ABOUT THE UNDERBERG GMBH

The family-owned Underberg company is one of the leading German spirits producers, most recognized for its core brands Underberg and Asbach and its unique competence in herbal specialties. Underberg was founded in 1846 by Hubert Underberg and today the fourth and fifth generation run the company, namely Emil and Christiane Underberg, their daughter Dr. Hubertine Underberg-Ruder and her husband Dr. Franz J. Ruder.

The German Semper Idem Underberg GmbH owns a diversified portfolio of well-known brands (e.g., Underberg, Asbach, Pitú, XUHU, Grasovka and Riemerschmid) and distributes additional brands including Amerula, Averna, Cointreau, Glenfiddich, Moskovskaya, Metaxa and Rémy Martin. The own brands are developed, positioned and managed in house. It is Underberg’s objective to create a unique position and value for each brand and to reach well-defined market segments.

Beside Germany and its neighboring countries, Underberg has a special focus on markets in Brazil, Russia and China. More than one in five bottles of its top six own brands is sold outside of Germany.

THE INTERVIEWER

This interview was conducted in August 2011 by the Editor-in-Chief, Dr. Dr. h. c. Hermann Diller.

ABOUT HUBERTINE UNDERBERG-RUDER

Hubertine Underberg-Ruder graduated in microbiology. After working for the Ministry of Agriculture in the Netherlands, she moved into the family business, headquartered in Dietlikon, Switzerland. Dr. Underberg-Ruder has been the President of the Board of Directors of Underberg AG, the Swiss parent company, and Chair of the Advisory Board of the German companies since 1991.

She is married to Dr. Franz J. Ruder, Director of the Underberg AG, with whom she has four children and lives in Switzerland.
MIR TALKS TO HUBERTINE UNDERBERG-RUDER, PRESIDENT OF THE BOARD OF DIRECTORS, UNDERBERG AG

Interview by Hermann Diller

The family-owned Underberg company, headquartered in Switzerland, has successfully produced and marketed spirits for more than 165 years. Dr. Hubertine Underberg-Ruder, fifth generation President of the Board, describes how the medium-sized company keeps growing responsibly and effectively in the heavily regulated spirits market and how they tackle global challenges.

**MIR:** Mrs Underberg-Ruder, let’s start our conversation with the current challenges of branding in a medium-sized, branded company. One principle of successful branding is continuity, but the spirits market is increasingly dominated by fashion drinks causing higher turnover volatility. The Underberg brand seems to be unaffected. How would you explain that?

**UNDERBERG-RUDER:** Well, I believe, in our industry we face very different customer groups and also a large variety of drinking occasions. That’s one of the peculiarities of the spirits market. First of all, we notice that the drinking occasion is more relevant than the customer type in most cases. Therefore the common segmentation by target groups is less useful, we instead define markets by drinking occasions. For instance: are the spirits consumed with a meal or in a bar? Does it happen in a private or public place? Are they consumed alone, when reading a book for example, or in company, maybe with a group of friends? One and the same person might, for instance, generally choose a fruit distillate like Dettling to enjoy when reading a book, and prefer to drink a beer or a sparkling wine like Schlumberger when going out with friends. Obviously, there are occasions with stable consumption patterns, and there are instances ruled by variety-seeking behavior and experimentation with new drinks.

**MIR:** I understand: in spirits marketing you have to consider occasions rather than target groups. And what is the second special characteristic of the spirits market?

**UNDERBERG-RUDER:** The other important distinction is the fact that we face two dramatically different sub-segments with specific customer groups, even if the end user is ultimately the same: marketing a product to grocery retailers or to the Horeca follows completely different principles. For instance, when marketing the Asbach brand (a German specialty) to restaurants and bars, you need to emphasize its “indulgence” character, the high quality or exclusiveness, something the host can use in his communication with guests. So on the one hand you have to help the host to present himself as knowledgeable and on the other you have to serve the customer, who expects a pleasurable experience at the specific location.

**MIR:** May I broach the aspect of the consumption occasion again? This is a very interesting point. Don’t occasions also change over time? After all, food culture, eating habits or restaurant preferences change constantly. In the course of the recent economic crisis, for instance, people significantly reduced how often they dined out. Did you observe this in your figures? How did you handle it?

