



## **Russian Standard Vodka: Strategies for Global Branding and Expansion into the US Market**



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This case was prepared by Vadim Grigorian (INSEAD, 2000) under the supervision of Pierre Chandon, Assistant Professor of Marketing at INSEAD, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. We thank Roustam Tariko, Jose Aragon and Dimitry Barsukov from Russian Standard Company for their help and support in compiling the case.

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After a visit to Russia, foreigners love to bring back home traditional souvenirs such as 'matryoshka' wooden dolls, Red Army captain watches, and lacquer boxes from Palekh. More recently this list has also been known to include a bottle of super-premium Russian Standard vodka, a product that embodies a completely different promise of world-class quality while retaining the unmistakably Russian identity of more traditional souvenirs.

Russian Standard vodka was launched in 1998 by Roust Holdings, a company driven by an unusual mix of quality orientation and Russian pride. In launching the Russian Standard brand, the ambition of Roustam Tariko, founder and main owner of Roust Holdings, was to set a new standard of world-class quality for a new breed of global Russian brands. And what product could be better suited to achieve this goal than vodka - born in Russia and strongly associated with the country.

In 2002, Roustam Tariko's ambitious goals for Russian Standard have been surpassed. Russian Standard (or "Russky Standart" as the Russians would say) was selling at \$13 a bottle in Russian airport duty free shops, more than the long established premium vodka brands such as Absolut Blue (\$12), Finlandia (\$8) and Stolichnaya (\$8). Russian Standard was outselling all these brands, achieving the number one position in the premium segment with a 27% market share. As one shop assistant put it, "People bought Russian Standard because it was unmistakably Russian and it looked reliable." In general, experts attributed the success of Russian Standard to its high and consistent product quality, its distinctive premium packaging, its strong distribution and merchandising, and its Russian heritage.

Encouraged by its rapid success at home, management aimed to make Russian Standard the number one Russian vodka in the world, launching the brand in 10 European countries including the UK, Italy, Greece and Hungary, with no or minimal adaptation to the product or the marketing mix. Next, Tariko wondered whether Russian Standard vodka should be launched in the US, the biggest premium vodka market in the world, and, if so, which expansion strategy to follow:

1. Should the successful positioning of the brand and marketing mix used for Russia be directly applied to the US market?
2. Should a global branding strategy be pursued – one that preserved the key sources of equity of a potentially global brand but also included local market adaptations as needed?
3. Should a customised approach to the US market be used to win this key market, regardless of the implications for the brand in other global markets?

When discussing the marketing strategy for entering the US market, management had to keep in mind that the Russian Standard brand was also shared by the bank business of Roust Holdings, Russian Standard Bank, which accounted for about a quarter of the revenues of Roust Holdings, about the same level as Russian Standard vodka (the remaining 50% came from business-to-business premium alcohol distribution). For Tariko, the extension into banking was no accident, as the high quality and "Russian-ness" of the brand did not have to be confined to vodka. In fact, he wanted to make Russian Standard a global, multi-business brand that Russians would be proud of. It was therefore important to consider how the chosen route for the US expansion would affect the equity of the brand in Russia, both for its vodka and banking customers.

## Entrepreneurial Beginnings

As with many very successful entrepreneurs, Roustam Tariko started from humble beginnings.<sup>1</sup> Originally from Tatarstan, one of Russia's republics, Tariko started his business activities by importing Western goods during the era of *perestroika* and *glasnost*. He made his small initial capital in 1993 by serving as a mediator between an Italian business travel company and a Russian hotel booking agency, Intourist. During that time, he also made contact with chocolate manufacturer Ferrero and started importing Italian candies to the Russian market.

Shortly after successfully developing Ferrero's sales in Moscow, Tariko was approached by representatives from Martini & Rossi. They reached an agreement with Roust Inc. (which he founded in 1992) to distribute Martini in Russia. At that time, few foreign brands were available to Russian consumers and Tariko was one of the first entrepreneurs to seize the opportunity created by the supply/demand gap. Priced at an astronomical level – US\$50 per bottle at today's rates – the first truckload sold in no time. By the end of the first month, Roust had sold more Martini in Russia than Martini & Rossi had sold there in the previous year. Delighted with the results, Martini & Rossi signed a deal making Roust their exclusive importer in Russia.

By 1994, Roust had established itself as Russia's leading importer of upmarket alcoholic drinks. The company enlarged its distribution portfolio to around 90 brands including such names as Smirnoff, Johnnie Walker, Bacardi, Gordon's, Bailey's, Veuve Clicquot, Krug, Otard, Disaronno Originale Amaretto and Metaxa. In 1998, Russia – and Roust Inc. in particular – became the largest Martini importer in the world.

## The Russian Standard Brand

Tariko wanted to make his firm a "billion dollar company within 10 years". With the understanding that exclusive distribution rights would not last forever, Tariko decided that it was time to create his own brand of products and services, so as to capture exclusive branding rights to consumer mindspace, i.e., exclusive brand awareness with positive, unique and lasting associations.

Tariko had two ambitious goals for his Russian Standard brand: (1) to develop a line of original products and services in multiple categories which would meet international quality requirements, and (2) to create a brand that would set new Russian standards and improve the image of Russia both at home and abroad.

1. **Russian Standard to become a global umbrella brand.** Tariko wanted to emulate brands like Virgin, GE or Disney, which branded products from very different categories under the same name all over the world. In order to ensure that the brand would appeal to domestic and international consumers alike, Tariko involved prestigious international consultants and marketing agencies from the start in the development of the marketing strategy for the Russian Standard brand.

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1 A more detailed description of the entrepreneurial beginnings of Roustam Tariko can be found in the case "Roustam Tariko: Russian Entrepreneur", © INSEAD 2006.

2. **Russian Standard to become the first premium quality brand from Russia.** Tariko wanted Russian Standard to demonstrate that the new Russia was again capable of producing superior quality products. In the process, he hoped that Russian Standard would improve the image of the country and the “Made in Russia” label, both at home and abroad. Ultimately, Tariko wanted Russian Standard to become an ambassador and personification of Russia in the same way that Coca-Cola was associated with the US, Mercedes with Germany, Sony with Japan, or Chanel with France.

## **Brand Identity**

Tariko’s personal affinity for luxury goods and his ambition to create the first truly premium Russian brand determined to a large extent the identity of Russian Standard. The brand name had to be evocative to a Russian audience, as he observed:

“If you want to sell products to Russians, you have to look to the past. You need to understand who they are, what they will reject and what they will buy. The Russian Standard brand name makes sense because Russians would like to have standards! That is why all the messages we have been communicating to consumers are based on Russian traditions. We want people to see that we make products with principles for individuals with principles. My task is to re-establish something that will be a standard for Russians.”

Early in 2001, Tariko decided to conduct a major survey on the essence of the brand so that this, in turn, could be conveyed to consumers. With this aim, Tariko and his management team sought the input of international advertising experts and brand identity agencies. After several months poring over brand research, meetings with notable Russian media and literary personalities, extensive travel throughout Russia, customer focus groups and numerous brand essence and positioning briefs, an overall strategy was born. In short, the brand “embraced the past ... and inspired progress.”

## **Russian Standard Products and Services**

### **Russian Standard Vodka**

The first category to which Tariko decided to apply his Russian Standard concept was vodka. He believed that there was a clear niche for a premium brand that was genuinely Russian, with a link to Russia’s rich past. Neither Smirnoff nor Stolichnaya – although internationally known as major vodka brands of Russian origin – could qualify for this definition: the first was manufactured in the US and the second had a Soviet identity.

The market entry strategy of Russian Standard vodka was developed in collaboration with international consultants McKinsey & Co. The vodka itself was produced by Liviz, one of Russia’s oldest distilleries, located in St Petersburg. In August 1998, Roust Inc. launched a vodka in an exclusive deluxe category. A dedicated consumer and trade marketing group was specifically set up to develop marketing programmes to promote the new product (see Exhibit 1).

