

# ASIA'S GIANT MARKETS EMBRACE CRAFT SPIRITS

In the vast markets of China and India, the craft spirits movement is just coming into its own. *Michel Brekelmans* and *Alex Oldroyd* report

Economic development and the growth of a largely urban middle class and high-net-worth individuals in both India and China has led to rising demand for premium spirits. The big mainstream import brands in Scotch and Cognac (and premium baijiu) have been the main beneficiaries of this development. Asian consumers tend to drink for image and for this reason tend to favour the big international icon brands. It is almost a sign that they have arrived.

This partially explains why craft spirits have yet to garner a significant presence in Asia. Yet, as Asian consumers become more confident and individualistic, they are also becoming more experimental with a related connoisseurship. This is leading to a growing interest in craft spirits, albeit from a small base.

In China, the world's largest alcohol market, the first challenge that distillers must overcome is to turn around the negative connotations attached to some made-in-China liquors. Fuelled by years of headlines about bootleg factory busts and hospitalised customers, many consumers believe that international or long-established local brands are by default more exclusive and aspirational than domestic products — but this is changing.

Chris Lowder is general manager of Proof & Company, an independent distributor operating across Asia. He says: "China is experiencing a quiet revolution of national pride in 2020, bringing a new meaning to the phrase 'made in China'. China's youth, once eager to spend the night drinking Cognac and blended Scotch, are increasingly turning to premium local spirits instead."

There has been a steady rise in launches of new craft spirits brands, often from the country's established distilleries. For example, Ming River Sichuan Baijiu is a newly launched brand from



*Flying the made-in-China flag: Peddlers Gin Co.'s Local Artist Series (above) and Guanyun baijiu (below left)*

Luzhou Laojiao, one of the most highly regarded baijiu distilleries.

Independent craft brands can also increasingly be found. There are a number of gins such as Crimson Pangolin, Peddlers, both made in China, and Dragon's Blood from Mongolia, together with some more unusual craft products like Guanyun, an emerging baijiu brand that is sweeter and more palatable than traditional baijius, and Botany, a range of boutique bitters developed by well-known Beijing bartender Frankie Zou.

## Local market innovation

"Chinese consumers are seeing more market innovation happening at the local level by brands that are proudly Chinese," says Lowder. China's first craft gin brand, Peddlers Gin Co., is a perfect example. The brand initially faced pushback from consumers who were unsure of the quality of a locally made Chinese gin. However, Lowder says "as this space has virtually detonated over the last three years, Peddlers is scaling extremely quickly domestically and is well positioned to be China's next serious spirits brand."

Peddlers Gin Co. has just launched a special Local Artist Series featuring limited-edition label art from three different artists. The 3,000-bottle special edition was conceived, advertised, produced, launched and sold out within just eight weeks.

Peddlers is just one of many examples

of local brands that are eroding the market share of Western brands in the premium segment. Lowder says: "They are even making large sales to a new generation of Chinese drinkers who are attracted by the brand's pro-China messaging and are trying gin for the first time."

Chinese consumers may adopt new craft brands more quickly than has been the case in the US and Europe, where many brands have been meticulously seeded at the outset and very carefully built out over a fairly long period of time. While the new brands may have the potential to scale quickly, the structures that facilitate this also lead to a high risk of a short life cycle. Lowder's experience is that "China's ecosystem of locally produced alcohol has evolved at light speed over the last five years, driven by China's new class of highly interconnected, curious and sophisticated online influencers".

China is home to some of the world's most technologically sophisticated infrastructure in terms of phone apps, mobile banking and logistics which allows for seamless conversion between product discovery on social media, impulse purchasing and cheap delivery. "This ecosystem allows new lifestyle brands to dramatically scale virtually overnight, opening the door for extremely fast innovation," explains Lowder. It is, of course, possible that the same ecosystem can be exploited for the development of new international brands. →

→ While some of Asia's newly established craft distilleries have expanded rapidly and achieved broader distribution, most are operating in a similar way to their startup peers in the US and Europe, using local distribution with a focus on on-premise sales and their own tasting rooms. The majority are less than five years old, too young to have built strong relationships with distributors, retailers and consumers further afield.

Distribution outside the immediate locality is challenging just as for any small brand, but they can at least take advantage of an established craft market internationally. Early international development appears to be a common theme across Asian craft brands, possibly underpinned by the inherent demand for craft products that already exists among US and European consumers.