**UNDERBERG-RUDER:** Yes, this trend was very noticeable and we did react marketing wise. We observed that many activities which used to take place in restaurants and bars were replaced by consumption at home. We therefore offered additional products for bar-like consumption experiences via grocery retailers. For instance, for Pitú (an Aguardente de Cana), we offered an entire kit with all the ingredients to make a Pitúrinha at home. That sold very well during the crisis. Offering such “on-trade experiences in off-trade” [on-trade referring to food services such as restaurants and off-trade being grocery retailing in the context of our company], meaning bar-like experiences at home, were a very important tool in the crisis.
MIR: Even if target groups are not of central importance, as you pointed out, brand management still needs to ensure that the brands do not become obsolete with aging consumers. Do you work towards brand rejuvenation and how do you approach this topic?

UNDERBERG-RUDER: Actually, I resent the term “rejuvenation” for two reasons. In my opinion neither youth nor seniority are important but age trends are relevant. Drinking higher percentage spirits neat only starts at the age of about 40. Basically, that’s how it always used to be with younger people never drinking pure whiskey, not now or in the past. That means, you generally have rather “old” consumers. What counts here is the average age. Does the average age of our consumers increase? I certainly work towards ensuring that it does not go up. Therefore we prefer to use the term “actualization” instead of “rejuvenation”. As long as the brands remain relevant and the average consumer age does not go up, I have no problem with older target groups, the more so as our society as a whole ages.

MIR: How important is customer retention in your business?

UNDERBERG-RUDER: In our industry one does not only lose customers because they pass away, but also when they migrate to other brands. It is therefore very economical to enforce customer loyalty. For example, we have launched a bottle top collection campaign and provide several incentives for returning those tops.

MIR: I agree that customer loyalty is important but I am skeptical whether it is really developed through the collection of bottle tops? Please correct me if I’m wrong, does it work?

UNDERBERG-RUDER: I am happy to tell you that you are mistaken. It is really not the collection process that counts, but the fact that the consumer sees it as a sort of “cult” that he wants to be part of and therefore also establishes an emotional bond with the brand. It is certainly not the point of the campaign to create incentives that are purely financial or materialistic.

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MIR: Do you have quantitative results on the response you have had?

UNDERBERG-RUDER: I can tell you quite specifically that one bottle top is returned every three seconds.

MIR: One top every three seconds! That sure adds up to a lot!

UNDERBERG-RUDER: Precisely. And you know, there is a lot of talk about sustainability and the environment. We have all the tops shredded and recycled. So, there are even additional benefits.

MIR: Yes, I have read about that. And you are sure that everything comes right from actual consumers and not from other collectors that eventually comb through any waste bins?

UNDERBERG-RUDER: Well, we know that there are in many cases collector communities rather than single consumers. We discovered that through a questionnaire in which we asked if they collected alone, with family or in the office and how the collection was organized. And actually, we have several thousand collector communities, who collect together in the office, in law firms, sports-club and so on. We have also gained insights into rituals linked to the collection of the caps. For example: “Once a month we sit and decide together which prize we will go for next and what should be engraved into the tall glass.”

MIR: That’s ideal. That is actually a real fan club!

UNDERBERG-RUDER: Exactly, and that is why I say that it is essential that such campaigns emotionalize, otherwise they cannot be successful. Our participants consider it a rewarding “cult”, they quite simply enjoy it. By the way, the gifts are personalized and are not of monetary value.

MIR: Nowadays, it is almost chic to be positioned as a premium brand for creating value. Would you define Underberg as a premium brand?

UNDERBERG-RUDER: Of course. You have to consider that we realize mark-ups of almost 100% compared to the closest competitor in our segment. No matter what brand, our price is always more than double.

MIR: And how do you translate this premium policy in your communication? How do you justify your premium price?

UNDERBERG-RUDER: For our Underberg brand, the positioning is very unique. We are not a beverage that is consumed primarily for pleasure, but for its effect. We are almost a brand in the field of pharmaceutics and obviously this positioning between digestive effect and pleasure justifies the price gap.

MIR: And I assume your standard packaging in the size of a single portion helps as well?

UNDERBERG-RUDER: This is our only bottle size. We offer nothing but the 20 ml portion bottles, which supports the idea: do not drink too much of it, one portion is just right for your wellbeing.

MIR: Broadly speaking, value creation using a premium price is more important to you than quantity. After all, the sold volume is most likely much smaller than if you chose the conventional 0.7 l bottles.
UNDERBERG-RUDER: Primarily it is a clear statement of our positioning.