The launch of Russian Standard vodka was successful, and the new product quickly gained significant market share in the domestic market, above that of archrivals Finlandia and

Absolut. Supermarket stocks were often exhausted faster than production could supply. In 2000, sales of Russian Standard were 180,000 cases; in 2001 they reached 350,000 9-litre cases.<sup>2</sup> As a result, it was decided to double the manufacturing capacity of the Russian Standard line at the Liviz factory in St Petersburg.

There were two key reasons for Russian Standard's early success:

1. First, and most critically, Russian Standard vodka was the first domestic brand to create a rich mosaic of imagery (product, packaging, pricing, merchandising, media communications) as opposed to the traditional one-dimensional image of "quality" associated with existing vodka brands which was strictly confined to the image of the producing distillery. In other words, Russians chose their vodka on the basis of who physically produced the vodka as opposed to the more emotional, fuller aspects of Western brands. Proof of this is that in Russia, the birthplace of vodka, international brands like Absolut and Finlandia were perceived to be the most aspirational brands.
2. Secondly, the Roust organisation had already developed strong and commanding merchandising skills and relationships with the trade, both off-trade (supermarkets) and on-trade (bars, clubs, restaurants). This allowed Russian Standard to secure privileged shelf space and promotion by supermarkets, and access to the bars of the most prestigious and fashionable clubs and restaurants in Moscow and St Petersburg.

Two years after the brand's debut, its domestic success triggered the idea of launching Russian Standard abroad. Subsequently, Russian Standard was launched in several European countries such as the UK, Italy, Greece, Hungary, Estonia, Bulgaria and Kazakhstan. This international expansion was based on opportunity, often relying on personal connections with small local distributors. The brand was not supported either by print advertising or significant promotion. Basically, the strategy was to put the product on the shelves with the hope that the packaging and the distributor would "do their job". Despite this lean approach, international sales increased steadily and represented around 6% of overall brand sales in 2000.

### **Russian Standard Bank**

Next on the expansion list was the creation of the Russian Standard Bank. Using the opportunities created by the 1998 financial crisis, Tariko decided to create a new type of bank to serve foreign trade companies, small businesses and, most importantly, individual customers. In 1999, with the help of McKinsey, he came to the conclusion that there was a niche market in Russia for a bank that would have "good assets, normal assets from a financial point of view." Tariko hired senior executives from Menatep and Mezkhombank, both major banks in Soviet times which ran into difficulties after *perestroika* and were badly hit by the financial crisis of 1998. As of early 2000, with 170 employees, the bank already ranked 45th out of 800 banks in Russia in terms of capital.

In the business-to-business segment, the bank offered credit to small-medium enterprises, cash collection and international securities, as well as loans of US\$50,000-100,000. It also served several large foreign trade companies with a good reputation in the Russian market, such as Hewlett-Packard, Ericsson, Chevron and McDonalds. However, the main focus of the

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2 A 9 liter case is a standard unit of measure of sales volume in the spirits industry.

bank was on retail banking. Tanko wanted to make the bank “the GE capital of Russia” and thus started developing loans and credit card services (see Exhibit 2). The target market was middle-class borrowers and the maximum amount of credit was US\$500, to help consumers finance home appliance purchases. These small lending programmes quickly became popular, with over 100,000 customers in 2000.

Russian Standard’s retail banking business was supported by aggressive print and outdoor advertising campaigns. Posters inviting consumers to borrow from Russian Standard Bank were everywhere in the Moscow underground (see Exhibit 2). Russian Standard also innovated in terms of distribution by setting up Russian Standard booths within large retailers, where customers could ask for a loan and get it within 15 minutes thanks to a sophisticated IT network.

There was some uncertainty within the management of Roust Holdings regarding the possible impact of the Russian Standard bank on the brand equity of Russian Standard vodka. On the one hand, at a time when many Russian banks were undercapitalised, some customers viewed positively the association of the bank with a successful and profitable vodka business. On the other hand, few customers made a clear link between the two businesses (even though they shared the same name and logo and had both considerable brand awareness). It was clear, however, that if sharing the same brand could not explain the huge success of each business, it had not been detrimental either.

### **Other Business Ventures**

Following the e-commerce hype of 1999, Roust launched a business-to-business portal, Russian Standard On-line, which provided distribution services to manufacturers such as Procter & Gamble, Kraft and Nestlé, and a business-to-consumer electronic grocery retailer, bistronom.ru. Despite considerable investment, the bistronom.ru e-commerce site was closed in 2001 and the future of the B2B portal was not clear.

## **The Vodka Industry**

### **The “Water of Life”<sup>3</sup>**

The name “vodka” stems from the Russian word “voda”, meaning water. The first documented production of vodka in Russia was at the end of the ninth century. During the Middle Ages, distilled liquor was used mainly for medicinal purposes, as well as in the production of gunpowder. Because early production methods were crude, the impurities often contained in the product were masked by flavoring vodkas with fruit, herbs or spices, including absinthe, acorn, anisette, birch, calendula, cherry, chicory, dill, ginger, hazelnut, horseradish, juniper, lemon, mastic, mint, mountain ash, oak, pepper, peppermint, raspberry, sage, sorrel and watermelon!

Its popularity increased throughout the 19th century, helped by the presence in many parts of Europe of Russian soldiers involved in the Napoleonic Wars. In 1894 a law was enacted to

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3 Based on information from the British Gin and Vodka Association (<http://www.ginvodka.org/history>) and company materials.

make the production and distribution of vodka in Russia a state monopoly. Alexander III asked world-famous chemist Dmitri I. Mendeleev (1834-1907), inventor of the Periodic Table of Elements, to examine all existing vodkas in order to find the ideal formula which was to become the Czar's standard for all vodka distilleries in Russia. After a series of laboratory tests, Mendeleev concluded that no existing vodka met the standard of quality and developed a new vodka formula, which was later patented by the government as the only standard for quality vodka production. Although today's vodkas often have similar tastes, they no longer have to abide by Mendeleev's standards and can be made from the fermentation of a variety of natural products (potatoes, beets, various grains and even milk) using a wide variety of distillation processes.

### **Vodka Markets**

In 2000, Russia was the world's vodka market leader, with 193.5 million 9-litre cases, followed by Ukraine (52 million cases), the US (36.2 million cases), Poland (25.9 million cases), Belarus (14.6 million cases), Uzbekistan, Kazakhstan, the UK, Romania and Germany. Consumption declined in most central European countries, where vodka had always been perceived as a traditional drink, but increased in all other top vodka-drinking countries. Russia, Ukraine and the UK enjoyed the sharpest increase rates of 21.8%, 11% and 7.1% respectively.

In most countries, the vodka market could be divided into four price segments: low, standard, premium and super-premium. Depending on the country situation, a certain brand could compete within different price segments. As a general rule, premium and super-premium segments were represented by imported vodka brands. From a taste point of view, the market could be segmented into non-flavoured and flavoured vodkas. Usually, major brands used various line extensions to serve several segments.

#### ***The Russian Market***

The Russian market was dominated by inexpensive local brands and the black market. Imported vodkas briefly boomed in Russia in the early 1990s, but the economy was geared toward cheap vodka consumption. In 2000, the overall premium segment could be estimated at around 0.7 million cases. The premium segment was dominated by locally produced brands, such as Russian Standard, Stolichnaya Cristal and Yuri Dolgorukij (see Exhibit 3). The small imported premium segment was mainly represented by Finlandia, Absolut and Smirnoff.

Engrained in the Russian culture, Vodka was the "water of life", forever present on Russian tables. Most households had a bottle of vodka in the fridge or the cupboard. Some people consumed it on a regular basis several times a week, while others drank it only on special occasions. Celebrating without a bottle of vodka was unthinkable. Unlike the Western European or American tradition of drinking strong alcohol beverages after meals, in Russia vodka was drunk during the meal, more like wine. It was common to drink vodka straight in shots with pickled cucumbers or caviar. Vodka drinking was closely associated with the Russian tradition of toasting. Whatever the occasion, each toast would be followed by a shot of vodka. Despite the fact that for most Russians vodka was nothing special, a good quality bottle of vodka was always welcomed by the party host.