In the end, it is not really relevant to define some of these brands as 'craft', rather they are new brands from interesting origins. To elaborate on that theme, there are already a couple of premium brands with Asian origins that have become quite established on the international stage.

One international success story is Don Papa, a super-premium rum made on Negros, a Filipino island famous for its sugarcane. Founded by Stephen Carroll, who previously worked at Rémy Cointreau, Don Papa is owned by UK-based Bleeding Heart Rum Company. Carroll worked hard on the liquid to make it smoother with chill filtering and ageing and also took advice from the well-regarded Scotch whisky consultant Dr Jim Swan on sourcing interesting barrels for maturation.

Carroll's experience and connections enabled him to open international markets relatively quickly and Don Papa quickly became established as a premium brand across Europe and Asia. It is the fastest-growing super-premium rum brand in the world, with global volume



*International success stories: Kavalan Whisky (above) and Don Papa Rum (below left)*

of 170,000 nine-litre cases in 2019 — up 30% on 2018. Currently available in 25 global markets, Don Papa is now targeting the US and has inked a deal with drinks distributor Zamora Company to import, sell and market its rums there.

Also garnering international acclaim is Kavalan Whisky, owned by the King Car Group, an established beverage player in Taiwan. Founded in 2005, it has so far accumulated more than 450 gold medals, eight world whisky championship and five world distillery championship trophies.

Kavalan set out to create a single malt whisky with the quality of its established Scottish competitors that had an overlay of local characteristics. Its creation was also guided by Dr Swan. Kavalan head of whisky planning and marketing Yvonne Chou says: "Our whisky, aged in intense humidity and heat, sources the meltwaters of Snow Mountain and is enhanced by sea and mountain breezes. All this combines to create Kavalan's signature creaminess, making the whisky unique and different from whiskies produced in other regions".

Successful in its home market, the brand began to expand into other markets at the end of 2012. Chou says: "The early export strategy was based on cooperating with the largest spirits importers in various regions. Kavalan Whisky has been exported to more than 70 countries within eight years and the brand awareness and reputation have gradually increased. We also established our own branch in some countries."

### Making inroads in India

India is the world's largest whisky market, but consumption is predominantly through cheap local volume brands, primarily Indian Made Foreign Liquor (IMFL), distilled from molasses. The more expensive segments of IMFL may include a portion of spirit distilled from grain to improve quality. When consumers trade up to premium brands, there is a tendency towards conspicuous consumption which leads to a preference for leading international

brands, a common theme across Asia. Nevertheless, urban Indian consumers are starting to develop a taste for locally produced premium spirits, prompting the launch of several new craft-type brands in recent years, such as Jaisalmer Gin, and the Amrut and Paul John malt whiskies.

Paul John was created by a scale IMFL player — John Distilleries — but it behaves as a craft brand. It is a malt whisky distilled in the tropical resort of Goa from barley grown across Rajasthan and the foothills of the Himalayas. One of its challenges has been to educate Indian consumers about single malt in a market where most of the Scotch whisky consumption is of the big branded blends, but Paul John is also enjoying some success outside India where single malts are more widely understood.

John Distilleries head of public relations Asa Abraham puts the brand's success down to the quality of the its "flavourful expressions" which are as "near as possible to the liquid that comes from the cask" — i.e. 46% and above and non-chill filtered. With over 260 international awards, Paul John is available in 38 countries. New Orleans-based spirits company Sazerac increased its stake in John Distillers to 43% in 2019. This will enable the Paul John brand to access Sazerac's distribution platform in the US (as well as enabling the joint development of Sazerac's brands in India).

Amrut is one of the original Indian single malt brands. At the outset, the Jagdale family started making malt whisky to blend with IMFL before bottling it as a standalone single malt and launching on international markets. Its international debut was in Scotland in 2004, marking its intention to compete with the best from the home of single malt, something it has done successfully — in 2017, *Whisky Advocate* named Amrut Spectrum the World Whisky of the Year.

India is a rare situation where a high-quality craft player may have a cost advantage relative to the imported premium spirits brands, even if it is sub-scale, because import taxes are so high. With consumers looking for premium brands, there could be a sizeable domestic market as long as the local players can sustain the right level of quality. Ironically, it may take success on the international stage to burnish the brands' image sufficiently for them to project status on their home consumers. ●

*Next month, we look at the M&A opportunities for Asian craft brands.*

