GLOBAL PLAYERS SEARCH OUT ASIAN CRAFT BRANDS

Global spirits companies are starting to look for Asian craft opportunities, reports *Michel Brekelmans* and *Alex Oldroyd*

Ki No Bi Dry Gin, produced at The Kyoto Distillery, is Pernod Ricard's first acquisition of an Asian craft brand

Global spirits companies have been very active in buying brands created by entrepreneurs in Europe and the US and now they are also starting to pursue Asian craft brands. As we have seen with craft players from other regions, a sale or tie-up with one of the big global spirits groups may well represent both the natural progression in developing the brand and a potential exit for the Asian craft players down the line.

Asian craft brands may have to overcome the consumer perception that imported brands are better than local ones but, if they can do that, the task of building their brand locally is probably a little easier than for Western brands because they are operating in a less crowded market. (For more on this, refer to Parts 1 and 2 of our Asian craft series in the September and October issues.) However, they face the same challenges as Western brands in terms of finance and route-to-market, in scaling their businesses and accessing international markets.

In March 2020, with Covid-19 already starting to challenge the spirits industry in Asia, Pernod Ricard announced a significant investment in The Kyoto Distillery from Japan, famous for its Ki No Bi Kyoto Dry Gin. The funds will be used primarily to build a new, state-of-the-art distillery to meet the growing demand for ultra-premium gin.

Beam Suntory-owned Roku has proven itself one of most successful Japanese craft gins

Ki No Bi is Pernod Ricard's first acquisition of an Asian craft brand, but its three-year 'transform and accelerate' strategic plan has already seen it invest in American whiskey, mezcal and gin. Ki No Bi joins the Gin Hub which houses Pernod's burgeoning stable of gin brands and gives some insight into the company's strategic approach to the category. Its strategic international brand is Beefeater, but it also has established regional brands such as Seagram's and Plymouth.

The recent craft additions have a common theme in having clear geographical heritage, but each has its own differentiated position within the portfolio, such as German super-premium gin brand Monkey 47, Inverroche from South Africa, Ungava from Canada and Italian flavoured gin Malfy. Ki No Bi is the first Asian craft gin to join Pernod Ricard's portfolio, but it may not be the last, given the rising taste for gin across Asia, the company's broad positioning across the region, and Western consumers' curiosity to try gins from different places.

Meanwhile, staying with Japan, the family owners of Marussia Beverages have invested in Hatozaki Whisky and recently launched its 135° East Hyōgo Dry Gin in international markets. This is a unique investment as Japanese whisky is increasingly sought after internationally, but the main brands are tightly held by Japanese multinationals. While the leading multinationals would undoubtedly be keen to acquire craft Japanese whisky players, there are few players that have a scalable, high-quality product and a willingness to sell, so this area may not be as active as gin.

The list of Asian brand acquisitions to date is not a long one, though. If we go back a little further and include acquisitions of more established businesses rather than entrepreneur-owned brands, Diageo has made a couple of investments in domestic Asian businesses in Vietnam and China. Its baijiu investment, Shui Jing Fang, has been a long and complex process with bumps along the way, but it seems to be working out now. Other multinationals have dabbled in baijiu, albeit with less success.

Another notable craft investment in Asia is Sazerac's stake in Paul John Indian Single Malt Whisky. The leading domestic spirits businesses in India are already owned by multinationals Diageo and

Pernod Ricard. Sazerac joined them with its investment in John Distillers in India in 2017, taking the investment to 43% in 2019. The company has a large Indian-made foreign liquor (IMFL) business, but the investment is also interesting from the perspective that John Distillers also produces Paul John Indian Single Malt Whisky, the winner of a number of international whisky prizes. Sazerac has the capability to accelerate the development of the brand in the US.

The reasons why there have been few transactions for entrepreneur-owned brands may be a combination of the dearth of targets and the consumer perception that imported brands are better, meaning the multinationals can focus on building their existing portfolio of international brands. As both of these situations change, the level of activity in Asian craft M&A is likely to pick up. Asia is a decade or so behind the US and Europe in the development of the craft spirits movement, but a number of brands have been popping up and some of them may soon reach a level of maturity that makes them interesting for the multinationals.

However, the competition for these acquisitions may be narrower than we have seen in other regions, particularly the US. The multinationals generally acquire craft brands with a view to adding value in two ways. First, the multinational can exploit the craft brand's local position to enhance the portfolio it sells in that market. Second, it can leverage its broader distribution platform to scale the acquired brand. Fewer multinationals have the necessary local market position in Asia they hold in the US or Europe, and the ones that are established in the region tend to be the better-capitalised players who can afford acquisitions. Meanwhile, there are few examples of Asian spirits brands that have successfully scaled internationally. This may be a function of the limited number of Asian spirits companies with international distribution platforms — really just Beam Suntory.

Sazerac has increased its stake in award-winning Paul John Indian Single Malt Whisky

Marussia Beverages has bolstered its spirits portfolio with Japanese whisky Hatozaki

It is also notable that, to date, the successful Asian spirits exports have largely been confined to whisky and, to a lesser extent, gin, both categories where the liquid can pick up on local characteristics but remain familiar to Western consumers. This is in contrast to some of the domestic spirits, such as sake and baijiu, which remain niche products internationally. Asian heritage is something of a novelty for Western spirits consumers who are seeking to try new things. However, many Asian countries have become known for mass-produced, value-for-money exports, so the geographic branding does not necessarily play well. Japan is a notable exception. Its leading whisky brands have earned tremendous international respect.

In the meantime, some of the big companies are taking things into their own hands. Innovation is an increasingly important driver for growth in both spirits and other consumer goods. Multinational spirits companies have embraced innovation around their core brands. However, the big players have generally proved reluctant to launch their own craft brands as it is difficult to recreate the passion and flair of a startup, the failure rate is high, success often slow and very small brands can be a distraction for an organisation designed for scale. Nonetheless, in the absence of established targets, they have started to get creative themselves.

Marussia Beverages launched 135° East Gin in seven international markets, including the UK and the US

Diageo has formed a joint venture with a Chinese baijiu distiller to create a Chinese whisky. According to Diageo, Zhong Shi Ji, the resulting collaboration between a Scotch master blender and a baijiu master, has a unique process including maturation in Chinese ceramic pots. Pernod Ricard is constructing a new whisky distillery of its own in China. It has earmarked $150m for investment in the distillery and visitor centre in Sichuan, which is scheduled to start production of a whisky created by a Chinese master distiller next year. Meanwhile, arguably the two most successful Japanese craft gins have been developed by Beam Suntory (Roku) and Asahi (Nikka Coffey).

As the craft movement gathers pace in Asia, we may see more craft brands getting snapped up by multinationals, particularly given the attractive growth in the premium segment in the region, increasing consumer willingness to pay a premium price for domestic brands, and the increasing threat to premium imports from rising trade barriers. ●