Leblon Cachaça: A born global in a traditional industry☆

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A B S T R A C T

This case describes the trajectory of Leblon, a cachaça producer that since its inception regards the world as a market for its product. Founded by entrepreneurs in 2005, the firm’s production process is divided between Brazil and France, and it serves several world markets besides the U.S. and Brazil. The company is a truly born global, and the most striking feature of the firm’s strategy is super premium positioning. The case was developed based on interviews with the CEO and the head of operations, complemented by secondary information. The case is suitable for use in graduate courses that address issues relating to born globals, international entrepreneurship, and international marketing.

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1. Introduction

Steve Luttman, at the end of another hard day’s work at his Manhattan office and before heading home, allowed himself a moment’s rest in his room decked out with posters and t-shirts portraying Leblon Cachaça’s marketing efforts. In a retrospective view of his company’s presence in the U.S. and several other world markets, Luttman believed he was on track to achieve his objective of creating value for an international brand of cachaça (pronounced “ka-SHA-sa”), targeting the super premium spirits consumer. Since the inception of Leblon Cachaça, the entrepreneur was aware that a factor critical to the company’s success was distribution, and the company had sealed a deal with beverages giant Bacardi, responsible for distribution in Europe and Brazil. The agreement with Bacardi solved the problem of product distribution in the world’s major markets outside the U.S., but meant less control over the marketing of the brand in other countries.

But Luttman grappled over other issues. Although the company had successfully overcome the 2008–2009 recession in the U.S. and enjoyed continuous double-digit growth until 2011, the prospects for 2012 were still uncertain: on the bright side, the U.S. government was ready to recognize cachaça as a beverage different from rum; on the other, this outcome would be a major stimulus to the entry of other high-end and super premium cachaça brands. Luttman himself was a major factor in the campaign to turn cachaça into a distinct beverage in the U.S.; he was also, to a large extent, responsible for creating primary demand for the product in the U.S. market. Yet these efforts could be beneficial to larger and more powerful competitors. For example, Sagatiba, a competitor with a similar strategy, had been recently acquired by the Italian group Campari, who intended to make it into a truly global brand. Luttman had to devise a strategy to protect Leblon Cachaça’s market investments and push forward with the firm’s expansion in the U.S. market.

2. The company

In June 2005 a diverse group of entrepreneurs from several countries, including Brazil, the U.S., and the U.K., founded Leblon Cachaça. Soon thereafter, other partners entered the company, including Gilles Merlet of France. With an initial investment of approximately 3 million dollars, they set up a limited liability company (LLC) in the state of Delaware (for tax reasons) and opened an office in New York City.

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Presiding over Leblon since its inception, Steve Luttman was a 44-year old economist with a BS in Finance from Penn State University, Philadelphia, and an MBA in Marketing from New York University. His academic experience also included an economics program in Cologne, Germany, and participation in a United Nations project in Vienna, Austria. It was in Vienna that Luttman began his professional career in marketing, at Unilever, the UK-based company, with stints in Europe, the U.S., and finally in 1997, in Brazil, where he became head of the Cica brand. The year 2000 marked the beginning of Luttman’s experience with beverages. Starting out with a three-year post at Lipton, a Unilever iced tea brand, he then moved to LVMH/Diageo, where he launched 10 Cane Rum and a cognac flavored with Madagascan vanilla beans. In 2005, he quit his job and incorporated Leblon Cachaça that same summer.

Some five months after founding the company, Márcio Pavlov, a Brazilian, also became a partner. Married to an American and living in Miami, Márcio contributed funds and in exchange acquired an interest in Leblon Cachaça. Márcio took over as Controller and subsequently became Head of Operations, being responsible for managing the company’s activities in Brazil and France.

3. Drivers behind the Creation of Leblon Cachaça

The idea of creating a company to market a super premium cachaça in the international market, particularly the U.S., came from founder Steve Luttman, based on his extensive experience in the beverage market, especially new product launches. The entrepreneur was familiar with the Brazilian distillate, but realized that US consumers did not know cachaça, whether because of the low quality of imports or because of the lack of manufacturers’ marketing efforts.

“Awareness of the caipirinha [pronounced “kai-pur-EEN-yA] was zero; awareness of cachaça was zero… they had a bad experience because of the low quality of several of the product launches that had taken place earlier on. So those who tried it, rejected it based on poor quality — much like what happened with tequila. When it was introduced in the U.S., tequila was rejected because of low quality; but when quality began to improve, it began to take off…. Our major obstacles in the beginning were people’s ignorance about the product and barriers created by others having tried it and disliked it. So we hired a Frenchman with a lot of know-how in spirits production to create something that would stand up to the sophisticated tastes of spirits drinkers.” (Luttman, interview response.)

Luttman envisioned an opportunity for a genuinely Brazilian drink, because, according to the entrepreneur, Americans love the exotic. And while U.S. consumers were aware of several other Latin beverage options, already adapted to the American taste, the concept of Brazilian culture was still largely unexploited.

