SVEDKA VODKA (C): MARKETING MIX IN THE VODKA INDUSTRY

Associated with sophistication ever since James Bond first ordered a vodka martini “shaken, not stirred,” vodka has enjoyed tremendous success over the decades leading up to SVEDKA’s debut. The vodka-enthusiast women of the hit HBO series Sex and the City provided renewed energy for vodka in early 2000, just as the more-than-40-year bump Mr. Bond had provided was losing luster. In 2007, Smirnoff was the highest-selling spirit brand worldwide (25.7 million cases) and in the United States (9 million cases). U.S. vodka sales topped $7 billion in 2007, and two spots in the top five spirit brands worldwide belonged to vodka brands Smirnoff and Absolut.¹

Product

Between 2000 and 2007, the number of vodka brands increased from 14 to 26. Flavors and packaging were the more popular product variations introduced. Absolut was the first to introduce flavored vodka in 1986, using three types of peppers. The company called it Absolut Peppar (peh-PAR) and proclaimed it to be perfect for a Bloody Mary. Smirnoff and Absolut introduced the most flavors, and by 2007, Smirnoff’s product line included 20 different flavors while Absolut had more than 10. Innovative packaging evolved, starting with Absolut’s recognizable shape, inspired by a vintage Swedish apothecary bottle. By 2011, brands such as Vox and Ciroc were bottled in elegant frosted glass.

Price

In 1997, Grey Goose invented the super-premium category, marketing a 750-ml bottle of vodka priced above $30. Vodka retail prices varied across states because of taxes and the regulation of distributors. The wholesale price of a 9L cases of vodka was above $200 for the super-premium brands such as Chopin, Belvedere, Grey Goose, and Level, whereas the prices of

some value brands such as Aristocrat, McCormick, Barton, and Crystal Palace were below $35 per 9L case.2

Advertising

By 2007, the industry spent more than $200 million on advertising through various channels including outdoor, magazine, newspaper, and television.

TV advertising of alcoholic drinks had been controversial; indeed, for 48 years liquor producers had chosen not to air commercials. In 1996, Seagram broke that trend with network spots promoting Crown Royal and Lime Twisted Gin. In spite of the public outcry that arose, other liquor brands slowly started testing cable TV spots. Eventually, cable television came to be seen as the most suitable venue for liquor advertising.

The print ads for vodka were very sophisticated. In 1980, Absolut began featuring its bottle’s distinct silhouette, a practice it continued for more than two decades. Its innovative campaign prompted an account rep at TBWA, Absolut’s ad agency, to write a book in 1996 about its print campaign.

Grey Goose won the Beverage Tasting Institute award for “best-tasting vodka” in 1998 and used the title in a series of successful print campaigns in the Wall Street Journal and other high-end publications. In the same year, Sex and the City characters started asking for “a Grey Goose cosmopolitan,” which extended the brand’s recognition and super-premium image.

Distribution

In 1919, a constitutional amendment banned the manufacture, sale, and transporting of alcohol in the United States. With the repeal of “Prohibition” in 1933, U.S. alcohol distribution was highly regulated via a three-tier system that restricted producers from direct distribution of alcohol. Producers were required to supply distributors, who then supplied retailers; consumers could purchase alcohol only from the retailers. Some states, called control states, had a monopoly over the wholesaling and/or retailing of some or all categories of alcohol. In those states, consumers could obtain alcohol only from state-run Alcohol Beverage Control stores. By 2011, there were 19 control states.

The marketing mix model for vodka was therefore focused on balancing product line, price, and advertising decisions. Temporary price reductions were generally not allowed by the U.S. government. Further, distribution was not under alcohol producers’ control.

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Marketing Mix Model

SVEDKA founder Guillaume Cuvelier considered looking into historic U.S. vodka sales to evaluate the effect of new flavors, segment membership, and advertising. Consumer reactions to vodka advertising and pricing probably differed among the super-premium, premium, and value segments. New brand entries also may have had different price and advertising elasticities compared with the established brands. Finally, new flavors could have had a direct effect on vodka sales. He wondered if he could quantify the financial value of his product’s *Wine Enthusiast* certification and 2002 and 2003 gold medals. Understanding the value generated by each of the three campaigns from 1998 through 2005 would provide a good basis for the design of future campaigns. And identifying brands that directly competed with SVEDKA would allow Cuvelier to effectively allocate marketing resources.