

Absolut Vodka – Super Premium Vodka in an Era of Austerity.

Absolut Vodka is known the world over as one of the world's premier vodka brands. Over several decades, it has become a global brand icon, recognised in hundreds of countries across the world. For a brand once owned by the Swedish government it has achieved unparalleled success. Absolut became synonymous with premium vodka, and literally created the market for premium vodka. As vodka became more fashionable in the drinks industry, more competitors emerged. Now even more prestigious vodka labels have emerged, proclaiming greater purity and better taste, with even larger price tags. Vodka by its very nature is colourless, odourless, and flavourless, exhibiting all the hallmarks of a commodity. So how can distillers differentiate their products creating sought after brands, that people are willing to spend premiums on? Trying to convince buyers to pay more than 50% more for a product with no discernible differences, showcases how branding really works.

The Absolut brand was created by Lars Ollsson Smith in 1879, when he sold a new variant of vodka using a different distillation process. In 1917, the vodka industry was nationalised by the Swedish government. The brand languished for several decades like many state-run enterprises. Then in 1979, the Absolut brand was reinstated, to market a new premium range of vodka. The production and bottling of Absolut takes place in Åhus in Southern Sweden. This new range took off in popularity, thanks in large part to its classic advertising campaign, which became internationally renowned, and became a huge international success. Its marketing success showed that positioning was vital, in that the brand successfully crafted a niche - the premium vodka category. It has new owner Pernod Ricard, the French drinks behemoth, who bought the company for \$5.7 billion in 2008. The brand has enjoyed considerable success, and the Absolut brand is now the second largest global vodka brand, behind Diageo's Smirnoff.

Figure 1 – Absolut Vodka – At a Glance

- Owned by French Drink Giant, Pernod Ricard.
- Sold in 150 countries. Grew 3% in volume for 2011
- Established in 1879.
- Bought for \$5.7 billion in 2008 from the Swedish state government.
- Employs over 2,500.
- Over 100 million litres of Absolut Vodka are shipped yearly
- Estimated to have 0.4 % of global spirits market.
- Absolut Vodka is produced in Åhus, Skåne in southern Sweden.
- Third largest spirit brand behind Bacardi & Smirnoff.
- In 2004, they sold their billionth bottle of Absolut vodka
- Sales increased in growth markets such as Brazil 36%, Korea 44% India 60%, Russia 16% in 2011

Vodka has increased in popularity, as it has become a highly compatible and popular mixer, used extensively in cocktails. The cocktail culture is thriving in many global markets. Sales of vodka in the heartland of Eastern Europe has seen a notable decline in popularity, yet in Western Europe its popularity has continued to surge through a mix of strong branding, popularity of cocktails/long drinks and product innovations, such as the incorporation of flavours. Now the drinks giants are looking at markets such as India, China, and Brazil to boost sales. Total global sales of vodka are on the decline, yet the total value of vodka sales has grown. This highlights manufacturers developing a high value add product, and consumers' willingness to pay for it. Crucial to success is achieving greater distribution coverage, and for the product to be exposed in the right exclusive setting, by getting bar tenders to use the vodka in their cocktails.

The late 90's saw the emergence of super-premium vodkas such as Grey Goose & Belvedere brands. Vodka drinkers were prepared to pay very high prices for these new brands, based on the marketing message that they were purer, and tasted better.

Creating this perception of luxury is vital, necessitating high prices and classy packaging. Grey Goose, a super-premium vodka brand ships their vodka in classic wooden containers. Indeed within the spirits category there are five price segments; standard (e.g. \$10 bottles of Mailbu), premium (\$17 bottles of Absolut), super-premium (\$26 bottles of Martell cognac), ultra-premium (\$42 bottles of 18 year old Chivas Whiskey), and the prestige sub-category (greater than \$84 bottles Chivas Royal Salute Whiskey).

