The following report examines the current state of the rum market in America, particularly with regard to the trade embargo with Cuba, and outlines the strategy Bacardi should adopt.

Much of the alcohol market is driven by fads and perception. Bacardi should push to have rum perceived as a premium spirit and make sure that Bacardi is established as the best in the market. This will be accomplished by promoting Bacardi rum as a premium spirit and highlighting its Cuban origins. This posturing, coupled with an aggressive advertising campaign to convince the public that Cuban rum is the “Lost Treasure” of rum, will put Bacardi rum at the forefront of the spirits market.

Proposal:

- A strategy to dramatically increase rum sales
- Liquor market is primary fad-driven, current trends favor vodka
- Bacardi brand must be positioned to take advantage of a rum fad
- Cuba has very strong association with rum
- Delicate nature of trade with Cuba has significant impact on the US rum market
- A change in the embargo could greatly boost rum popularity
- Premium brands and quality drinks are often driving forces in market
- By establishing itself as a quality rum producer, Bacardi can expand its market share now, and be ready to capitalize on rum fad
- Acquisition of the Havana Club label is useful in this regard, as most other premium rums are already tied to other locations (e.g. Barbados)
History

- Bacardi corporation started in early 1900s, in Cuba
- Didn’t take off until later, in 1920s and 1930s
- One major positioning strategy was branding Cuba as the “home of rum”, and Bacardi as the “king of rums”
- Production of the rum was expanded to Puerto Rico, allowing it to be sold tariff-free to US
- Fidel Castro’s government took over Cuba in the 1960s
- Bacardi initially supportive of Castro, with the CEO Bosch personally donating money to Castro’s movement
- Withdrew support as Castro turned dictatorial and pro-Soviet sentiment grew
- Castro nationalized and banned all private property on Cuba, including Bacardi’s assets, forcing Bacardi to withdraw completely to Puerto Rico and Mexico
- Bacardi had already moved important international trademarks to Bahamas beforehand, were able to survive thanks to existing production there
- Bacardi intent on returning to Cuba and resuming its status as king of Cuban rums

Havana Club

- Havana Club brand founded by Arechabala family
- Bought by Bacardi, later was nationalized by Castro
- Today, it is sold by Cuba internationally, and is consider top of the line
- Trademark belonged to Cuban government for a long time
- Trade embargo against Cuba meant Havana Club sold everywhere but US
- Bacardi couldn’t sell brand named Havana Club in US (or anywhere else)
- This made it difficult for Bacardi to associate itself with Cuba
- Hired lawyers to help draft anti-Cuban legislation, 1996 Helms-Burton Act
  - Extended scope of embargo against Cuba
  - Section 211, called “Bacardi Act”, denied trademark protection to Cuban businesses nationalized by Castro
Primarily aimed at neutralizing Havana Club trademark

- Thus, Bacardi won the right to sell Havana Club brand name in US

Vodka Market
- Was once a small market in the West, located mainly in eastern Europe and Russia
- During and after Cold War, huge boom in vodka popularity in Americas
- Now many vodka varieties, mixed drinks, even Vodka bars
- At 26% of US liquor market and rising
- A good example of what could possibly happen to the rum market

Rum Market
- Bacardi
  - Club Scene
  - Target audience of young professionals
  - Tries to be “cool” for mid-20s demographic
- Captain Morgan’s
  - Second-highest selling rum in US Market
  - Party Scene, especially house or college parties
  - Target audience college-aged (possibly underage?)
  - Would definitely support rum popularity push, and wouldn’t compete too much with Bacardi
  - Also have a less famous premium rum
- Mount Gay Rum
  - Classier rum than Bacardi
  - Won 2007 “Luxury Brand Status Index” survey for premium brand rum
  - Use boaters (yachters) as marketing icon
  - Claim they are oldest rum producer (from 1700s)
  - Would be major help to Bacardi in making rum popular
  - But would also be competitor for premium rum
- Other Caribbean distilleries--Appleton Estate (Jamaica), Gosling’s (Bermuda)
Smaller players in the market overall
Could market their rum as rare or unique
Would undercut marketing push of Cuban rum

Current Situation
- Bacardi is largest rum producer, with 41.7% share of US rum market as of 2004
- Captain Morgan follows with 21.6%
- Bacardi USA is third largest supplier in liquor market overall
- Bacardi sells “Havana Club” brand name rum in US, with label saying “Puerto Rican Rum”
- Also sells medium-quality rum under Bacardi name
- Cuba Exports Co., with Pernod Richard, sells “Havana Club” brand internationally, not in US
- Considered a higher-quality rum than most Bacardi products
- Trade embargo still stands, Cuban products cannot be sold in US and Bacardi cannot own anything in Cuba
- Popularity of rum has steadily declined since naval era
- Whiskey smuggling during prohibition also cut into rum’s share
- Mixed drinks exist for rum, but just aren’t that popular (except for rum and coke)
- Alcohol is very fad-driven, rum is currently “out” and vodka is “in”
- Vodka has 26.2% of total US liquor market as of 2004
- Rum has only 12.3% of market