The majority of vodka consumers were men, whereas women preferred lighter drinks such as Russian sparkling wine or beer. Vodka was considered to be “serious stuff” in Russia, a “real drink for real men.” Many male consumers thought that women could not drink it properly, “making faces as they swallowed it down.” Over 95% of vodka consumption in Russia was home-based (off-premise). On-premise, i.e. in bars and nightclubs, people preferred cocktails based on “newer” drinks, such as tequila or Bacardi. Vodka consumption generally picked up during wintertime in Russia.

### *The US Market*

In 2000, the US was the biggest premium vodka market in the world, with around 8 million cases in annual sales of premium and super-premium vodkas (see Exhibit 4). Vodka had become the new glamour drink among men and women since the early 90s at the expense of whisky, and was particularly popular with younger consumers. The rapid ascent of its popularity was attributed to two major factors peculiar to the US market. First, Americans liked fun, refreshing, easy-to-drink alcoholic drinks, which they consumed primarily in groups, on premise, during parties. Going through the pain of “acquiring” a taste for whisky (“my father’s drink”) was rejected in favour of the versatility and mixability of white spirits, such as vodka. This trend has been fuelled in part by the increasing integration of women into the drinking population. Second, Americans liked cocktails, particularly Martini cocktails (which were originally made with gin and Martini, but which were now flavored with vodka instead of gin). More recently, there had been an explosion of “flavoured” Martinis such as the Cosmopolitan and Apple Martini that combined the glamour of drinking out of a Martini glass with a preference for sweeter, easy-to-drink cocktails.

Smirnoff was the largest selling vodka in the US in 2000. The bulk of its sales came from Smirnoff Red, positioned in the standard price segment.<sup>4</sup> The number two vodka, Absolut, revolutionised the premium segment thanks to its original packaging, clever advertising campaign, high price and successful flavored line extensions (Absolut Citron and Absolut Mandarin). A locally-produced brand, Skyy, competed with Stolichnaya, a Russian Vodka, for third position. Skyy’s rapid success could be attributed to its very distinctive packaging and its lower price (compared to other premium brands). An important recent trend in the US market was the arrival of new “super-premium” brands which emphasised straight-up consumption, subtle distinctions in taste, production and heritage. These arguments had so far been neglected by vodka brands, although they were common in many liquor categories, notably single malt scotch whiskies or cognacs. Imported super-premium brands, such as Ketel One, Grey Goose and Belvedere, were supplied in fancy packages, sported higher price tags than Absolut, spent little on advertising and relied instead on on-trade promotion and word-of-mouth. Overall, super-premiums were the fastest growing segment of the competitive vodka category in 2000. (For a more detailed description of the major premium and super-premium vodkas available in the US, see Exhibit 5. See also Exhibits 6 to 11 for advertising information and Exhibit 12 for packaging information).

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4 The Russian Standard management defined price brackets for different segments based on the price of Absolut. (1) Lower than 80% (low price and standard segments); (2) between 80% and 120% (premium segment); and (3) higher than 120% (super premium segment).



## **Russian Standard Vodka**

### **Target Customers in the Russian Market**

Russian Standard was aimed at a primarily male audience in their 30s or 40s with medium to high income. Most of them represented the emerging middle class in post-Soviet Russia and earned from US\$500-1500 a month. Management distinguished between two psychographic categories of consumers – “connoisseurs” and “strivers” – who were primarily attracted by the high product quality or the prestige of the brand respectively (see Exhibit 13).

### **Brand Positioning**

One of Roustam Tariko’s main concerns was that premium products should have outstanding quality. That is why, in 1998, he hired the services of a major Russian scientific institution specialised in food research to work on the product formula. It was this institution that rediscovered Mendeleev’s original recommendations that served as the basis for the production of Russian Standard vodka. The following functional brand attributes were communicated to consumers: (1) Produced in accordance with the formula for premium vodka established by the Czar’s government panel headed by Mendeleev in 1894, (2) 80% proof classic Russian vodka, (3) consistently distilled through birch charcoal filters, (4) only “deluxe” grain spirits from Central Russia used, and (5) pure undistilled water from the North of Russia filtered to perfection.

In addition to its functional attributes, Russian Standard claimed several functional benefits, emphasising the purity of vodka, its neutral taste and superior aroma. As a result, it sometimes fell short of creating a very clear and distinctive image of the brand on a functional level. Emotionally, the brand was meant to create feelings of pride for Russian consumers and to serve as a source of national identification, belonging and validation. Last but not least, Russian Standard, like most luxury brands, also tried to create an aura of prestige for its users.

### **Packaging**

The management team focused in meticulous detail on the packaging of Russian Standard vodka during the product design stage. The main objective was to develop a bottle that would unambiguously reflect the super-premium nature of the product. The bottle was designed by Michael Peters of Identica Ltd. London, one of the premier design houses in the world. In order to meet world-class packaging standards, the company ordered most packaging components from leading manufacturers in Europe. For example, Jarvis Porter from the UK supplied labels, Alucapvit from Italy supplied caps, Metsa Serla from Finland supplied shipment cases. The grey and silver colours and mat glass texture of the bottle were intended to reflect “premiumness” in an understated manner while ensuring maximum standout.

Other creative insights were used to reflect brand values (see Exhibit 14). The overall shape of the bottle was inspired by the Giant Bell housed in the Kremlin. Embossed lines were suggestive of the classic onion dome, which is a characteristic of traditional Russian orthodox churches. The shape of the label further reinforced this feature. Mendeleev’s signature was also used to illustrate the heritage of the Russian Standard vodka. Overall, Russian consumers perceived that the bottle conveyed the premium image of the brand.

## Pricing

In Russia, Russian Standard was one of the most expensive brands among locally produced vodkas. The price gap that the brand maintained vis-à-vis standard segment vodkas clearly demonstrated its premium position. For example, the typical standard segment brand Moskovskaya was priced at approximately \$3, compared to Russian Standard at approximately \$19 per bottle at the time of launch.<sup>5</sup> Not many people could afford this amount for a bottle of vodka. Average income did not exceed \$100 a month. At the same time, there was a growing segment of the Russian population that earned more than \$1,000 per month. Overall, the management of Russian Standard estimated that out of a population of 100 million Russian adults, 5 million at least would occasionally buy the brand.

Despite its high price, Russian Standard was cheaper than imported vodkas such as Finlandia and Absolut, priced at more than \$25. In contrast to its price tag in domestic supermarkets, Russian Standard was the most expensive vodka brand on sale in Russian airport duty free shops. The premium positioning of the brand was thus emphasised to foreigners.

## Advertising

The first advertising campaign for the brand (“Standard Russian - Russian Standard”) was developed in 1999 by the UK-based agency Seigel & Gale. The campaign was built around the concept of comparing common stereotypes of the traditional vs. new Russia. Stereotype images were contrasted with new “standards,” which were supposed to be common in contemporary Russia but yet unknown to the world (see Exhibit 15). In Russia, spirit advertising was restricted to print and outdoor advertising. No mass electronic media advertising (e.g., television) was allowed. The Russian Standard campaign was rolled out in glossy magazines aimed primarily at a medium-high income audience, such as GQ, Vogue, Harper’s Bazaar and Marie Claire. Billboards advertising the campaign were set up in places where potential consumer movement was high, such as Moscow Sheremetyevo international airport. In addition to the “Standard Russian - Russian Standard” advertising, “functional” adverts and promotional articles were placed in magazines, depicting the bottle and describing product benefits, such as Mendeleev’s original formula and taste.

