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Whisky Advocate Presents: What is a Craft Spirit

Moderator:

Jefferey Lindenmuth, Executive Editor, *Whisky Advocate*

Panelists:

Paul Hletko, President & Founder, FEW Spirits, LLC
Monique Huston, National Director of Spirits, Winebow
Brett Pontoni, Spirits Buyer, Binny's Beverage Depot

Craft spirits have been on a meteoric rise, said Lindenmuth, with 1,835 producers meeting the qualifications of being a craft spirit distiller by August 2018. He added that craft spirit content is among the content that performs best for *Whisky Advocate* readers.

American Craft Spirits Association defines craft as a distillery that values the importance of transparency in distilling, and remains forthcoming regarding its use of ingredients, distilling location and process, bottling location and process, and aging process. A craft distillery produces fewer than 750,000 gallons annually, and is independently owned and operated, with more than a 75% equity stake in the company and operational control.

American Distilling Institute has set standards for its Certification of Craft Spirits as follows: It must be the product of an independently owned distillery with maximum annual sales of 52,000 cases where the product is physically distilled and bottled on-site; less than 25% of the craft distillery is owned or

controlled by alcoholic beverage industry members who are not themselves craft distillers; annual sales are less than 100,000 proof gallons; and production is hands-on.

Scale and ownership, then are the standards the industry has latched onto to define craft. Lindenmuth asked Hletko, as a founding member of the ACSA, to talk about its genesis.

Hletko answered that “craft” is in the eye of the beholder and that it’s challenging to define consistently. The ACSA tried to associate craft with its membership—small, independent, creative, and above all ethical. ACSA opted not to define craft *spirits* but to define a craft *distillery*. The word itself has been really overused and therefore has little meaning—case in point Subway’s craft sandwich campaign.

Pontoni was asked about consumer awareness of the word “craft.” Do people come in looking for it or asking what it is? Pontoni echoed Hletko that people who want craft are looking for scale and private, independent ownership. He was involved in the first wave of craft beer and said it was really easy to apply the term to breweries. But ironically, the person who put craft beer on the map brewed German-style lagers in a Stroh’s facility in Pennsylvania.

When Sam Adams and brew pubs started cropping up there was a significant void in the beer world. By contrast, there was no such void to fill when craft spirits hit critical mass 15 years ago, said Pontoni. There were, and continue to be, very high-quality spirits that are mass produced.

Lindenmuth asked, “Is the industry stuck with the term ‘craft’? Is there a better word?” Hletko responded that he doesn’t like the word “craft” but uses it all the time. It’s what the customer wants. Huston is also not a fan of the word, adding that it needs constant qualifiers. When she talks about craft, she adds qualifiers such as authentic, artisanal, transparent, family, and estate. When people visit a local distillery, it personalizes the broader spectrum for them, said Huston. People like the idea of a couple of guys making spirits in their backyard. They like to say, “I had this firsthand experience.”

Lindenmuth remarked that since craft envelops so many things there’s not a simple elevator pitch for it. It includes process, scale, size, methodology. Many craft producers sell in the local market. Is there a local element that’s important? Hletko answered that it depends on the distillery. ACSA statistics show a large number of distilleries do a large portion of sales in their home state. But Hletko’s FEW Spirits only does 20% of sales in its home state of Illinois because at this point it’s a national brand. Some of the craft spirits market is moving beyond local. What he hears people saying now is “I’ve had the local spirits, now I want what’s good.”

Unlike craft beer, which was often associated with adventurism and quality, craft distillers sometimes take shortcuts that the larger distillers don’t take, said Lindenmuth. It’s a truism that many craft distillers don’t make the cut into *Whisky Advocate*.

Pontoni said a producer wants to own their home market but shouldn’t get parochial and rely on that as their only market. And, they need to understand when they go to other markets that they’re competing against its home distillers. In the early 2000s, there was a massive brewery proliferation and they were all good. Pontoni has observed that with craft spirits, the floor is coming up. The market is weeding out bad operators and bad producers. At worst, those that remain are those that are doing a solid job.

Huston said that a craft spirit can have all the authenticity in the world, but to sell the second and 10th bottle, it has to be quality-produced. Those people who get into it for the wrong reasons will see their products in the closeout aisle.

Lindenmuth noted that consumers associate recently initiated American distilleries with the craft concept. Huston said she sees fascinating, family-owned spirits like Nardini grappa, which has been produced since 1779, and for Winebow's purposes, rolls that into craft spirits. The story there is that Nardini was the craft distiller in that tiny village 200+ years ago. New American distilleries are building the path forward for certain older artisanal producers.

Lindenmuth asked what tools the panelists use to present craft spirits. Huston said it's about education, whether it's holding late-night events with a group of artisanal producers or something else, her job is to have all the talking points and arm bartenders and retailers with them. No one is asking for artisanal spirits so they have to find a way to get them into people's mouths. Consumers have computers in their pockets and they don't want to just hear about something, they want to see pictures, price point, and quality.

