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**High-end vodka is keeping spirits up**

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MOSCOW People thought it couldn't be done. The idea of renting Liberty Island in New York Harbor for a bling and borscht party to introduce a Russian vodka seemed too absurd.

But Roustam Tariko, 44, a Russian tycoon who made his initial fortune in importing and banking, not only got permission, he spent more than \$3 million, inviting more than 1,000 people and feeding them all Beluga caviar, blinis, quail eggs and, of course, red borscht. It was all washed down with his red-capped, \$35- a-bottle Imperia vodka.

"I believe in emotional branding," Tariko said this week in Moscow, freshly returned from Turin and the well-reported parties at Russia House in the Olympic village. "I launched Imperia at the Statue of Liberty because I wanted to use something symbolic. I like American society because it always wants to do something new and better."

Imperia is just one of many entries in a growing segment of the drinks market called superpremiums. Companies worldwide are looking at this concept for higher profit on less volume. The spirits industry is experiencing growth at the higher price points - after tremendous declines in the 1980s and 1990s. The vodka heartland, Eastern Europe, is still the biggest market but consuming less vodka, while consumption is increasing nicely in Western Europe and North America, according to research by Euromonitor.

"I think there will be continued growth in the vodka market," said Jeremy Cunnington, a drinks analyst with Euromonitor in London. "We expect to see quite strong volume growth in the U.S. and Western Europe. But how much of that will be driven by superpremiums and premiums remains to be seen; it all depends on continuing affluence."

U.S. growth in vodka sales is being driven by superpremiums. Producers are turning to superpremiums because they are much more profitable and increasingly popular with consumers.

"A middle-class man making \$40,000 might not be able to buy a new BMW," said David Ozgo, chief economist at the U.S. Distilled Spirits Council. "But he can buy the

occasional bottle of vodka for \$35 a bottle. People are drinking less than they once did, but they are drinking better."

More and more designer vodkas are being produced. But what does superpremium mean? Analysts define these high-design drinks strictly by their price point - usually over \$30 a bottle.

"It's the only way to be objective," Ozgo said.

Brands, however, seem to define their qualities with a combination of science and middle-earth folklore. Absolut, with its iconic bottles and maverick advertising, paved the way for brands like Grey Goose. Most brands tout special ingredients. Grey Goose uses European wheat. Belvedere is made from Polish rye, Chopin from Polish potatoes. They are distilled more times and filtered more times than standard vodka, and they are filtered through everything short of diamonds. The water, too, must be from a special source, preferably a glacier or spring. The effect should be fewer impurities, a smoother taste and an absence of fire in the throat and gut.

Most importantly, after this process vodka producers can increase the price, often more than 100 percent over their standard vodka. "Superpremium is the fastest-growing spirits category, whether you are talking about rum, tequila or vodka," Ozgo said. "The general rule of thumb is that the higher the price category, the better the growth."

In 2005, U.S. sales of value vodka brands priced below \$10 a bottle declined,

while premium brands, those priced from \$15 to \$30, grew more than 7 percent. Sales of superpremium brands rose more than 12 percent.

But the segment is becoming cluttered and confusing. What is superpremium in France may be a mere premium in the United States, according to analysts. Grey Goose leads the U.S. superpremium market, but not in Continental Europe. Producers raise and lower price points as they try to protect their images worldwide.

"The exact positioning of a superpremium can be very subjective and confusing," Cunningham said.

John Band of Datamonitor said:

"In Europe, there is less differentiation between standard brands and premium brands. Europe is far less premiumized than the U.S. market. But it is likely that the superpremium market leaders in the U.S. will be the ones to take off in Europe as well."

The new kid on the block, Imperia, spends a lot of time reminding customers that Russia is considered the birthplace of vodka; the word actually comes from the Russian word for water. Stolichnaya (and its new superpremium Stoli elit) is considered the Russian vodka in the United States, but the erstwhile Soviet brand is now bottled in Latvia, although still

distilled in Russia. Imperia differentiates itself by its recipe, created by a 19th-century chemist who patented the formula for the Romanov czars.

In Russia, vodka is considered the national drink, and a good conduit for speaking soul-to-soul. Despite vodka's role in the country's crippling alcoholism rate, the drink is also considered to have strong medicinal, immune-boosting features. Deals are made and weddings celebrated with vodka. Some historians believe it has been in Russia and Poland since the 12th century.

Yet Russia has one of the smallest premium markets.

Even the emerging middle class here believes the classification is simple: There is good vodka and bad vodka.

Distilled and bottled in St. Petersburg, Imperia is meant to be a marriage of Russia's "fabled heritage," and its "21st-century dynamism," according to the brand's promotional materials. Not to be outdone by the "Champagne limestone filters" in France that produce Grey Goose, Imperia is filtered through quartz crystals from the Ural Mountains.

Tariko, the man behind Imperia, is better known in Moscow as the founder and president of Russian Standard, a company that is wide-ranging and includes vodka, spirits distribution, banking and insurance. His Russian Standard Bank is one of the first private consumer-lending banks in the country. Consumer lending is growing quickly in Russia after years of suspicion toward loans and high-interest rates. Tariko's bank has issued 2.4 million credit cards; last year, it signed an agreement with American Express to be the exclusive Russian issuer of the company's cards.

"Roustam Tariko started his businesses himself and is one of the most successful entrepreneurs in post-Soviet Russia," said Marat Ibragimov, a drinks analyst with UralSib in Moscow. "Tariko went from scratch to a leadership position here in premium vodka and the private banking sector. He helped create the home-lending market here, and he absolutely controls this market."

During a recent interview in Moscow, Tariko sat in his cavernous conference room festooned with hothouse orchids. While known to be entertaining, he was in a serious mood.

"What's my expectation in the U.S.?" Tariko asked rhetorically. "I would like to replace Grey Goose."

Grey Goose is the No.1 super-premium vodka in the United States. But Absolut, the leading premium vodka in terms of U.S. sales, is also the top high-end vodka over all.

Tariko's mother was a Communist Party official and he was a Young Pioneer, or Soviet boy scout. After he arrived in Moscow at age 17, it did not take him long to make his first capital by importing Italian candles to the Russian market from the chocolate

manufacturer Ferrero. Then he started importing Kinder Surprise, the chocolate egg with a toy inside. Soon he was importing whiskey.

"Since the days of perestroika, I have specialized in bringing something to Russians they should have but didn't," Tariko said.

With Imperia, he has a long journey ahead.

"The fact that the vodka is Russian could work in its favor," said Band, the Datamonitor analyst. "People are seeking geographical authenticity in premiums. But Imperia needs to have a story and a differentiating point."