Strategic Outlook
- Bacardi has utilized various positioning strategies to get people to drink rum
- Primarily, trying to associate rum with Cuba and Bacardi with rum
  - Historically tried to get rum and coke to be called “Cuba Libre”
  - More recently by acquiring/selling Havana Club trademark brand
- Creating fads is very difficult – Vodka fad was only enabled by major political events
- Bacardi also has to be positioned to take advantage of a fad
The spirits market has shown little potential for customer loyalty
Consumers can easily switch to another brand or spirit
Bacardi must be positioned to maximize profits immediately, as any fad may not last long

Increasing Rum Appeal

- First, must market rum and Bacardi in as a premium, sophisticated spirit
- Vodka’s popularity boost is closely tied with its sophistication
  - Accessible and easy to drink, but still a mature drink
  - Also the sheer number of popular vodka cocktails
- Consider popular Vodka and Rum drinks
  - Vodka Drinks: Vodka Martini, Cosmopolitan, Lemon Drop
    - Sophisticated
    - Served in a martini glass
  - Rum Drinks: Rum and Coke (Cuba Libre), Mojito, Mai Tai
    - “Party” drinks
    - Served in a highball glass
- Bacardi can attempt to push rum drinks served in martini glasses
  - Between the Sheets, Captain’s Blood, Presidente
  - Bacardi Cocktail – best for Bacardi
    - Popular after Prohibition era
    - Legally, must be made with Bacardi
- Bacardi should create a new, higher-priced “premium” rum label
  - Will capitalize on a new fad based on premium rums
  - Will lend credibility to other Bacardi products
- Bacardi should switch its marketing campaign for all of its products to mimic those of vodka producers
  - Remove club or party scenes in favor of solid backgrounds
  - Pans across the bottle, slow motion shots of the rum being poured, etc
  - Focus on taste instead of attempting to make the drink sound “cool”
- In this facet of our strategy, our main competitors will be other spirits
Other rum producers will have no problem with the association of Rum with class and sophistication

- If Bacardi’s new marketing campaign is successful, other premium rum companies (Mount Gay, Appleton) may in fact launch similar campaigns, further benefitting the image of rum as a whole
- Possible exception is Captain Morgan’s, which may feel it stands to lose some of its younger, lower-end consumers

Producers of other spirits, particularly vodka, will attempt to fight this new trend

- Vodka can push its image as a sophisticated spirit even more aggressively
- Other spirits, such as gin, whisky or tequila may mimic Bacardi by pushing their own spirits in a similar fashion, thus overwhelming consumers with “premium” rums

- Second, we must draw attention to Bacardi as a “Cuban” rum
- Russian Vodkas outsell those marketed otherwise
  - Once again, analogous to Cuba
  - Likely due to residual associations from the Cold War era
    - Vodka market took off following collapse of Soviet Union
    - Viewed as “exotic” or “spoils of war”
  - The only prominent exception is Grey Goose
- Though currently manufactured in Puerto Rico, Bacardi can still market itself as “born in Cuba”
- Furthermore, this will give Bacardi an advantage over other rum distillers
  - Mount Gay and other currently available premium rums, are tied to the islands from which they came
  - Would dissuade small distilleries from simply picking an island in the Caribbean and marketing as “premium Aruban rum” or “quality rum from the heart of the Bahamas”
- Main competitor will be Havana Club
Especially a problem if Rum fad is a result of fall of embargo

Havana Club, regardless of Cuban origin, is accepted as the premium rum by many connoisseurs

However, if it comes to it, Bacardi was indeed founded in Cuba before Havana Club

- Havana Club founded in 1878 in Havana
- Bacardi founded in 1862 in Santiago

If the embargo is still in place, Havana Club will not be a player in the US market

Taking Advantage of the Embargo

- We have two important goals:
  - Establish Bacardi, and rum in general, as a sophisticated, high-class spirit
  - Establish Bacardi as a Cuban product

- If we believe the embargo will end soon, our first priority will be to establish Bacardi as a Cuban rum
  - Based on our analysis of the Vodka market, the end of the embargo would spark popularity of rum in general and Cuban rum in particular
    - Would create a sudden influx of Cuban rums into America
  - However, if the embargo ends soon, it is not worth our time to fight to keep selling under the Havana Club label
  - The most effective strategy would be to start a new label separate from Bacardi and sell it as a Cuban Rum (also known as the “Swedish Fish” strategy)
  - Bacardi’s distribution network in the US would give it a good head start on new Cuban imports

- If we believe the embargo will continue indefinitely, it will be more important to capture the US market by establishing Bacardi as a premium product
  - Follow our marketing plan above, as well as the creation of a new, premium label under the Bacardi name
  - Still important to establish Bacardi as a Cuban rum
- Important to differentiate Bacardi from other competitors
- Luckily, Bacardi will maintain US rights to the Havana Club label

As the largest share of the rum industry in the United States, Bacardi has incentive to revamp the popular opinion of rum in the liquor industry, as well as the image of its own company. Bacardi should market rum as premium liquor to bolster interest in rum as a high-class drink and a premium label should be released with a general focus on young professionals. Bacardi should use its Cuban origin to promote itself as a premium brand, since the Cuba embargo is a major factor in future strategy. Bacardi will have to work harder to differentiate itself and boost rum popularity if the embargo stays, but will have less competition with Cuban Havana Club rum. However, if the embargo ends, the influx of a new exotic product may cause high demand for Cuban rum and boost the rum market as the end of the Cold War did for the vodka market.