Despite high expectations on Roust management’s part, the “Standard Russian - Russian Standard” campaign did not have a significant impact on vodka sales. Furthermore, both management and some customers of the Russian Standard Bank resented the campaign. They felt it was not consistent with the “serious” image a bank should project. In order to gain more insight into the perception of the campaign and of consumer associations with vodka, the firm’s marketing team ordered a market research survey in July 2000. It turned out that many respondents did not understand the idea of contrasting stereotypes with the “new imagery,” and that those who understood the idea did not like it. In addition, the campaign failed to communicate the intended premium image. As a result, Roust management decided

5 After the major economic crisis that took place in Russia in August 1998, the market situation in terms of prices changed dramatically. Most consumer goods firms had to reconsider their pricing strategies to keep their products competitive. Although prices went down overall, the pricing relationship between brands remained the same. In 2001, a 0.75 litre bottle of Russian Standard was sold at approximately \$11 compared to a bottle of Absolut priced at \$19.

to stop the “Standard Russian - Russian Standard” campaign. Dimitry Barsukov, Marketing Director of Russian Standard, commented:

*“The campaign, which was originally developed for international markets, was stopped in Russia because, although the target perceived it as clever and funny, it was disrespectful of Russia’s past and culture like matryoshkas, babushkas, etc. But more importantly, Russian Standard is much more than a vodka. Russian Standard is about a Russian ideal, something that embraces its past, but inspires progress. That is the Russian standard. The initial campaign was clever, but fell way short of the real essence of the brand.”*

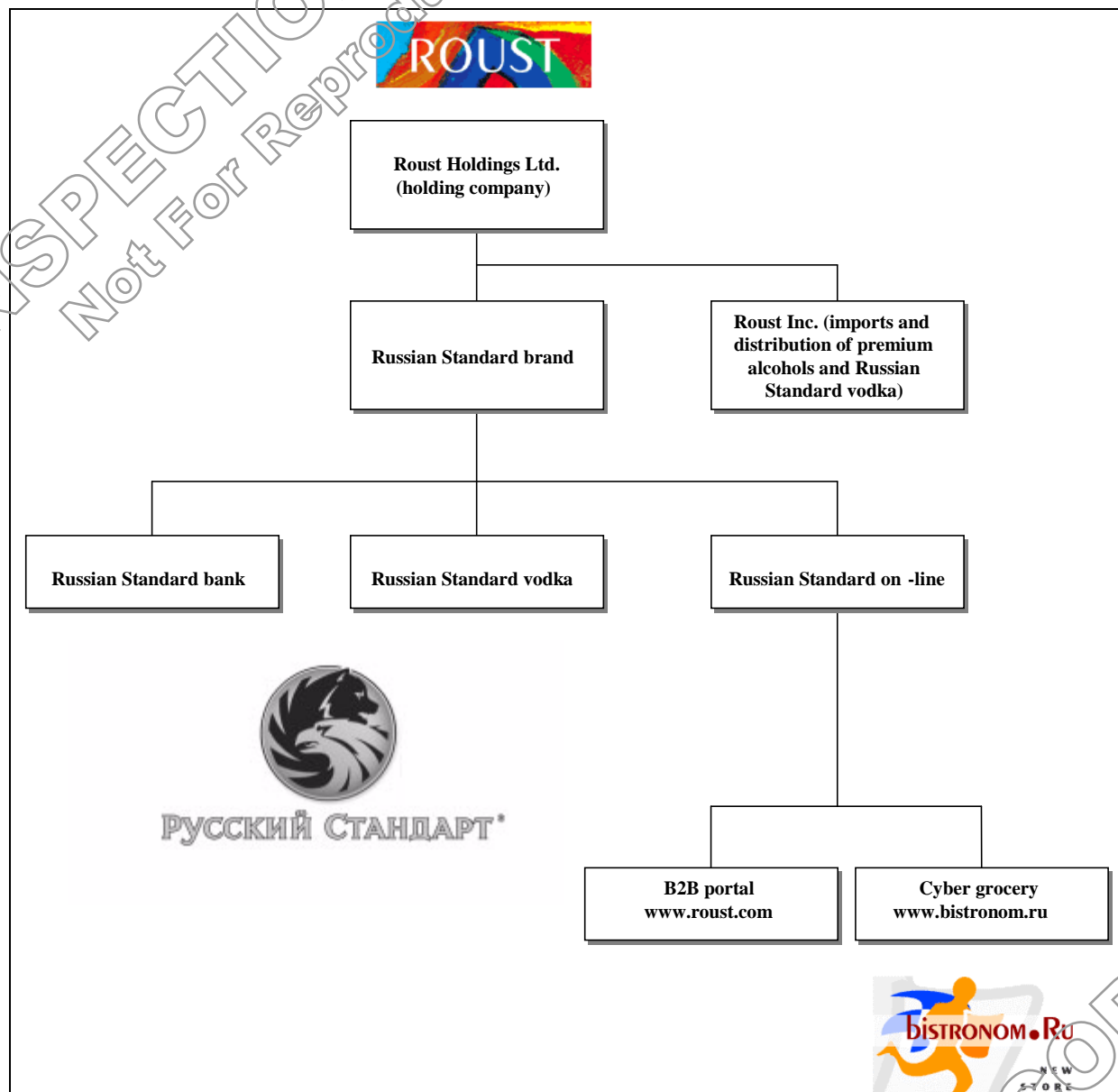
### **On-premise Promotion**

Night life in Moscow and St Petersburg was thriving, with new clubs opening every few months. The brand was actively promoted in the trendy bars and clubs of Moscow and St Petersburg, such as “Most”, “Zeppelin” and “Circus”, where opinion and fashion leaders hung out. Every week in Moscow there was a nightclub party sponsored by Russian Standard in an effort to increase brand awareness, encourage sampling and enhance product merchandising. Moreover, Russian Standard vodka was listed on the menus of many fashionable restaurants, sometimes on an exclusive basis. To reinforce the prestige image, a special restaurant programme aimed at “co-branding” caviar and Russian Standard vodka was developed.

### **Off-premise Promotion**

Russian Standard vodka was distributed by Roust Inc. A team of 45 salespeople supported the promotion of the brand in specialty stores and supermarkets throughout the country. With its major premium alcohol brand portfolio, Roust Inc. managed to negotiate significant shelf space for the brand with the main supermarket chains such as “Perekrestok”, “Seventh Continent” or “Ramstor”. As a general rule, Russian Standard supermarket merchandising, shelves and floor displays were of very good quality, stood out and clearly communicated brand visuals. The company also developed an incentive system to encourage supermarket staff to promote the brand.

**Exhibit 1**  
**Roust Brand Architecture**



**Exhibit 2**

*Examples of Russian Standard Bank Credit Card and Print Ads*



Home appliances for only 8 rubles a day!

Do not postpone until tomorrow the purchases you can make today!