MIR: OK, then. The positioning further includes the breadth of the brand on the market. You seem to follow the rather untypical brand policy of a single brand concept, not thinking highly of line extensions or brand transfers? Could you explain this point in more detail … or am I wrong?

UNDERBERG-RUDER: We are positioned as a premium brand and therefore the consumer should have in mind a specific image, namely the small bottle and its associated world of experiences that we present on each package. This is most important and we communicate it continuously and integrate it into all our marketing activities. Concerning the line extensions you mentioned, we simply believe that consumers have a right to “mental convenience”. A brand should always provide orientation, which can get lost quickly when there is an abundance of variations.

MIR: If you do not pursue a policy of line extension, how else do you generate growth? Did you essentially grow by creating and acquiring other brands?

UNDERBERG-RUDER: Correct. We firmly believe that it makes sense to offer different brands for different consumption occasions. As I mentioned before: when I read my book and want to enjoy sipping my Asbach on the side then that is just fine. This desire should not be fulfilled by any brand and, for mental convenience reasons, it can’t be met by a different brand.

MIR: The consumption occasions bring us to our next topic, namely customer insight management. How do you generate insights into these instances and consumption preferences at specific occasions and how they change over time? How do you manage this process?

UNDERBERG-RUDER: I’ll answer in two parts: first, as the owner, it is important that I am personally out in the field; especially in a medium-sized company this is crucial. I need to see how consumers make decisions in bars and restaurants and understand what topics touch or fascinate them and how they actually find the enjoyment they are looking for. Then, such experiences need to be translated into other channels as effectively as possible.

Second, there are the specialists for insight generation, the market research companies, and of course we cooperate very systematically with them in all our markets.

MIR: It sounds like qualitative rather than quantitative research.

UNDERBERG-RUDER: It depends. I would not start substantial market research projects without quantitative research. We can act cost-efficiently by working in close cooperation with resellers, especially internationally. After all, we do not organize the worldwide distribution ourselves and our distributors conduct market research that we can join cost-efficiently.

MIR: So, you make your own observations as the owner of the firm …

UNDERBERG-RUDER: Yes, but not just me as the owner, it’s part of the work of my marketing team and also my sales force. They are encouraged to do so on a daily basis.

MIR: This doesn’t really sound like a standardized and organized process but rather an ongoing task …

UNDERBERG-RUDER: … sorry to interrupt, but of course it is standardized … there are feedback forms on the laptop of every sales rep via the intranet and they are to document any change on the shelves in the stores, or on the menus in bars. Sales reps ask their customers what the “drink of the week” is and why, for example. So our observations are quite systematic.

MIR: It would be understandable, if a medium-sized company did not use the really large systems.

UNDERBERG-RUDER: In fact they are not very large systems. The classical CRM tools we use for our smaller subsidiaries cost less than EUR 10,000. But they are standardized and have proven useful. The investment is more in the time you allocate to keep them up to date.
MIR: I see. I was wondering most about how you identify occasions and monitor any changes as this seems difficult to pick up on in a conversation with a host or promotions rep, but apparently it works.

UNDERBERG-RUDER: Yes, it is possible and we achieve it, for instance, within a segment of the catering industry. That is, when a rep or marketing person is out in a certain outlet and observes changes on the menu, he/she documents it in the system. When, within a short period of time, you find different notes pointing in the same direction, you can quickly identify trends. So, market observation on the frontline can be done systematically by our own staff. And it is easier than with the former written visit-reports as it is not oversized and we can use online reports.

MIR: But do you use formalized targets of how many insights need to be generated or acted on later?

UNDERBERG-RUDER: Well, data is usually entered by both marketing and sales, the interpretation is usually prepared by marketing, and of course there are formalized intervals to discuss these topics. We have fixed dates for editing the information and deriving insights per type of caterer. We break down our data for each type of outlet, because naturally, a night club follows different principles to a city lounge, restaurant or street festival.

By the way, for insight evaluation we have something that might be rather uncommon. We use a “brand steering committee” in meetings where we discuss the data. It is staffed not only with top managers from the company or marketing, but also with members from the boards that supervise our companies.

MIR: And that is how you get a certain perspective from outside into the discussion

UNDERBERG-RUDER: Exactly.

MIR: It seems of high relevance for your innovation policy?