The Swedish Absolut brand had created this exclusive image three decades earlier in export markets. Absolut became famous through its iconic advertising and packaging design. The star of their adverts was not the drink, but the bottle it came in. Here the distinctive shape of the simple Absolut bottle was pervasive in every single press or magazine advert. It became ubiquitous. The classic campaign was devised by advertising agency, TBWA and over 1,500 ads using this creative execution have been created, making it one of the longest ever advertising campaigns. The ad campaign has adorned art galleries, and popular culture exhibits across the world, won numerous advertising accolades, and even spawned Absolut advertising books. The campaign has won over 150 advertising awards. The first ad went with the catch-line "Absolut Perfection". Since then other catch-lines have included "Absolut Season", "Absolut Optimist", "Absolut Profile", "Absolut Subliminal", and "Absolut Manhattan". The adverts themselves leaped the artistic divide and became art pieces in themselves rather than commercial advertising. The company has proudly collaborated with artists such as Andy Warhol, Damien Hirst, and fashion designers such as Jean-Paul Gaultier, Stella McCartney, and Gianni Versace. Their campaigns captured iconic moments in popular culture such as "The Absolute Road Trip" (*The first moon landing*). The company has continued to forge links with the artistic community, through sponsorships of art exhibitions, and collaboration on packaging designs. In 2012 they garnered huge online video viewership by developing an online music video, Absolut Greyhound, in partnership with the popular dance band, the Swedish House Mafia.

There now over eleven different Absolut vodka brands incorporating a variety of flavours, including Absolut Peppar, Absolut Citron (lemon flavoured), Absolut Kurant

(blackcurrant flavoured), Absolut Vanilia, Absolut Wild Tea, Absolut Raspberri, Absolut Apeach, and Absolut Ruby Red, Absolut Cherrykran, Absolut Grapevine are available. Absolut Peppar became the first of the brand extensions launched in 1986, with subsequent flavours rolled out over the intervening period. Absolut Citron and Absolut Mandarin are the firm's bestselling brand extension flavours. The lack of a distinctive taste from traditional vodka, made it very conducive for flavours to be added. In addition the brand has launched several limited edition products/package designs. For example once recent campaign focused on unique coloured bottle variants, where no two bottles of Absolut were the same.

However it had several failed product extensions also, when Absolut launched Absolut Cut, Absolut Clear Cut & Absolut Crisp Cut, which are mixes of vodka, spring water, and citrus, that the firm sells in small bottles. In an attempt to create a clear positioning strategy against the wildly successful Smirnoff Ice range of premixed vodka drinks. Here the firm launched a lower alcoholic content product, targeting a mainly female audience, and also attempting to reap high margins. The strategy failed to yield dividends. The product range was pulled in 2007.

Table 1 – Absolut’s Main Vodka Competitors

Smirnoff	Stolichnaya	Grey Goose	Cîroc
Owned by Diageo. Vodka brand leader. Strong core brand with successful brand extensions. Launched Smirnoff Penka, its entry into the market. The product flopped	Seen as a premium brand in export markets in comparison to domestic markets. Launched the super premium brand " <i>Stolichnaya Elit</i> "	Barcardi bought brand for estimated \$2 billion. A super-premium vodka brand. Known for its quality and price. French origins, with a replaceable cork opener.	French super-premium vodka. Partnered with rapper Sean Coombs (Puff Daddy) to give youth and pop cultural appeal.
Finlandia	Skyy	Belvedere	42 Below

<p>Bought by Brown-Forman owners of Southern Comfort & Jack Daniels. High profile premium vodka. Launching similar vodka brand extensions.</p>	<p>Super premium vodka brand popular in the US. Emphasis on the purity of its vodka.</p>	<p>“The Original Luxury Vodka”. Emphasis on Polish origins. Priced circa \$40 a bottle</p>	<p>Bought by Bacardi in 2007 for \$91 million. Quirky New Zealand brand</p>
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In 2004, it launched Absolut Level, its attempt to create a super-premium brand of vodka. To the chagrin of many vodka aficionados, Absolut believed it could create a premium brand of vodka, and command a super-premium price. Their Absolut Level brand was marketed as being extra pure. In their marketing pitch, Absolut claims that this vodka is produced to the highest standard, using two production methods. Absolute Level was launched in a slim, frosted tall bottle, which retained the silhouette of the iconic Absolut bottle. Level is an elongated version of the classic bottle design with a heavy base. Central to firm’s strategy is avoiding cannibalisation between the Absolut and Level brands. A bottle of Level would sell in the US for \$30 a bottle, whereas Absolut would sell for \$20 a bottle. It utilises the catch-line of the perfect blend of “*smoothness and character*”. So people want to think they are buying the best, and use price, and the quality of the packaging as their primary inference into the quality of the product. Absolut hoped to sell 100,000 cases of Level in its launch year. The product extension also flopped.