Interested?  
Call 748-0-748  
Russian Standard Bank

**Exhibit 3****Brand Sales and Pricing in the Russian Non-Flavoured Vodka Market<sup>6</sup>**

BRAND	Brand sales in 2000, 000's 9 liter cases	Segment market share	Overall market share	Price in July 2001, USD <sup>7</sup> per 0.75 l bottle.
<b>Premium Segment (Price &gt;5.86 USD )</b>				
<b>Local Brands</b>				
Russian Standard	180	26.6%	0.1%	10.39
Stolichnaya Crystal	150	22.2%	0.1%	8.77
Moskovskaya Crystal	100	14.8%	0.1%	9.62
Flagman Top	50	7.4%	0.0%	5.93
Yuri Dolgorukij	35	5.2%	0.0%	12.54
Kalita	30	4.4%	0.0%	n/a
Smirnoff Black	9	1.3%	0.0%	n/a
Smirnoff Blue	5	0.7%	0.0%	9.41
Other Russian Premium	86	12.7%	0.0%	
<i>Total local brands</i>	<i>645</i>	<i>95.4%</i>	<i>0.3%</i>	
<b>Imported Brands</b>				
Finlandia	21	3.1%	0.0%	13.14
Absolut	7	1.0%	0.0%	23.62
Wyborova	1	0.1%	0.0%	n/a
Other imported quality	2	0.3%	0.0%	
<i>Total imported brands</i>	<i>31</i>	<i>4.6%</i>	<i>0.0%</i>	
<b>Total premium segment sales</b>	<b>676</b>	<b>100%</b>	<b>0.3%</b>	
<b>Standard Quality Segment (2.84 USD &lt;Price&lt; 5.86 USD)</b>				
<b>Local Brands</b>				
Stolichnaya	33,500	34.6%	17.3%	3.52
Moskovskaya	9,500	9.8%	4.9%	3.62
Krepkaya	3,450	3.6%	1.8%	n/a
Sibirskaya	3,400	3.5%	1.8%	n/a
Boris Smirnov	800	0.8%	0.4%	3.01
Flagman	250	0.3%	0.1%	3.14
Istok	160	0.2%	0.1%	n/a
Dovgan	150	0.2%	0.1%	n/a
Smirnoff Red	80	0.1%	0.0%	5.86
Altai	24	0.0%	0.0%	n/a
Kremlyovskaya	6	0.0%	0.0%	4.85
Other standard quality brands	45,535	47.0%	23.5%	
<b>Total standard segment sales</b>	<b>96,855</b>	<b>100%</b>	<b>50.1%</b>	
<b>Low Price Segment (Price &lt; 2.84 USD)</b>				
<b>Low price local brands</b>	<b>95,000</b>		<b>49.1%</b>	
<b>Low price imported brands</b>	<b>969</b>		<b>0.5%</b>	
<b>TOTAL RUSSIAN MARKET</b>	<b>193,500</b>		<b>100%</b>	

6 Based on World Vodka Special Report, The International Wine and Spirit Record, August 2001.

7 The official exchange rate at the end of 2000 was 28.16 roubles per 1 USD (source: Central Bank of Russia; www.cbr.ru).



**Exhibit 4**  
**Brand Sales and Pricing in the US Non-Flavoured Vodka Market<sup>8</sup>**

BRAND	Brand sales in 2000, 000's 9 liter cases	Segment market share	Overall market share	Price in California in May 2001, USD per 0.75 l bottle
<b>Super-Premium Segment (Price &gt;20.4 USD)</b>				
<b>Imported Brands</b>				
Grey Goose	255	48.7%	0.7%	25.99
Belvedere	125	23.9%	0.4%	
Chopin	47	9.0%	0.1%	25.99
Stolichnaya Crystal	18	3.6%	0.1%	24.99
Mezzaluna	17	3.2%	0.1%	
Other super premium brands	61	11.6%	0.2%	
<b>Total super-premium segment sales</b>	<b>524</b>	<b>100%</b>	<b>1.5%</b>	
<b>Premium Segment ( 13.6 USD &lt;Price&lt; 20.4 USD)</b>				
<b>Local Brands</b>				
Skyy	1020	13.7%	3.0%	14.99
Smirnoff Blue	305	4.1%	0.9%	13.99
Other local premium brands	75	1.0%	0.2%	
<b>Total local brands</b>	<b>1400</b>	<b>18.8%</b>	<b>4.1%</b>	
<b>Imported Brands</b>				
Absolut Blue	3520	47.3%	10.3%	16.99
Stolichnaya	1035	13.9%	3.0%	16.99
Ketel One	745	10.0%	2.2%	17.95
Finlandia	301	4.0%	0.9%	15.99
Sterling 40%	175	2.3%	0.5%	15.99
Other imported premium brands	271	3.6%	0.8%	
<b>Total imported brands</b>	<b>6045</b>	<b>81.2%</b>	<b>17.7%</b>	
<b>Total premium segment sales</b>	<b>7447</b>	<b>100%</b>	<b>21.7%</b>	
<b>Standard Quality Segment ( 9 USD &lt;Price&lt; 13.6 USD)</b>				
<b>Local Brands</b>				
Smirnoff Red	5230	81.3%	15.3%	9.99
Other local standard quality brands	615	9.6%	1.8%	
<b>Imported Brands</b>				
Wyborowa	40	0.6%	0.1%	
Danzka	17	0.3%	0.1%	
Other imported standard quality brands	532	8.3%	1.6%	
<b>Total standard segment sales</b>	<b>6434</b>	<b>100%</b>	<b>18.8%</b>	
<b>Low Price Segment (Price &lt; 9 USD)</b>				
<b>Local Brands</b>				
Popov	1875	9.4%	5.47%	
Gordons	1715	8.6%	5.0%	
McCormick	1510	7.6%	4.4%	
Other low price brands	14,765	74.3%	43.1%	
<b>Total low price segment sales</b>	<b>19,865</b>	<b>100%</b>	<b>58.9%</b>	
<b>TOTAL US VODKA MARKET</b>	<b>34,270</b>		<b>100%</b>	

8 Based on World Vodka Special Report, The International Wine and Spirit Record; August 2001.

**Exhibit 5****Leading Premium Vodka Brands in the US Market****Absolut<sup>9</sup>**

Absolut was a trademark owned by Swedish-government-controlled V&S Vin & Sprit AB and distributed in the USA by Seagram.<sup>10</sup> The shape of the Absolut bottle together with the adverts played a key role in making Absolut a success story and in creating its “cultural phenomenon” image. Absolut’s clever imagery and wordplay were considered groundbreaking when the first ads appeared back in 1980. Absolut’s long-time ad agency, TBWA Chiat/Day, had over the years explored dozens of themes to convey the product’s image and typically found a way to sneak in the iconic vodka package (see Exhibit 6).

Absolut was supported by extensive print advertising and a connection with art and avant-garde. Over the years, Absolut had co-operated not only with painters and fashion designers, but with artists in all fields, including sculptors, crystal glass designers, photographers and jewelry designers. The first artist to depict the bottle was Andy Warhol in 1985. Other artists who had worked with Absolut were Keith Haring, Kenny Scharf, Edward Ruscha, Stephen Spouse, Julia Wachtel, Gervasio Gallardo, Oscar Mariné, Yrj Edelmann, Helmut Newton, Holly Johnson, Agatha Ruiz de la Prada, Gianni Versace, John Galliano, Helmut Lang, Azzedine Alaia and many others. Clever positioning had turned Absolut into both an occasion and a mass-market choice. Drew DeSarno, Marketing Manager for Absolut at Seagram Americas commented:<sup>11</sup>

*“Absolut is a brand which is both inspirational and accessible. It has stayed true to its positioning and association with the finer things in life - art and fashion. The ubiquity of the advertising has made it an easy sell for bartenders or wait staff in any kind of restaurant - not just a white-tablecloth establishment. The beauty of a large marketing investment is that the brand owner has spent millions of dollars and bought many years of consistent, quality advertising to create that association of quality and consistency in the consumer’s mind. When someone orders vodka and tonic, vodka on the rocks or vodka and orange juice, it seems natural that Absolut rolls off the tongue because Absolut is a known commodity. The customer will either say yes or no, but there is no indecision. It’s a safe recommendation for the bartender and the consumer.”*

Absolut was also gaining ground in the outdoor format and on the internet. A three dimensional, 19-by-49 foot billboard was installed in Manhattan, for example, showing a life-size studio apartment in the shape of the Absolut bottle with a living room, bathroom, TV, magazines on the coffee table and leftover Chinese food. Its outdoor budget was estimated at about US\$1.4 million in 2000. Until 2000 Absolut’s visuals did not communicate any of Absolut’s functional benefits, making it a follower in the crowd of “new premium” spirits that strongly emphasised advertising quality or heritage. Overall, Absolut spent more than US\$35 million on media in 2000.

9 Brand website: [www.absolutvodka.com](http://www.absolutvodka.com).

10 It was announced in March 2001 that Vin & Sprit would join up with Jim Beam Brands to create the new US distribution joint venture, Future Brands LLC, which took the responsibility for Absolut in the USA.

