



## Keeping spirits up in a downturn

**Grace Segran reports from London on the current state of the spirits industry.**

“Premiumisation” - trading up to the most expensive brands - seems to be a trend in the spirits industry – even in a recession. Or perhaps because of...?

At US\$40 a bottle, Ultimat costs at least 25% more than the two leading contenders in high-end vodka. However, Patrón Spirits co-founder, **John Paul DeJoria**, told INSEAD Knowledge he wasn't worried about the launch's timing as they “have found that in tough times, people like to treat themselves.”



A spokesman from Diageo – the world's leading drinks company - agrees, telling INSEAD Knowledge that people do need a lift during hard economic times, and even if they economise at home, when they are out on the town, consumers don't want to buy a cheaper version of their favourite brand. “When times are tough you don't want to compromise on your well-earned Johnnie Walker Black Label – but you might only go out once a week instead of twice; and at home you might be content with Johnnie Walker Red Label – but stay within the trademark.”

So “keeping up with the Joneses” is alive and well despite the recession...it's just moved to the liquor cabinet. “You care about what brand of drinks is in your cabinet at home... you offer the brand to your guests and it's your treat at the end of the week. The same thing happens in a bar or restaurant, where your choice is even more visible. What you buy says a lot about you, and consumers are unwilling to compromise on quality and the affinity they have with their favourite brands,” the spokesman adds.

The Patrón Spirits Company, for example, introduced its new Ultimat brand in 2009 despite a downturn in the economy.

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In the “ultra premium” products versus “premium”, there is a small segment of the population around the world that has been relatively unaffected by the recession, who want to buy the very best. Status and gift giving continue to act as a driver for sales.

Patrón Spirits’ Chief Operating Officer, **John McDonnell**, told INSEAD Knowledge at the Bloomberg Businessweek European Leadership Forum in London in November 2010 that the spirits industry grows in good times and bad times with the difference being that people trade down when the economy drops. “But you can’t trade down in tequila – you can’t go from a Patrón tequila to a tequila because the taste is so discernible. Tequila has a natural flavour unlike vodka which is odourless and tasteless. So we believe our luxury sector and spirits overall will continue to grow. Depending on the economy, there will be some trading down but if the economy comes back they’ll trade back up.” And there are new customers on the horizon: about a third of Diageo’s net sales come from the emerging markets – up from 22% five years ago.

### A Time to Spend

McDonnell says that Patrón Spirits is very bullish on the next three to five years. Most of their competitors recently have cut back manpower, slashed their advertising and started discounting and couponing like never before. And Patrón Spirits has taken the opposite approach.

“We’ve increased our advertising, we’ve been adding people, we never discount and we continue to do more and more events. It’s proven this is the way to go – we’ve studied every recession period since the Great Depression,” he argues. “For example, during the Great Depression, there were two cereal companies: Kellogg’s and Post Cereals. Kellogg’s said they were going to invest and Post Cereals said they were going to slash their marketing, cut people and take it to the bottom line. Today what cereal company do you hear about? Kellogg’s. That’s the model that we are following. We believe that as soon as this turns around, we’re going to explode again.”

Patrón says its biggest challenge is to stay focused, in order to compete with a giant like Diageo. “We’re a lean, mean machine. We’ve a niche portfolio. Our game is we have six brands and we focus on those. Every time we get up in the morning, it’s just about six brands. I don’t think the larger players could be as successful selling our portfolio if it were part of a conglomerate.”

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