“A bottle is a cheap plane ticket, a cheap way to experience another culture. So instead of flying to Acapulco, I can drink margaritas, I can drink tequila …. That’s how it’s been since the Fifties. … That’s why the opportunity is now, because the other options among Latin countries are so saturated …. The margarita isn’t Mexican: it’s become American. Spaghetti isn’t Italian: it’s become American, right? But the caipirinha is still very Brazilian, Brazil is still foreign, still exotic. It’s an opportunity, it’s inspiring, it’s unknown.”

4. The cachaça industry in Brazil

Cachaça is a distilled alcoholic beverage made from sugar cane, with 38 to 48% alcohol. Production may be industrial or handcrafted. The premium product has to age for at least one year, and “extra-premium” for at least three years. The most expensive brands, however, age for as much as 15 years. There are thousands of brands of cachaça in Brazil, but only a few have achieved national coverage. Cachaça competes with other distilled beverages such as whisky, tequila, rum, sake and vodka. A caipirinha is a cocktail made of cachaça, sugar and fresh lime. Europeans came to appreciate the drink, specially the Germans and the French, because of its tropical and exotic flavor. Aficionados prefer a caipirinha made with white, non-aged cachaça.

Brazilian exports of cachaça in 2005 barely reached $12 million, with 99% of the production consumed in the domestic market. This number did not change substantially over the following years, and reached $16 million in 2009 and an estimated $20 million in 2011. There was a drop in domestic sales, however, as a substantial part of the Brazilian population emerged from poverty and became part of the middle class, and started to drink other distilled spirits, such as whisky and vodka.

European countries were the main target of Brazilian cachaça. Approximately 60% of the exports of cachaça went to Europe, 12% to the U.S. and 25% to Latin America by 2005. The most important foreign market for Brazilian cachaça is Germany. In Germany, the beverage is consumed mostly as an ingredient for the caipirinha cocktail. On the other side of the Atlantic, in the U.S., cachaça remained largely unknown.

The four largest Brazilian exporters of cachaça were Indústrias Müller (with the brand Caninha 51), Faxenda Soledade (Nega Fulô), Engarrafamento Pitú (Pitú), and Ypióca Agroindustrial (Ypióca). In addition, in 2005 a French multinational company, Pernod Ricard, launched a premium brand and entered the French market using its distribution network in Europe. Small producers often used export cooperatives to place their products in foreign markets. These products were handcrafted, aiming at premium segments of the distilled beverages market. However, their efforts were rather sporadic and inconsistent.

Sagatiba was a new entrant in the industry. Since inception in 2005 the firm had targeted international markets and soon offered its products in 14 different world markets with a positioning similar to Leblon. Only one year after product launch, Sagatiba had 90% of the UK market for cachaça; the brand was a leader in distilled spirit sales in London’s Duty Free shops. Sagatiba cachaça used Brazilian third parties to produce and bottle its product, with the company handling distribution and marketing.

5. The U.S. market for distilled spirits

The market for distilled spirits in the United States is strongly regulated, both at the federal and state level. According to U.S. federal law, manufacturers must sell to distributors who, in turn, sell to retailers. Manufacturers, wholesalers and retailers must be independent, and cannot have financial stakes in each other.

Individual states regulate several aspects of wholesale and retail of distilled beverages, including types of stores, days and times of sale. In some cases, states also regulate retail prices and mark-ups. As such, retail prices are uniform in some states, while varying in others. As a consequence, companies that distribute their products nationally tend to have different prices depending on the regulations and tax burden of each specific state. Table 1 presents an average estimate of the impact of taxes on retail prices according to the Distilled Spirits Council of the United States (DISCUS), an association of distillers.

<table>
<thead>
<tr>
<th>Source: Distilled Spirits Council of the U.S.</th>
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</thead>
<tbody>
<tr>
<td>Table 1</td>
</tr>
<tr>
<td>Estimates of the impact of taxes and fees on distilled spirits retail prices.</td>
</tr>
<tr>
<td>Source: Distilled Spirits Council of the U.S.</td>
</tr>
<tr>
<td>Federal taxes</td>
</tr>
<tr>
<td>State &amp; local taxes</td>
</tr>
<tr>
<td>Indirect taxes</td>
</tr>
<tr>
<td>All taxes</td>
</tr>
<tr>
<td>Retail price</td>
</tr>
<tr>
<td>Source: Distilled Spirits Council of the U.S.</td>
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</tbody>
</table>

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(off-trade sales). On-trade sales of distilled spirits were around one fourth of total sales in 2003, but grew to one third of the total by 2010. Retailer mark-up is typically around 25 to 27%, and wholesaler mark-up varies between 20 and 28%. However, since the latter pay certain taxes, they actually receive only 12 to 20%.