11 Adapted from “Spirited appeal”; *Nation’s Restaurant News*, New York, Aug 31, 1998.



**Exhibit 5 (Cont'd)****Smirnoff<sup>12</sup>**

Smirnoff was the world's number one international vodka and the most famous brand of Russian origin overall.<sup>13</sup> The first Smirnov vodka was produced by Pyotr Smirnov who founded his distillery in 1860, and eventually became official purveyor to the imperial Russian court. The family lost control over the brand after the 1917 revolution when private ownership was abolished.

As a result, a number of Russian vodka-makers emigrated, taking their skills and recipes with them. One Smirnov family member revived his brand in Paris, using the French version of his family name - Smirnoff. He and a Russian émigré from the USA set up the first vodka distillery there in 1934. This was subsequently sold to a US drinks company Heublein. In 2000 the Smirnoff brand was controlled by United Distillers and Vintners (UDV), a subsidiary of UK-based food and beverage giant Diageo PLC. After *perestroika*, Boris Smirnov, a descendant of Pyotr Smirnov, restarted local production in Russia of a famous vodka under the original "Smirnov" trademark, triggering legal battles with UDV.

For a long time Smirnoff was a reference brand for the vodka category in the USA. In the 1940s the brand was promoted as "Smirnoff White whiskey. No taste. No smell". Celebrity ads of the 1960s created strong associations with the movie world: the brand was endorsed by famous people such as Buster Keaton and Woody Allen. The Smirnoff brand was featured in the first James Bond films. "The effect is shattering" ad campaign of the 1970s established the personality of the Smirnoff drinker – individual, relaxed, rebellious and mysterious. In the 90s the "Pure Thrill" marketing campaign won over 50 advertising awards including Cannes Golden Lion (see Exhibit 7). Like other Russian brands, Smirnoff used a transparent bottle, attesting to the purity and authenticity of its vodka. However, in the early 90s Smirnoff's sales were constantly in decline. Smirnoff tried to return to real brand values through its "unpretentious quality" campaign. This approach encouraged consumers to move away from some of the more "faddish" vodkas to brands with genuine heritage. Adherence to its roots had confirmed Smirnoff as the principal choice of vodka in the US.

Smirnoff had three major line extensions: Red Label for the standard price segment, and Smirnoff Blue and Black Label for the premium and super-premium segments. To appeal to young drinkers, Smirnoff created pre-mixes such as Smirnoff Moscow Mule – a combination of vodka, ginger beer and lime, launched in 1994 - and Smirnoff Ice - a blend of Smirnoff Red with a classic citrus flavor, launched in 1999. Smirnoff also sponsored films and large international student fashion competitions with the "Smirnoff Designer of the Year" award.

**Stoli<sup>14</sup>**

Stolichnaya was the only major premium vodka in the US market that was actually produced in Russia. It had been distributed by Diageo for a long time, but in 2000 Allied Domecq PLC officially took control of the brand in the US. According to the brand communication, three key elements distinguished Stolichnaya from its competitors. It was distilled from superior winter wheat rather than lesser grains like corn; it was made from pure spring water rather than processed water; it was put through an elaborate double-distillation process that required quartz and activated charcoal filtration. The result was a vodka of "spectacular smoothness and clarity that outshines all others when served straight in the Russian tradition."

12 Brand websites: [www.smirnoff.com](http://www.smirnoff.com), [www.udv.com](http://www.udv.com).

13 According to Interbrand's estimates, in 2000 Smirnoff was in the top 100 international brands, with a brand value of over \$1billion.

14 Brand website: [www.stoli.com](http://www.stoli.com).

**Exhibit 5 (Cont'd)**

Despite the fact that the brand emphasised its Russian heritage, its positioning differed from that of Smirnoff's. While Smirnoff was linked to Czarist Russia, Stolichnaya used as endorsement Soviet avant-garde of the 1920s. Its Neo-Constructivist campaign was made by celebrated Soviet/Russian artists (see Exhibit 8). Moreover, the positioning of Stolichnaya in the USA was very different from its positioning in Russia. In Russia it was considered as a basic, standard brand, while in the USA it was taking a clear premium position. To overcome the pronunciation difficulties of English speakers, the brand often used the convenient name "Stoli" in its promotion materials. US ad spending for 2001 was envisioned at the level of US\$20-25 million.

**Skyy<sup>15</sup>**

Skyy, launched in 1992, was a rare exception of successful nationally-produced brands in the premium segment dominated by imported vodkas. In 2000 Skyy sold an estimated 1 million cases, up 22% from 815,000 cases in 1999. According to Maurice Kanbar, president and owner of Skyy Spirits, some research linked hangovers with the impurities arising from the fermentation stage of alcoholic drinks. To make Skyy "the most dependably pure vodka available anywhere", the vodka was distilled four times and filtered three. As a result Skyy was functionally positioned as "the no headache vodka". Many considered this a marketing gimmick, and Skyy adverts did not have any tagline, to eliminate the problems with BATF (the US Bureau of Alcohol, Tobacco and Firearms).

Initially, Skyy relied primarily on word-of-mouth, PR, limited regional ads and sampling events at liquor stores and bars. The first national campaign, "Skyy Vodka Moments", shot by famous photographer Moshe Brakha, further popularised the brand (see Exhibit 9). Skyy's racy ads – like the one showing a man hiding under a bed while his paramour entertains another – were placed in trendy magazines such as Interview, Paper and Out. In 2000 Skyy's advertising budget was barely a quarter of that of Absolut. The brand also created tie-ins with independent films by sponsoring 30 different independent film festivals and premières, including the Blair Witch Project. In addition, a series of three Indian films were produced, each featuring a "cocktail moment". Skyy also offered a whole range of casual "Skyy accessories" including director's chairs, leather jackets, golf shirts, T-shirts, boxers, and watches.

**New Premiums****Ketel One**

Ketel One, launched in 1992, was distilled in the Netherlands and marketed in the USA by Nolet Spirits. William Eldien, president of Nolet Spirits USA, commented on the product launch:

*"No one had talked about how vodka was made. We took the opportunity to sell vodka more like a fine wine rather than a spirit."*

The main selling point of Ketel One was its alembic copper potstill method of distilling, which was one of the key components of the smooth taste of wheat-based Ketel One Vodka. The brand's marketing materials emphasised manufacturing tradition. Ketel One was produced by a distillery, Distilleerketel #1, founded 300 years before by Joannes Nolet, whose descendants still oversee the distillery to this day.

15 Brand website: [www.skyy.com](http://www.skyy.com).

**Exhibit 5 (Cont'd)***Grey Goose*

Grey Goose vodka, launched in 1996, was distilled in France and distributed in the USA by Sidney Frank Importing Co. The brand's signature frosted bottle featured a flight of geese and the French flag. The vodka was produced from French grain and water from a spring in Cognac. The bottle sported a cork cap. Grey Goose's advertising celebrated it as the number one tasting vodka in the world (see Exhibit 13). To mark its entry, Grey Goose hit the charity scene, serving the vodka in souvenir martini glasses and chartering Concorde to treat food and beverage writers to a free trip to Bordeaux. The launch party for Grey Goose was hosted at the prestigious Spago Beverly Hills restaurant, where dishes like lobster ravioli with vodka sauce were served to 254 guests. Grey Goose used creative marketing to fuel the word-of-mouth fame of the brand. For example, bottles of Grey Goose were put in limos ferrying nominees to the 1999 Oscar ceremony. In 2000 Grey Goose launched its first flavored extension Grey Goose L'Orange, which was supported by a US\$1 million print campaign.

*Belvedere*

Belvedere, launched in 1995, was distilled in Poland and distributed by Millennium Import Co., Minneapolis. The main selling point of Belvedere was its rye-based formula. In 1999 Belvedere launched an ad campaign stressing its authenticity and claiming Belvedere was "crafted from 100% Polish rye and distilled four times" (see Exhibit 14).

