

November 11, 2011

Maple Vodka from Vermont Gold

Dear Client:

Vermont Spirits Distilling, which is headed by Steve Johnson, was incorporated in 1999, but it wasn't until more recently that bigger changes took place. The current distiller joined Vermont in 2004, while Steve jumped on board in 2006 initially as an investor and started running things in 2008. Besides the fact that his family in Hungary did some distilling just for fun, he didn't have much experience in the spirits industry

Their three vodka brands include Vermont Gold, Vermont White and Limited Reserve. Gold is made from locally sourced maple sap, White uses milk sugar and the Limited Release is produced entirely from early run maple sap. "In Vermont we don't have potatoes and grains and things, so the obvious sugar source for us is maple," said Steve. "We're not buying any neutral spirits. We start from scratch. We were tapping our own trees, but we got too big and it is too much work in the cold, so we get maple from local growers and we ferment that and create the alcohol and distill the vodka."

WINE & SPIRITS DAILY: So what markets are you currently in?

STEVE JOHNSON: We're in New England, a little bit down the Atlantic coast, and bits and pieces for a total of 18 states. Twenty by the end of the year. We're starting to grow. Part of what I'm doing is trying to get better wholesaler relations in place and get them to pay attention to us a bit more, which is obviously no different from the many other small brands that are trying to grow.

WSD: Is that one of the biggest difficulties for a craft distillery?

STEVE: Yeah, definitely. You've got to expect to do most of the work yourself and just keep on them. Also, you try and offer incentives where you can. It's actually not about the money. I've done tests where I have said to

distributors 'what do you guys get from a big brand to get a cocktail recipe in a restaurant?' They said, 'oh, \$15 to \$20.' So I offered to give them \$100 and I didn't get single placement. Now that's not everywhere, I'm just generalizing. Sometimes it's just not worth their time when they've got big mandates from the head office to push volume. But it works account by account, and you get the right wholesaler and you try to convince a couple of people on the sales force. There's always a couple in the crowd whose eyes perk up when you do your initial pitch, so you try to pitch to them.

So we're out there as much as we can working with the distributors. We try to sponsor events too without giving away everything. We're starting to get some traction, and I definitely don't go looking for distributors if I can't support them. Any time I do get a new one I try to go in with some existing accounts already so it's worth their while. I'll try to go to a handful of retailers and restaurants and say, 'look, they'll take us in if you sign us on.' So rather than coming hat in hand saying 'hey, we've got a great product let's try us out,' I'll say 'here's some business.'

WSD: What do you look for in a distributor?

STEVE: Someone with other craft brands and probably not too big.

WSD: Is it harder to market a brand named after Vermont in other states?

STEVE: Definitely not. Consumers don't have a problem with the name. If we can sample somebody we'll generally get some business. The wholesaler sales teams roll their eyes when they hear another vodka coming in the door, and I totally understand that--it's so easy to make a vodka. But there's a real affinity with New England. Consumers know Vermont. They invariably have been there for travel, or business or school, so the reputation of Vermont makes life a lot easier for us. They understand maple and we just explain we don't have potatoes or grains, so we're making vodka from what we have.

WSD: Any other products you are working on?

STEVE: We have an apple brandy now in barrels, so we'll keep adding to that after each apple season to slowly build an inventory of aged apple brandy. We'll be distilling some each year for bottling right away so it is clear, more in that European style.

I'd like to try whiskey at some point. Gin is an easy one for us and we'll probably do that when we get caught up. It's a busy time for us right now because we just opened a new distillery.

WSD: What is your pricing strategy?

STEVE: For Vermont Gold the suggested retail is about \$40 and we haven't changed that since 2004. I'd like to raise the suggested retail price. I've been able to raise my wholesale price occasionally. I think people are getting a bit more comfortable with paying more and as maple is quite expensive, I'd like to slowly push that price up a bit as things recover. We do a good business in the 375 ml bottle, especially in the last couple of years when things were pretty bad with the economy and someone new to the brand didn't want to spend \$40.

In the fall we're on special in Vermont and New Hampshire, so we will do promotions periodically when each state suggests we do. I don't like to, but you kind of have to. You suck it up in the beginning and hope you get some traction and then put the price back up.

WSD: So what does the future hold for Vermont Spirits?

STEVE: I'm going to hire another 5 people in the next couple of months. I just added someone for control states. I'll hire a general manager and some warehouse distilling people soon. I'm 48 and wish I was ten years younger, but I'm going to look at this for a bunch of years I'm sure. We tore down our old distillery and moved to a much better location near White River Junction, so now we've got the distillery back up. We're allowed to sell directly to consumers in Vermont, which has been really great for us. We've been selling at farmer's markets, and we're allowed to sell out of the distillery where we get about a quarter of a million visitors a year.

There's a lot to do on many levels from working with people like Danielle [Eddy, director of public relations for DISCUS], who is very helpful. We're trying to get more beneficial initiatives moving in the state, and we're always looking at new equipment, adding people and looking at new products. Now we're really running the business nicely and it's fun.

WSD: What are some of the biggest obstacles for craft distillers in your opinion?

STEVE: Buying in any volume might be a cost to some. I'm always trying to improve on our margins. I actually find that you can get through each state pretty quickly, and I find the TTB really easy to deal with. But it may just be me because I don't get too bent out of shape with government forms. I figure they're there and you just have to jump in and do it and smile. Getting new labels approved is challenging because the TTB is so swamped and getting clear answers is hard because you can't reach anybody directly. But the TTB people on the distillery side are great. They'll pick up the phone and answer your questions, no problem.

Struggling to get attention is hard. I think the small distillers - and it's easier said since we sort of got over the hump - just have to be patient. I've read articles about how whiskey distillers rushed to get their brands out, because they want to sell it and have bills to pay, and then they get criticized for the quality. You've got to put your nose down and push through because there's a lot in the way for sure.

WSD: Is the ultimate goal for most craft distillers to be purchased by larger players?

STEVE: I would think a lot of them hope to be sold. I think for a lot of the small vodkas that come out probably that's their goal because vodka is easy to get into, and I think it's a really tough game in small craft vodka unless you have something really special. I compare what we're doing now to the Internet in the late '90s. You had a couple big players, Yahoo, AOL, Microsoft, and they were buying up these little internet startups. Then there was a shakeout and the start-ups had spent all their money on marketing and they disappeared. I think there will be periodic cycles like that with the craft distillers. If they're in it for the wrong reason, or they spend their money the wrong way, trying to get attention with hopes of getting purchased for a quick exit, rather than taking a more value approach of starting with a good product and going from there, they'll lose.

WSD: Thank you for your time.

Until Monday, Megan

"If there is to be any peace it will come through being, not having."
-Henry Miller