Pontoni added that everything Huston does flows to businesses like his. Distributors put together things retailers can use when they're face to face with consumers. With craft, it's important to work all the way through from production to sales. He has to figure out how to answer people when they ask questions on the shelf. Binny's Beverage Depot puts craft in with the rest of the category. It puts everything in a specific style someone might be interested in on one shelf. They use all the tools and assets producers and wholesalers give them in terms of tastings, point-of-sale materials that enable his people to have an elevator conversation on a business card, and come in and educate his staff. Binny's has a very extensive education program, category-by-category, including, most recently, a "Bourbon blind" tasting of 30 bourbons from producers ranging from small to Jim Beam. The goal is to educate salespeople to speak the language of what's in the glass.

Pontoni reflected that he has focused his remarks on the hurdles a craft spirits producer faces compared to a craft beer producer—a craft spirits producer isn't entering a vacuum but a competitive field. Gin is a great example. There were already fine gin products, including Tanqueray. What craft gin has done is make people realize that gin can be more than one tightly defined style. Only the older generations were drinking rye until FEW Spirits entered the category. Craft has driven a rye resurgence that has benefited longtime producers like Rittenhouse.

Lindenmuth brought the conversation back to the ownership proposition, saying *Whisky Advocate* keeps a running tally of craft distillery sales and investments. Once a craft distillery has a major investor, some people no longer consider it craft. He asked the panelists to share their views.

Pontoni said that when people come into his stores and ask for craft, they're tying their definition of craft to size. Does a large company's investment in a producer mean the producer doesn't have to worry about where their next meal is coming from or is the larger company taking over the brand? Hletko's FEW Spirits is involved with Samson & Surrey, Pontoni pointed out, but Hletko didn't step away from the business. If the right person is investing, all they're doing is giving the small producer the financial freedom larger producers enjoy, taking that pressure off them.

Lindenmuth added he'd like to think an investor purchases some equity in a craft distiller because the investor values what that distiller does. He asked Hletko what partners do for the quality of his product and ability to push forward, after years of going it alone. Hletko responded that for a small distiller the cost of growing beyond a certain number of cases is untenable without some investment.

Huston remarked that from the Winebow perspective, when they work with small producers, the producers don't have their own sales teams, so Winebow becomes their storyteller. When those small producers sell, they almost always have to change distributors. The distributor has built that brand only to lose it. She does think people are becoming more thoughtful about the partners they are choosing. Pontoni observed that there aren't just craft producers, there are craft wholesalers who are 25-30% responsible for a brand's success but are too often forgotten in the process. Hletko noted that FEW Spirits would not be where it is without Huston, and Lindenmuth added that she and Winebow are not just telling the story, they're part of the story.

Lindenmuth noted that given the popularity of craft spirits and an eagerness to invest, craft producers are in a position where they don't have to accept the first check that comes along. If they're good, they'll have multiple offers. Hletko added that large spirits brands have seen what happens to valuations in craft beer and are trying to get ahead of it. In terms of acquisitions, Hletko said that FEW Spirits probably has one more acquisition coming and that will be it. He wants no more than six houses. The idea is to have the best brands, best sales, best finance, and a true value-add portfolio that can bring FEW's products to consumers in a way that would be a challenge for him to do on his own.

In closing, Lindenmuth posed the following question to the panel: There are numbers related to volumes produced and numbers that relate to ownership that don't resonate with consumers and barely resonate with the trade. Is there something on the books that can point us to a definition of craft spirits?

Lindenmuth offered as one option the Supreme Court "test" related to a 1964 ruling on obscenity: "I know it when I see it." He referenced Hletko's FEW Spirits, and the value of physically visiting the distillery, which he described as on a tiny corner in Evanston, to see that there are actually stills there, barrels there, and Hletko there making liquid. Huston offered up another standard: "Beauty is in the eye of the beholder," adding it benefits everyone if people are willing to explore. Pontoni said that Binny's lets its customers tell them what craft is. "If they open that door it allows us to talk about artisanally produced product without getting into a semantic debate about distillery size." Ultimately, the consumer decides what craft is.

The first question from an audience member concerned brand loyalty. That led to a discussion between Huston and Pontoni about whether or not brand loyalty is still relevant in the 21st century. Consumers used to have a smaller selection of brands from which to choose. It was a much simpler marketplace. Is brand loyalty still the right conversation or is it a matter of inspiring those moments of truth and taking consumers on a journey so they visit that product more often? To Hletko, however, as a craft producer, brand loyalty is what's most important to his business.

Another audience member asked about craft spirits on a global level. Is it more of an American movement or is there a community of crafts spirits drinkers globally? Hletko said it's absolutely global. "People are clamoring for what we have" in the U.K., South Africa, China and Hong Kong. The production scene can vary based on nonmarket-driven factors, from regulations to market access to business styles.

Pontoni was just in Scotland meeting with 30 craft gin producers. He once spent a week with Huston and a wholesale rep driving to eight planning sites for Irish whiskey distilleries and other gin producers. Huston said that people are drinking hyper-locally but also clamoring for American bourbon.

Pontoni said some people might credit New Zealand for the birth of craft because it had very broad laws about distillation and that may have inspired early craft beer production. In the U.K., things were more restrictive and it wasn't easy to open up a farmhouse distillery until recently. Hletko added that even in the U.S. with its relatively loose regulations, Minnesota producers are years behind because of licensing fees they had to deal with until recently.

Download the presentation [here](#).