*Sundsvall*<sup>16</sup>

The launch and failure of Sundsvall illustrate the difficulties of competing in the US super-premium vodka segment. Sundsvall was launched by Seagram in 1997 to fight against the new premium brands that were cutting into the sales of its Absolut brand. Sundsvall was named after a town in northern Sweden where it was distilled in partnership with Absolut Vodka Co, because the company hoped that drinkers would identify with a folksy-sounding town connected to the vodka's origins. To ensure a separate identity for Sundsvall, Absolut took the brand's \$2 million advertising account to Boston-based Arnold Communications, bypassing Absolut's longtime agency, TBWA Chiat/Day, and made no reference to Absolut anywhere in its marketing material.

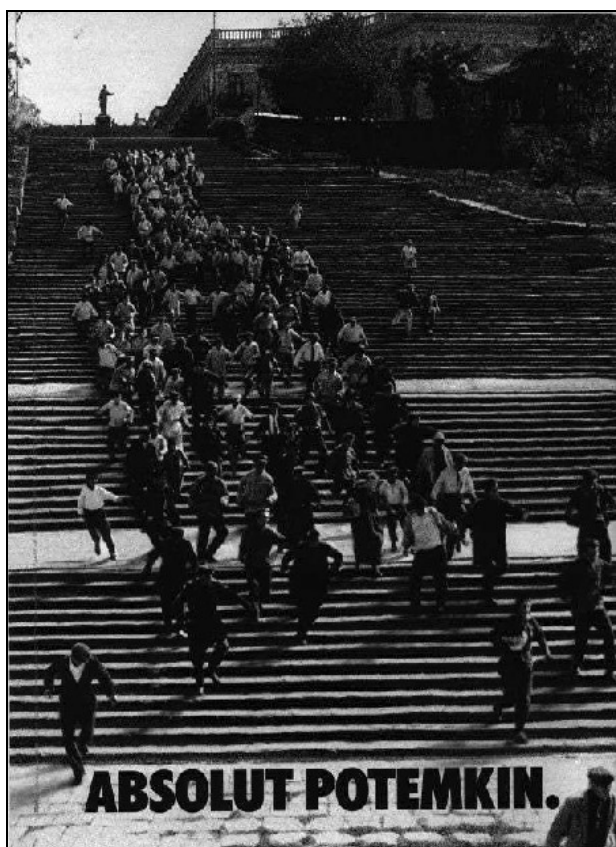
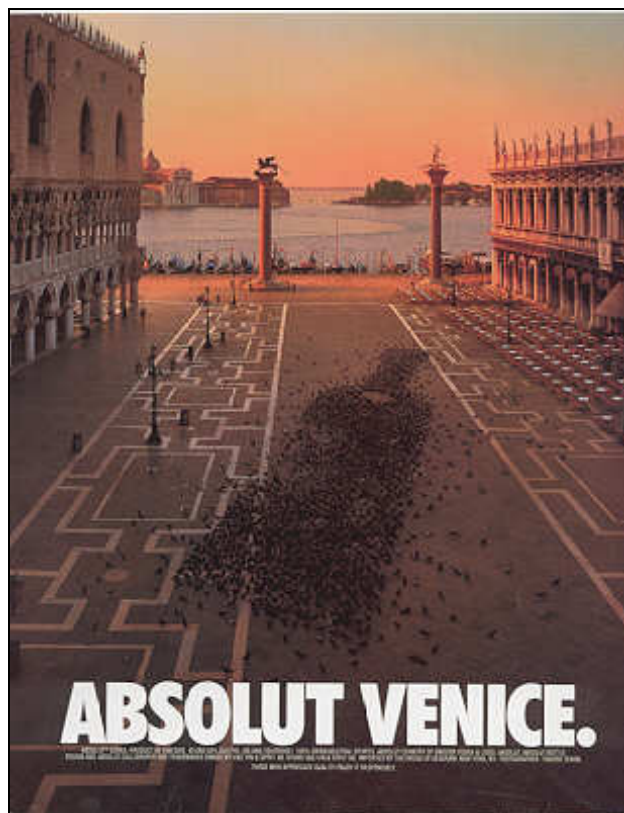
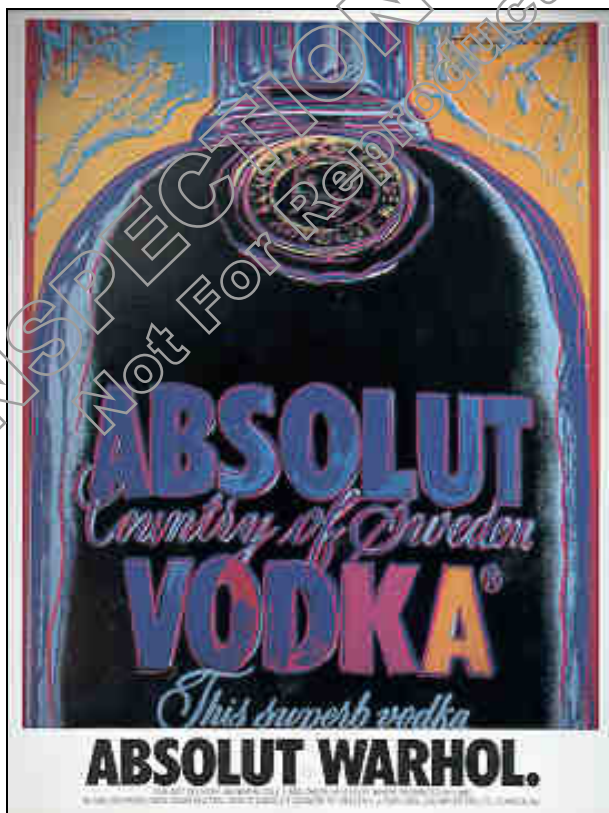
Sundsvall was positioned as a two-grain vodka with a two-tiered distillation process, coming from "a country with centuries of vodka-making experience". Sundsvall retailed at \$30, which was \$3-4 higher than other super-premiums. The vodka was launched with a series of VIP tastings. While other super-premiums were rolled out nationwide, the strategy for Sundsvall was to target eight trendsetting cities: Atlanta, Boston, Chicago, Detroit, Los Angeles, Miami, New York and San Francisco. The brand hosted dinners in the cities' restaurants known for their "upscale trendsetting" clientele from the worlds of art, philanthropy, business and government. Additionally, Seagram sent bottles of Sundsvall, along with a sipping glass, to 125 consumers in each of the eight markets.

Sundsvall made its debut in bars and restaurants in the fall of 1998. The vodka was deemed quite good by many bartenders, but the bottle – a clear barrel with an orange shrink-wrapped top – was viewed by servers and distributors as too plain and "too discrete where it was competing". The brand was often behind its rivals in terms of getting the attention of media and opinion leaders. Moreover, Seagram failed to implement a comprehensive bartender education plan. Unable to leverage the Absolut connection, many Seagram sales reps found it difficult to promote the brand, as many retailers had never heard of Sundsvall. Because "in the US you get one chance to succeed, not two", Sundsvall was pulled from the market in December 2000.

16 Advertising Age (1998) "Seagram has dinner plans for new vodka," Vol. 69, Issue 37.



**Exhibit 6**  
*Absolut Vodka Advertisements*





**Exhibit 7**  
**Smirnoff Vodka Advertisements**





**Exhibit 8**  
*Stoli Vodka Advertisements*





**Exhibit 9**  
*Skyy Vodka Advertisements*





## Exhibit 10

## Grey Goose Vodka Advertisement

## Rated The #1 Tasting Vodka In The World.

In 1998, the Beverage Testing Institute of Chicago conducted a blind taste test of more than 80 vodkas. They awarded points based on smoothness, nose, and most importantly, taste. Of all the vodkas, Grey Goose® Vodka emerged victorious, receiving 96 points out of a possible 100.

Founded in 1981, the Beverage Testing Institute conducts tests in a specially designed lab that minimizes external factors and maximizes panelists' concentration. The Institute selects judges based on their expertise, and its tasting and scoring procedures are widely praised as the best in the industry.