UNDERBERG-RUDER: Yes, and on the one hand we organize it ourselves, but on the other we draw on classical market research. Of course, we buy classic panel data concerning sales for certain markets, in some cases even broken down to the level of single articles.

MIR: Okay. Let’s move on to the topic of sustainability of brand policy, because in this field you are known as a pioneer.

UNDERBERG-RUDER: Thank you for this compliment. We are striving to deserve it. First, I would mention economic sustainability meaning that a policy of gradual steps is maintained. By this, I believe, it is possible to quite effectively prevent short-sighted overreactions that can unfortunately be observed in some marketing departments.

MIR: Okay. For you it partly means economically sustainable brand management.

UNDERBERG-RUDER: Correct, that’s what I wanted to point out in this regard.

MIR: Let us consider ecological sustainability then, which you personally emphasize, according to what I know. Could you explain how you implement it at Underberg?

UNDERBERG-RUDER: In any case it is important and a top priority – not just recently, but it has been for decades, and that’s maybe most important. The environmental activities of my parents can be traced back to 1970. It shows that our house was active in this field even before the first ecological party was founded. Sustainability needs to be a genuine concern otherwise it remains just a lip service without any authenticity.

MIR: Excuse my interruption. Would you attribute this near-natural positioning to the herbal philosophy of the product?

UNDERBERG-RUDER: Yes, that might be a reason, but in our company we are all very aware of our dependence on the environment and nature in general. Therefore, we are closer than others to natural things, as a brand and as a company.

MIR: Having acted like that for a long time already, how can you still be better than others and what exactly do you undertake now in respect of ecological sustainability.

UNDERBERG-RUDER: The most important point is to keep the whole value chain clean. We try to stay on the ball, even after so many years and to first ensure our own company acts responsibly. An example would be the light glass bottle of the Underberg brand, to avoid driving around with unnecessary glass weight. Then I can mention glues,
label colors and coatings. We take care that they are produced and discharged in an environmentally friendly way. We are concerned about electricity, energy and water usage.

What I am saying is that sustainability should not be sourced out or passed on but should be taken seriously within the company itself and should lead to ecological consciousness.

**MIR:** Another, rather problematic side of sustainability for alcoholic beverages is the ethical responsibility for a sensible consumption of the sold products. Alcohol per se is treated with some suspicion and there is always the threat of governmental regulation. How do you deal with it?

**UNDERBERG-RUDER:** Your phrase “threat of governmental regulation” makes me smile. We have always been one of the most regulated industries. There can definitely be no talk of “new”. I believe it is justified, even if I have to point out a clear difference compared to other natural stimulants. In contrast to other stimulants, like for instance tobacco, alcohol, if consumed in moderation, is not harmful but even life-extending. Therefore, we put the case for USE instead of ABUSE when cooperating with government agencies. The topic should be the responsible and moderate consumption experience and not consumption per se. We reinforce relevant activities. For instance, we actively participate and promote in corresponding websites like www.massvollgenießen.de in Germany or www.verantwortungsvoll.at in Austria. There is similar commitment in Switzerland and Hungary, where you can check your own consumption habits and their health effects, for example. Further, we initiated activities to prevent alcohol being sold to youngsters over the counter. In Switzerland, for instance, we supplied grocery retailers with flyers in order to prevent the supply of alcohol to teenagers and at the same time to clarify the risks. Now, when children turn up and try to buy a bottle of vodka for their fathers, the cashier can, without effort, hand them a note which says in various languages: “Please do not send your child, but come to the register yourself. Thanks for your understanding”. We have to be serious about these issues and have actively developed or joined similar activities for decades. For instance, we produced a video to train cashiers to prevent them from feeling pressured or bad when they refuse to sell the product. All these activities help to promote sensible use of alcohol and to put a stop to its abuse, at least to my understanding.

**MIR:** But isn’t it a fact that young people nowadays consume substantially more alcohol, which causes social problems?

**UNDERBERG-RUDER:** That’s wrong when looked on average figures and I can prove it. There are indeed more people who drink more and a few of them drink a lot more. But overall the consumption of spirits by young people is declining according to a report of the governmental drug commissioners.

It is certainly a problem that the respective candidates don’t have just one or two drinks too much like it was 15 – 20 years ago, but 10 or 11 and end up in the hospital. This clientele unfortunately is larger, that’s true, and instances are well covered in the media. But the per capita consumption of the age group “under 30” is lower than before. Our house and our whole industry cooperate with specialists and organizations to develop measures against this so called “binge drinking”.

