet explaining its distillation process. “We’re focusing on what makes our vodka different – it’s the ingredients,” says Ultimat’s Ed Blinn.

Proliferation: Vodka’s Gone Wild!

Vodka is easy to make, and you can bring the product quickly to market, unlike brown spirits, which require aging. It’s an easy entrée point for new brands, which is why the market is cluttered. There are so many new brands and line extensions that it can make your head spin like Linda Blair in The Exorcist.

Every kind of vodka imaginable is being produced, from Americana using water sourced from 300 feet below sea level, to Citroc, distilled from French grapes, to Pravda made from late harvest Polish rye. Canadian Iceberg Vodka is made from harvested icebergs and triple-distilled natural grain spirits made from Ontario-grown sweet corn. Pure glacier ice up to 60,000 years old from the Qaleralitl Sermia glacier in Greenland, transformed directly into vodka, is what sets Siku Glacier Ice Vodka crafted in small batches in the Netherlands, apart. And this doesn’t even count all the flavored line extensions.

Is this proliferation sustainable? “Vodka somehow became like a dot.com,” remarks Lara Karakasevic of Charbay, noting that anyone with an idea can bring their vodka to market. Is vodka more like the craft beer phenomenon, where brands build small but loyal customer bases as the “long tail” gets even longer? John Cooper of Pravda calls it the “segmenting of choice.” Time will tell.

“You might think this proliferation crazy, but there is a logic to the growing number of brands. “Consumers are always erring on the side of more choice. The genie is out of the bottle,” says Mic Zavarella of Anheuser-Busch’s Long Tail Libations.

“The good news is, the category is growing leaps and bounds; the bad news is, everyone’s jumping in with their vodka,” notes Blinn. Dean Phillips, president/CEO of Prairie Vodka, isn’t worrying. “The more brands that reach the market, the more fun we can have,” he muses.

Besides, young, affluent people keep turning 21, and they’re turning to vodka. The more unique a vodka, the more a chance it has to catch on with this important demographic.

Rollouts of inventive products like the energizing V2 Fresh Mint Vodka, infused with caffeine and taurine is one distinctive addition, as is the sparkling Vodka O2.

Chasing the Flavor Dragon

Infusing vodka is not a new trend. Since the 13th century, Polish noblemen began infusing their vodka with restorative bison grass. Today, Zubrowka keeps the tradition alive, with each bottle of their Bison Grass Vodka containing a blade of grass. Similarly, The Netherlands’ new Sonnema (pronounced Son’neh mah) VodkaHerb embraces good-for-you herbs by incorporating a variety of them in their product, sourced from
grasslands, jungles and mountains. However, this trend of infused vodkas seems to have especially gained momentum with real fruit infusions delivering stronger flavors and natural coloring.

What accounts for this proliferation of flavors – and why do brands keep rolling them out? Kate Price of Smirnoff says it best: “They make it easier to add fun and a kick to your favorite cocktails because not everyone can be a liquid chef at home.” That’s the crux of it: consumers like the great variety that make crafting cocktails a breeze. Smirnoff added white grape and passion fruit-flavored vodkas in March, increasing its flavored vodka line to eleven flavors.

Absolut started the flavored vodka craze several decades ago, and it continues adding to its line. Last year it launched Absolut Pears, as well as Absolut New Orleans, a limited-edition flavor that included donations to charities in the Gulf Coast.

Luxury leader Belvedere has made its mark on the flavor category with two authentic flavors: Cytrus, bursting with true lemon flavor, and Pomaranca, infused with orange blossom water. Both are made with real citrus peels.

SKYY, the number one domestic brand, has recently launched SKYY Fusions, an entirely new line of vodka infused with fresh fruit – not just flavored vodka. “We were not going to launch another flavor!” declares Van Sickle. SKYY introduced its iconic cobalt blue bottle in 1992, but was ready for a packaging change in 2008, when it rolled out a new bottle – sleeker, taller, and more contemporary.

Fris Vodka, known for being freeze-distilled in Denmark, also has two flavored products in its portfolio: lime and apple made with real Mcintosh apples.

Nemiroff is also known for its flavored vodkas using all natural ingredients, like cranberry, rye honey and honey pepper.

Van Gogh has 19 flavors. Although double espresso is the bestseller, Van Gogh doesn’t position the caffeinated vodka as an energy drink. “We’re really not in the energy drink business, but in the elegant cocktail business,” remarks van de Velde. In July, Van Gogh rolled out its grape vodka, and double Dutch chocolate will follow in September. “It’s a never-ending race. Everyone wants to come out with the next flavor.”