Rank	Vodka	Country
96	GREY GOOSE® VODKA	FRANCE
94	Canadian Iceberg Vodka	Canada
93	Stolichnaya Gold Vodka	Russia
92	Staraya Moskva Premium	Russia
91	Van Hoo Vodka	Belgium
91	Stolichnaya Vodka	Russia
90	Tanqueray Sterling Vodka	England
90	Rain 1995 Harvest Vodka	USA
89	Ketel One Vodka	Holland
88	Wyborowa Vodka	Poland
87	Kremlyovskaya Vodka	Russia
86	Finlandia Vodka of Finland	Finland
86	Alps French Vodka	France
85	Skyy Vodka	USA
82	Original Polish Vodka	Poland
82	Glenmore Special	USA
82	Fleischmann's Royal Vodka	USA
81	Mr. Boston Vodka	USA
80	Pole Star Vodka	Poland
80	Luksusowa Potato Vodka	Poland
80	Absolut Vodka	Sweden
78	Cardinal Vodka	Holland
78	Barton Vodka	USA
78	Barclay's Vodka	USA
78	Amazon Vodka	Brazil
76	Skol Vodka	USA
74	Smirnoff Vodka	USA
74	Crystal Palace Vodka	USA
74	Belvedere	Poland
72	Schenley	USA
69	Mr. Boston's Riva Vodka	USA

NOTE: THIS REPRESENTS A SAMPLING OF THE 80 VODKAS TESTED.  
SOURCE: BTA BEVERAGE TESTING INSTITUTE, INC.

[www.greygoosevodka.com](http://www.greygoosevodka.com)



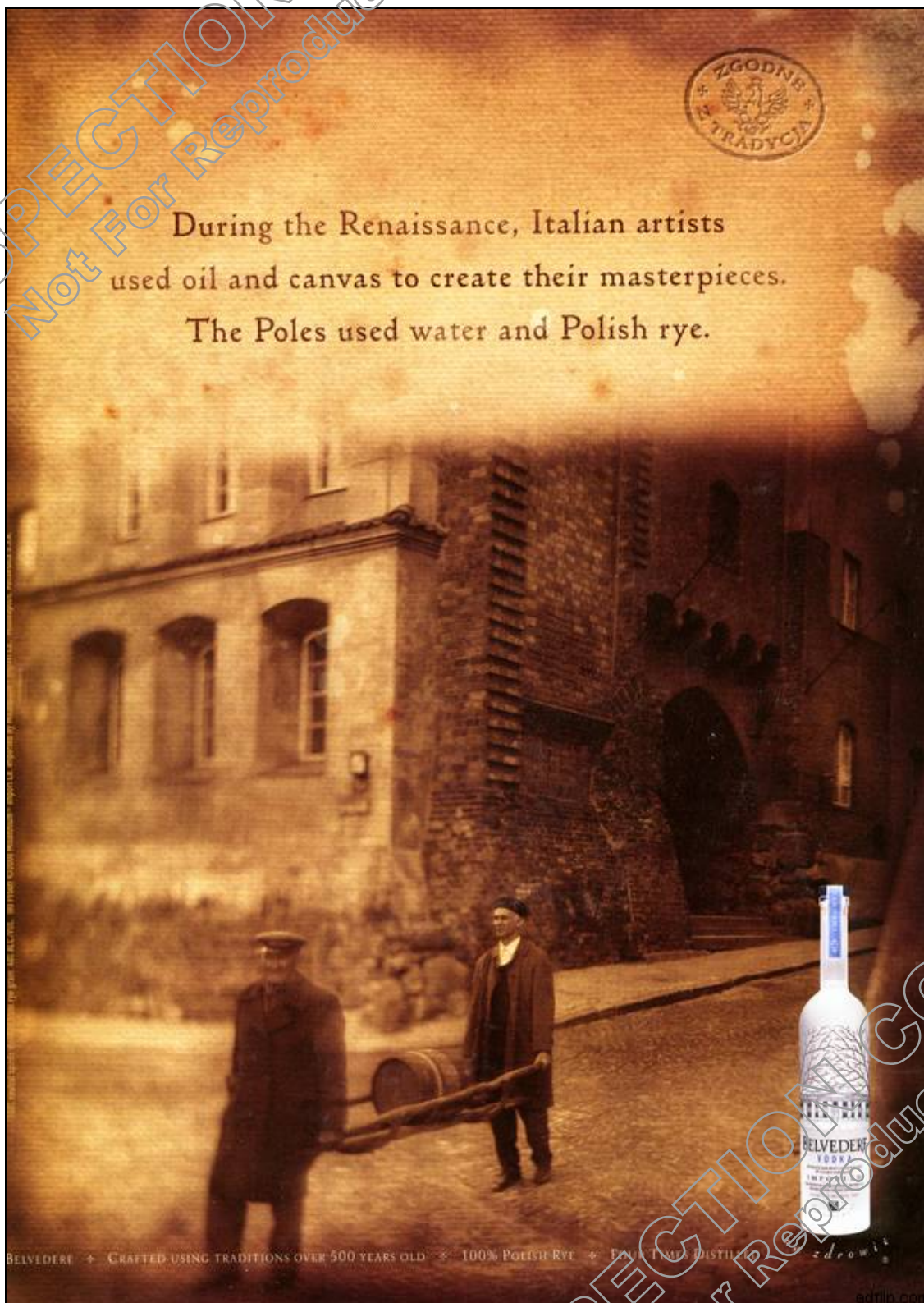
Grey Goose® Vodka 40% Alc./Vol. (80 Proof) Imported from France. Imported exclusively by Grey Goose Importing Co., Inc. New York, NY 10001. © 1999. All Rights Reserved.

HONORARY WINNER OF THE  
PRESTIGIOUS  
WORLD SPIRITS  
CHAMPIONSHIP  
BEST NEW PRODUCT  
INTRODUCTION



**Exhibit 11**

*Belvedere Vodka Advertisement*



**Exhibit 12**

*Some of the Major Premium Vodkas Available in the US*



**Exhibit 13*****Target Customers of Russian Standard Brand in the Russian Market***

Segmentation variables	Russian Standard target customers
<b>GEOGRAPHIC</b>	
Region	International
Density	Urban
<b>DEMOGRAPHIC</b>	
Age	Focus on 25-45
Gender	Male-female, with skew towards male
Income	Medium-high/high
Occupation	Professionals; managers; entrepreneurs; artists
Generation	Generation X
Social class	Upper middle/higher
<b>PSYCHOGRAPHIC</b>	
Personality	<ul style="list-style-type: none"> <li>• Share common human values</li> <li>• Have clear system of own-values</li> <li>• Strong personality</li> <li>• Independent</li> <li>• Non-conformist</li> <li>• Cosmopolitan outlook</li> <li>• Sophisticated</li> </ul>

The focus is made on the two segments that show the strongest preferences for high-quality premium products.

- “Connoisseurs” are relatively young and well-to-do. They are very strongly quality-oriented rather than brand-oriented. More forward-looking, self-confident and optimistic, less worried about how others see them. Their main concern with regards to vodka is quality. This group is very brand loyal - not willing to switch.
- “Strivers” are the young emerging middle to upper class. They are outward-oriented. It is important for them to look good, and they listen to what others say. They are very brand-conscious and fairly brand-loyal. They are image and prestige-oriented. They clearly associate expensive vodka with prestige, quality and creating a good impression.

**Exhibit 14**

*Creative Insights of the First Packaging of Russian Standard Vodka*



- Long metal cap with plastic insert
- Imitation of onion dome shape of traditional orthodox churches
- Unique wrap-around label
- Mendeleev's signature
- Frosted glass makes the vodka look ice cold (as if just taken out of the fridge)
- The Kremlin's giant bell shape



**Exhibit 15**

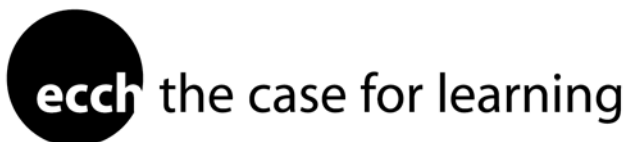
*1999 Advertising Campaign "Standard Russian – Russian Standard"*



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