In the US, super-premium brands began to emerge such as Grey Goose, and Skyy in the late 90’s. Other drinks sectors have noticed a similar move towards super premium brands such as with gin, where brands such as Beefeater Wet, 1800 Silver Tequila Reserva, and Gordon’s Distiller’s Cut were launched. Some drinks brands are also trying to capture the hearts and minds of health conscious customers by launching fewer

calories and less potent alcohol combinations. One of the major lures of the sector is the exorbitant premiums accrued. However these companies failed to comprehend the impact of the ensuing credit crisis, and the emergence of austerity chic. Super-premium was not super anymore.

Some of the key challenges facing Absolut is the quest for continued growth as the market reaches maturity. In an effort to overcome this Absolut needs to focus on the core brand, and seek out product/packaging innovations. The launch of Absolut Level was an innovation it hoped to garner extra market share and revenue. Critics of the strategy would argue that it takes away emphasis from the core brand, possibly cannibalise sales, and prove fruitless. Some would argue that Absolut has responded too late to the super premium vodka category launching it in 2004, when other like Skyy and Grey Goose have several years head start. It was seen as a reaction to these brands' success rather than a clearly defined business vision. Furthermore consumers are becoming more and more health conscious, which could possible see them turn away from strong alcoholic drinks such as spirits. In some markets, consumers are continually migrating to less alcoholic drinks such as beer or wine. Drinks companies are faced with increasing regulation from national governments, as they want to negate the harmful effects of alcohol, such as alcoholism, liver damage, binge drinking, harmful societal effects and drink driving. Governments are considering curtailing promotional options available to drinks companies, and considering heavier excise duties. In a pre-emptive strategy, drinks companies are launching "*drink sensibly*" and "*sip sensibly*" campaigns to placate regulators.

There is a huge importance on branding/packaging to signify that it is a premium brand. Drinks brands are under significant pressure in the value sector of the spirits industry. The black and grey market is rampant in certain geographic markets, meaning that legitimate value brands are suffering. Furthermore the counterfeiting of legitimate spirits is taking place, with counterfeiters, copying the packaging of premium labels. Also retailers have launched their own brand equivalents in a bid to capture the value end of the business (e.g. Lidl & Tesco). Leaving branded spirits one strategic avenue left.

Spirits manufacturers are trying to lure younger drinkers to their brands, in effort to maintain market share, and boost a brand's contemporary image. The launch of flavoured spirits by Absolut was a determined effort to gain access to a younger demographic profile. In emerging markets, consumers sought with greater frequency Western premium alcoholic drinks, rather than local alternatives. Rising affluence in these markets saw consumers wanting to buy prestige brands, as an expression of their newfound wealth and aspirations.

Probably one of the biggest concerns facing vodka manufacturers is that although Vodka is '*in-fashion*' at the moment. Demand for goods that are fashionable are notoriously fickle, and consumers may migrate to the next fashionable drink. More importantly can all of Absolut's brand extensions co-exist with the core brand, into the future, and do they contribute to its future success?

Case Questions

- Q. 1 - Discuss why do you believe that Absolut had launched a flurry of new products such as Level, and Absolut Cut, discussing the potential reasons why they failed.
- Q. 2 - Discuss the benefits and pitfalls associated with utilising the Absolut brand for brand extensions of newly developed products.
- Q.3 - Suggest further new product development opportunities for Absolut, given its core competencies and experience.

This case was written by Dr. Conor Carroll, Lecturer in Marketing, University of Limerick.

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