Stoli Blakberi unveiled in May to considerable buzz. “Stoli Blueberi was a great success for us, and a top performer in our portfolio – we expect the same from Blakberi as well,” says Dolores Concepcion, Stolichnaya senior brand manager. She notes that mixologists are excited about mixing vodka with fresh herbs, such as basil with Blackberi.

Georgi added two new flavors in June – grape and mango – expanding to 10 flavors; Three Olives recently introduced tomato, root beer and coffee-flavored vodka and Cristall Lemon Twist subtly integrates natural lemon extract. Kai, already known for its distinct vodka distilled from rare yellow blossom rice grown in small Vietnamese villages, has now come out with the first lychee vodka on the market.

“I call it ‘chasing the flavor dragon,’” says SKYY spokesman Dave Karraker. “At some point, you’re just stealing from yourself as you cannibalize your own products.”

Some companies are deciding to focus on their original identity though. “We’re not going to be in the flavor-of-the-month club – we don’t want it to interfere with our all-natural image,” says Mark Bacon, Finlandia brand director, noting that the brand only introduces new flavors every few years.

**Going Micro, Green and Organic**

Small-batch vodkas are the latest twist in the super premium category. It simply means “there’s not a continuous button pressed to produce these,” says Pravda’s Cooper. These aren’t huge brands, but specialty vodkas that appeal to very specific consumer groups – those that want a hand-crafted product, an environmentally friendly beverage or an organic choice – and sometimes all three.
While consulting around the California Bay Area, mixologist Dominic Venegas sees bars adopting smaller, artisanal spirits. He rattles off the list of what his customers prefer: Charbay, Hangar One, Square One, Sub Rossa and Tito. Venegas acknowledges that San Francisco is ahead of most of the country in adopting new vodka trends.

Since Square One introduced the first 100% certified organic American rye vodka in 2006—they’re now onto a cucumber flavored vodka—other small producers have pursued the green trend. Charbay, produced in Napa, lies at the intersection of both organic and infused, having added organic flavors to its line, including Meyer lemon, blood orange and pomegranate. Much like how craft beers launched micro-breweries, small distillers have begun micro-distilleries, notes Phillips of Prairie Vodka, whose family created Belvedere years ago. “It was inevitable that it would reach distilleries,” he notes. Prairie rolled down from the Minnesota plains in May. It is both organic and kosher.

McCormick Distilling produces a green brand, 360 Vodka. The distillation is environmentally friendly, and the bottle made from 85% recycled glass. “We’re doing everything we can to make this an environmentally-friendly product for the upscale vodka market,” says chairman Ed Pechar.

Qino One is made from organic, fair-trade quinoa grown in Bolivia and distilled in the Cognac region. “Savvy consumers want to be green and honest but they still want their vodka to taste and look good,” remarks managing partner Christine Cooney. “Our product and design grew out of these beliefs.” It has introduced a raspberry-flavored vodka as well, and will follow with kumquat in September.

Blue Ice is developing a 100% organic wheat vodka, as well as Idaho Mountain Berry flavor. “Consumers are learning to appreciate more creative mixology utilizing fresh and exotic ingredients to create tasteful cocktails,” says Blue Ice’s Egan.

SnowQueen Vodka from Kazakhstan is also produced from organic wheat and artisan spring water from the Himalayan foothills.

Vodka’s success has even attracted some unexpected competitors, namely Anheuser-Busch, the country’s largest brewer. Led by Mic Zavarella, its Long Tail Libations unit rolled out two super premium brands: Purus (made from organic Italian wheat) in November 2007, and Swedish-distilled Cape North in February 2008. Purus’s bottle is 70% recycled glass, the cork is sustainable, the adhesive is water-based and even the ink is made from soy.

Both brands started in New York and Boston, and then expanded to Florida. “We’re exclusively taking these brands through our beer wholesalers,” says Zavarella. This is a different approach than most, as Anheuser-Busch has a national reach through its distributors.

Finding a Happy Vodka Medium

Vodka is on a strong growth path as American consumers continue to appreciate its mixability. Yet not every new brand or line extension will succeed. Vodka has had a long run at the top, and one wonders if consumer sentiment might change. Consumers are funny that way: they like something until they don’t. Remember Disco or the sport utility vehicle?

“As younger drinkers become more discriminating, more knowledgeable and better exposed, we in the industry will have to follow suit and offer a better selection,” observes Tony Abou-Ganim.

DISCUS’s Ozgo does worry about market saturation, yet he still sees strong growth in super premium vodka. “As long as the market continues to grow that quickly, there’s more room for niche players,” he predicts.

Vodka brands that shift their market emphasis in this softening economy to on-premise sales may continue to sell well, particularly as consumers shift toward consuming at home. “Things like vodka never seem to go away, it just grows and grows and grows,” says 360’s Pechar. “There’s always a taste for vodka.” Vodka still has room to run.