Rabobank: Whisky Distillers Face Supply-Demand Swing

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NEW YORK (PRNewswire) — Scotch whisky is currently enjoying a boom due to growing demand in the U.S. and emerging markets. The industry is ramping up production to rebuild the declining stocks of longer aged whiskies. However, while production growth is warranted, a new report from Rabobank, "Now That's Smooth", suggests that a smoother rate of production growth could help reduce the industry's historic shifts between excess supply and shortages.

"The long maturation process of Scotch adds to the challenges of trying to match current production with uncertain future demand," said Rabobank analyst Stephen Rannekleiv. "As a result, the Scotch whisky industry has historically suffered from the acute cyclicality of production, which has led to periods of excess supply followed by periods of shortage."

Rabobank believes that Scotch whisky distillers should consider three recommendations that would leave the industry better prepared for sustainable growth over the long term:

1. **Continue to grow production, but smooth out the lumps:** The production cycles in Scotch seem fairly predictable, generally moving in six to seven-year cycles (peak to peak) in which annual production increases range from 30 percent to 50 percent (trough to peak), and then return to near previous lows. These peaks and troughs typically create periods of excess supply, followed by periods of tight inventories. The Scotch industry should attempt to achieve more stable production growth in the future, eliminating the surges and declines that have been characteristic of the past.
2. **Resist the temptation to ramp up production too quickly:** From 2006 to 2012, total inventories rose 17 percent, while annual consumption rose just over 11 percent. This level of inventory growth is clearly needed in the short term to create future availability of aged stocks, but at some point, the production should return to a more rational rate of growth more in line with a slightly conservative projection of consumption growth. For the Scotch industry, aiming to guide inventory growth based on projections that err on the side of conservative rather than optimistic forecasts, will inevitably lead to occasional missed sales opportunities, but for a category that seeks to build its premium image based on a perception of scarcity, this would be preferable to allowing excess inventories to flood the market.
3. **Prepare for innovation rather than discounting:** At some point, a return to industry oversupply is probably inevitable and the industry should be prepared. In the current environment, whiskies of other origins

(particularly American and Canadian) are generating tremendous growth through flavor innovations. In the future, should oversupply return, expansion into flavor extensions would be a better response from a strategic perspective than the discounting seen in the past, which also serves to undermine the prestige of the category. While this may not be appropriate for all brands, blended whisky brands in basic and premium price areas may need to innovate to retain relevance with their consumers in the face of increasing competition from other whiskies.

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