

subsidiary. Fortune has said it will not give up that deal until it expires in four years. That may be a negotiating position, and Pernod says it factored into its bid the probability that much of Absolut's US profitability would remain with Beam for a few years.

Fortune was tipped to win Absolut simply because of its ties with Vin & Spirit (which owns 10% of the US group. That will now be sold.) The looming loss of some 5m cases of US sales leaves the American group with a large problem, not least that concerning product distribution outside the US. Absolut's departure spells the end of the Maxxium consortium in its present form.

Losing Absolut would have been a heavy blow on its own, but Rémy Cointreau has already announced that it is pulling out of Maxxium next year. Pernod Ricard regards the price of removing Absolut from the consortium as negligible and will do so as soon as possible. That will leave just Fortune and Edrington, the owner of The Macallan and Famous Grouse Scotch brands, as members.

Edrington is not a viable takeover target because it is owned by a charitable trust, so the most likely outcome is closer marketing and distribution links between the Scottish group and Fortune.

No doubt Fortune's attentions are turning to Stolichnaya, the 3m-case vodka that had been distributed outside Russia by Pernod Ricard since the 2005 takeover of Allied Domecq. Pernod Ricard had been in discussions with the Russian government about buying the brand but that is now impossible, not only because of the loss of face in Moscow, but also because international competition authorities would not allow Absolut and Stolichnaya to exist in the same stable despite their combined sales being dwarfed by those of Diageo's Smirnoff.

Bacardi, Brown Forman and even Constellation will at least explore links with Stolichnaya but competition questions might cloud Bacardi's interest because it already owns Grey Goose. The Federal Trade Commission in Washington is taking a very keen interest in Diageo's deal to purchase Ketel One, which it wants to occupy a premium position beside Smirnoff in its portfolio. Similar concerns could be raised about Stolichnaya joining the same stable as Grey Goose. Meanwhile, Brown Forman has the Finlandia brand.

Future consolidation

For its own part, Pernod Ricard would still love to own a big Tequila brand – when it can afford it. Its debt mountain will be trimmed marginally because although it does not want to sell any brands, it knows it will be forced to. It has said Plymouth Gin will be sold and Campari has already expressed interest in the brand. Fris vodka will also become available.

Diageo, meanwhile, will continue to augment its portfolio with niche brands wherever possible. In addition to Ketel One, so far this year it has bought Rosenblum Cellars in the US and signed a deal to distribute Zacapa Centario from Guatemala. Paul Walsh, Diageo's chief executive, says he pulled out of the auction for Absolut not only because of probable competition problems but also because Ketel One offered better opportunities for brand development than Absolut.

Pernod Ricard's takeover of V&S follows the major deals in which the French group joined Diageo to break up Seagram and then took over Allied Domecq with the aid of Fortune Brands. Might we see similar swoops in future?

Some believe Rémy Cointreau might be vulnerable after exiting Maxxium. Its profitability has improved considerably and

Champagne and Cognac are strong growth categories. But who might the buyer be? Diageo does not own either a Champagne or Cognac brand, but it holds 34% of Moët Hennessy and Walsh says he is very happy with that. Brown Forman, the world's fourth largest spirits group, also lacks both categories but Beam Global owns Courvoisier. The prospects of a private equity takeover are not high either because Rémy's existing management have undertaken most of the restructuring associated with such a deal and debt finance is at a premium. Even more telling is the fact that Rémy has significant family shareholders.

A link between Beam and Brown-Forman is improbable. Their roles in the US market are too large to avoid creating huge regulatory problems and neither would be willing to part with their respective iconic brands, Jim Beam and Jack Daniels.

Which leaves Bacardi among the big players. The private group has expanded significantly beyond the eponymous white rum, taking into its portfolio Martini, Grey Goose, Dewar's and Bombay Sapphire among others. But to make a really big bid, Bacardi would have to either ask its family shareholders for cash or raise it through flotation. The listing of some shares on Wall Street has been mooted for some time, but the owning families cannot agree. The depressed state of the market makes such an event even more unlikely in the foreseeable future.

Absolut was the last iconic brand available to the major players. Now that it has fallen, we will still see the big players making deals, but unless the cost of debt falls substantially and both Brussels and Washington make U-turns on their competition policies, the days of the drinks mega takeovers are probably over... until the new rich of the East turn their attentions to owning Western wine and spirits brands as well as driving new consumption. **db**

INSIDER OPINION

Stuart Whitwell, managing director, Intangible Business



"Pernod has clearly paid a premium for a premium brand at a bad time. US distribution is controlled by rival Beam Global until 2012 so Pernod has even more to pay or risks severe disruption in Absolut's major market. This deal propels Pernod into the tier-one spirits companies, chasing Diageo, and makes the remaining major players either vulnerable for takeover or hungry for acquisitions. Further consolidation in the industry is inevitable. Beam Global appears most vulnerable and will have to work hard to fill its portfolio but has time on its side to gain a brand from Pernod, Stolichnaya and possibly others."

Pierre Pringuet, managing director, Pernod Ricard



"Absolut fills a strategic gap in Pernod Ricard. We wanted to strengthen our position in premium spirits and in the US. The V&S acquisition takes us to number two in the US from number five [largest spirits company by market share]. Cruzan rum is the cherry on the cake. We can't sell Havana Club in the US because of the embargo so we will have the benefit of Cruzan in the US, where it sells 600,000 cases. Now we have a flagship brand in every single segment and we are clearly focused on the premium sector and that is where the growth is."