**MIR:** Dr. Underberg-Ruder, let us broach the subject of internationalization. You grow through your international activities. How do you, as a medium-sized company, manage to enter the world? By acquisitions or internal growth or both?

**UNDERBERG-RUDER:** When I talk about internationalization, I don’t refer to the acquisition of Schlumberger, for instance, because that is still within the German-speaking world. For us, it is important to find professional partners, to avoid carrying along a large bundle of costs. In Germany, we distribute e.g., the brand Amarula from South Africa. In return, the Distell company distributes the Underberg product portfolio in the African countries. We cooperate with Distell in more than 10 African markets and that is a neat story. It works in a similar way with the Italian brand Averna. In some European countries we distribute it ourselves, while they are responsible for Italy. The same system applies to other countries.

**MIR:** This is a nice example of international strategic cooperation. Are you equally successful in South-East Asia?
UNDERBERG-RUDER: Yes, we’re there as well and are pleased with small organic growth. We work on it quite intensively because first of all you need to really understand each and every market. Only when you have done this you can really get started. This is a very challenging task because there is so much change in these markets, but I believe we face it well.

MIR: Can a medium-sized company master such challenges, how do they affect your organization?

UNDERBERG-RUDER: Like I mentioned before, we can’t manage alone. If you have partners with a similar approach to business, who know the basics already, then it is possible. If you don’t have a distributor you can use, it becomes really difficult. And generally, you can’t hit the whole world at once, you need to define priority markets.

MIR: Where is your focus at the moment?

UNDERBERG-RUDER: One region we focus on is Asia, but it is still in its infancy. Another, more developed target area is Brazil. And we are actively developing the regions of Moscow and St. Petersburg with one full-time and one part-time employee. Sometimes it is more important to get a foothold in single regions or city areas, like Shanghai, than in whole countries.

MIR: Is the USA not a focus?

UNDERBERG-RUDER: Sure, the USA is important as well. We only just celebrated 125 years of Underberg in the USA. This has been a nice story. It is an important market for us, but not THE most important right now. After all, we have just experienced the drama of the impending insolvency of the United States and feared its consequences.

MIR: May I finally take up the topic of innovation that we touched on before? How do you understand innovation in your company and which form of innovation do you prefer?

UNDERBERG-RUDER: Well it is crucial to promote a spirit of innovation within the organization and to also live innovatively as the owner to underline its importance. One manifestation of our innovative spirit is that we declare our anniversary (the day of our foundation) a day of innovation instead of taking the conventional look into the past.

Another issue is how to generally discover or sense early enough where to set your main focus of innovation. Being medium sized you can’t, of course, afford everything at once. I believe it is most important to be well-connected with partners within the industry and also with customers. When talking, e.g. with barmen or with star-rated restaurants, you learn about their innovative needs. Based on these talks, you can let your ideas flow and consider which concepts or brain power you can provide and what might actually be better than the existing approaches.

And our innovation priorities do not just refer to actual new products, but also to innovation of existing brands.

MIR: Yes, that was what was behind my question.

UNDERBERG-RUDER: The two aspects are both important to us. Right now, I am in the process of developing our corporate vision for the next 10 years together with our employees. We call it “Everything can be done better”, better in the sense of a daily improvement or “always better”. This is our central impetus, to keep moving on all aspects and to further improve even the good things.

MIR: Hasn’t Emil Underberg already coined the conviction that “Everything can be done better”?

UNDERBERG-RUDER: Correct. Yes, exactly, this is our claim, our motto.

MIR: Considering your focus on consumption occasions, can’t you, for instance, be innovative in creating new occasions?

UNDERBERG-RUDER: Right. Who would have talked about a Pitúrinha a few years ago? Nowadays, we have samba festivals here and there and Latino nights and so on. This is a trend that we have actively co-created, it would not exist like it does without marketing innovations.

MIR: Could we put it like this: you create innovative environments for your products?

UNDERBERG-RUDER: Create or look for. Because compatibility is key. That’s why we talked about the segmentation of the catering industry before. Customers don’t like synthetic experiments, they want true experiences, things that fit well logically and emotionally. I think that’s one of the most important points in marketing in general. And this is our actual guideline for innovation.

MIR: Dr. Underberg-Ruder, thank you very much for our open and informative conversation. I wish you and your company continued success.