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## Press releases: 2003

### So is CARDHU PURE MALT a threat to Scotch Whisky?

17 November 2003

#### Europe

Jonathan Driver, Diageo's Global Brand Director, Malts, responds to your comments

So yes, Cardhu has become a 12 year old Pure Malt. We think it's a good move for the future of Scotch whisky. We also believe that the implications of this move have been distorted and over-dramatised. And we're working hard to respond to the concerns of others in the industry.

'Pure Malt' may not be a familiar term to many Scotch whisky drinkers. But we didn't invent it – it has long been a recognised expression within the whisky business, meaning that there is no grain spirit in the product. Another term for Pure Malt is Vatted Malt, but this does not translate easily into other languages.

It is not a blended whisky either, since this involves combining malt whisky with distilled grain spirit. Neither is it a 'single malt', which is a term meaning that the malt whisky is from one distillery only. As we have explained, Cardhu Pure Malt will contain other Speyside malt whiskies including malt whisky from Cardow distillery (formerly known as Cardhu, but will deliver the same pure Speyside flavour and style. This means that we can supply much more of it to those overseas markets where it has become a firm favourite.

Cardhu is a unique phenomenon as an exported whisky brand. For the last 5 years, Cardhu has been the fastest growing malt whisky brand in the world, above all in Spain, France, Greece and Portugal. It now sells over 280,000 cases a year, with a market presence among sophisticated drinkers that we have built up over many years. And demand continues to grow. It's an enormous success story for the Scotch whisky industry.

The only problem is that we cannot deliver any more Cardhu 12 year old single malt than we do at present. Production cannot easily be increased beyond present capacity, and even if it could, it would be another 12 years before the additional product became available.

We're a company that makes the consumer the focus of our business. We're also a company whose emotional attachment to whisky and the future of our industry is absolute. So the question was: do we just stand still, or do we do something to satisfy our consumers and to give Scotch whisky a stronger future in world markets?

You have to understand the drinking environment and preferences in these markets. The people who drink Cardhu Pure Malt won't switch to a blended whisky. So would they trade up instead to older or more expensive single

malts? We know this market and we think not: they might graduate there eventually, but only if we keep them as Scotch whisky drinkers.

Nor does it mean they'd necessarily trade across to drink others' Scotch whisky products, even though such products are available at competitive prices.

No, in this area of the market, not supplying what people want means that they'd just as easily switch out of Scotch whisky to other spirits, such as the aged rums now popping up everywhere, or other spirits like tequila, vodka or gin.

So this is an innovation to seek to look after two assets; the value of Cardhu as a brand and the place of Scotch whisky as a category in the hearts and minds of these consumers. As a leading producer of Scotch whisky, we see it as part of our duty to continue to contribute to the export growth of Scotch whisky - not just this year and next, but for many years to come. And not just in established markets, but in new areas where other spirits have a strong foothold. None of this will happen unless we innovate. Now, and continually.

The main reservation expressed against Cardhu Pure Malt is that this is the wrong sort of innovation - that we're risking damage to the whisky industry and years of investment in the reputation of single malts.

We do not believe that this assertion is sustainable. But it's worth remembering that we have a deep and enduring emotional, financial and historical commitment to Scotch whisky and to the single malt segment of Scotch whisky in particular. It is fundamental to the way we do business. We have invested significantly in single malt whisky over the past 15 years since the launch of the Classic Malts - both to build the Scotch whisky category and to grow our own brands. We will continue to do so. The protection and the integrity of the single malt segment is as important to Diageo as to any other stakeholder in the industry. With around a 17% share of annual malt whisky sales it is inconceivable that we would want to damage such an important piece of business.

Moreover, this is not a new story. We told the Scotch Whisky Association (SWA) in April 2003, and have been in consultation through the auspices of the SWA with the industry ever since to see if the reservations that some of our industry competitors have been expressing can be addressed. Specifically, while the revised packaging for Cardhu Pure Malt has a familiar look and the taste is much the same, the words however make it clear that the liquid inside the bottle is different. Also, in Spain and other big markets, a consumer advertising campaign has been explaining what's happening. And the name of the distillery is reverting back to its original name, Cardow.

So we're not apologetic about what we are doing with Cardhu Pure Malt. It is being rolled-out in Spain, Greece, Portugal and France. We just hope that by continuing to debate this within the Scotch Whisky Association -

where such matters should be handled fairly and properly, we can succeed in giving our critics the reassurance they appear to need. The long-term prosperity of this key industry depend on that.

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