Sales of rum in the U.S. between 2004 and 2011 have grown slowly in terms of total volume (Table 2). Nevertheless, sales of super premium rum had more than tripled in volume; indeed, from 2010 to 2011, sales grew around 77%. A substantial increase in average prices also fueled growth in this category (Table 3). Another type of distilled beverage that competes directly with the Brazilian cachaça is tequila from Mexico, which had faster growth than rum between 2004 and 2011 (Table 4).

6. Leblon Cachaça’s initial business plan

Starting with the concept of “selling Brazilian culture to the world in a bottle,” Luttman attracted other people who liked the project, who understood beverages and/or Brazil, and began to raise capital. Pooling his own resources with those of friends, family, and angel investors, by the end of 2005 he had an array of professional, foreign, and Brazilian investors. He explained: “We invested a lot of money — not just our own. And then we attracted large international investors, as well as several family-controlled funds in Brazil, the United States, France, England, Australia and Italy.”

Leblon’s business plan was a bold one. The plan involved developing a super premium cachaça, made in Brazil yet finished, aged and bottled in France. In addition to the product’s intrinsic characteristics, the marketing concept of Leblon reflected its target market. The choice of the brand name, which evokes an upscale neighborhood in Rio de Janeiro, took into account ease of pronunciation in English and French connotations of luxury. The packaging, in turn — a long clear bottle adorned with lime green — besides drawing attention, was reminiscent of the packaging of super premium vodkas (Fig. 1).

Retail pricing, around $25 to $30 (depending on the state), was consistent with the price of other brands of super premium distilled spirits. “We set the U.S. price near the price of Grey Goose and Belvedere vodkas. Around $20 a 750 ml bottle ... and we are pricing Leblon at twice the price of Bacardi rum,” explained Pavlov. Grey Goose, a French brand owned by Bacardi, occupied a prominent position in the premium vodka market. Belvedere, another vodka in the premium alcoholic beverage category and of Polish origin, was the only vodka distilled solely from rye.

With its initial target market being the United States, Luttman launched Leblon Cachaça in that country in 2006, focusing on key markets in Miami, Los Angeles and New York. With high expectations for the U.S. market, Leblon Cachaça was in a class apart from the other brands of cachaça available at the time.

“Our vision is for cachaça to be the next tequila in the U.S. And we want to be the next Patrón [a tequila that sold for forty dollars]. Too, we want the caipirinha to be the next mojito, which in the past ten years has grown dramatically, from zero awareness to 85%,” said Luttman.

Leblon Cachaça’s Business Plan also included a clear exit strategy for the partners, either via acquisition or IPO. Based on historical multiples achieved in acquisitions of liquor companies, Steve Luttman believed a super premium brand could attain a valuation equivalent to 4 to 6 times annual sales. He observed:

“Multinationals, Diageo, Pernod Ricard and Bacardi, for example, are very bad in terms of innovation and creation of new brands. They are very good with mature brands, optimizing their supply chain and distribution; however, creating something from nothing is very hard for them. So when an independent brand becomes established, it is valuable to them because they can acquire the company, optimize supply and distribution, and turn a profit .... Our strategy was exactly that: within 5 to 10 years of the product launch — sell.”

From 2006 to 2008, the company had a market capitalization of $18 million: $15 million of owner equity in 2006/2007, and $3 million of debt in 2008. The firm currently had over $20 million invested by 2010. Although the company does not provide sales figures, estimates from several sources are presented in Table 5. Leblon’s gross margin is estimated to be around 50%.

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Table 2

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
<th>Premium</th>
<th>High-end premium</th>
<th>Super premium</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>5115</td>
<td>13194</td>
<td>2207</td>
<td>106</td>
<td>20,622</td>
</tr>
<tr>
<td>2005</td>
<td>5199</td>
<td>14,196</td>
<td>2247</td>
<td>124</td>
<td>21,764</td>
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<tr>
<td>2006</td>
<td>5386</td>
<td>14,847</td>
<td>2223</td>
<td>154</td>
<td>22,611</td>
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<tr>
<td>2007</td>
<td>5438</td>
<td>15,529</td>
<td>2352</td>
<td>220</td>
<td>23,540</td>
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<tr>
<td>2008</td>
<td>5615</td>
<td>16,140</td>
<td>2277</td>
<td>199</td>
<td>24,240</td>
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<tr>
<td>2009</td>
<td>5864</td>
<td>16,421</td>
<td>2059</td>
<td>197</td>
<td>24,541</td>
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<tr>
<td>2010</td>
<td>5938</td>
<td>16,618</td>
<td>2122</td>
<td>202</td>
<td>24,880</td>
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<tr>
<td>2011</td>
<td>5772</td>
<td>16,174</td>
<td>2813</td>
<td>357</td>
<td>25,116</td>
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Source: Distilled Spirits Council of the U.S.

Table 3

<table>
<thead>
<tr>
<th>Distilled Spirits</th>
<th>2006</th>
<th>2010</th>
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<tbody>
<tr>
<td>Rum Value</td>
<td>48</td>
<td>48</td>
</tr>
<tr>
<td>Premium</td>
<td>91</td>
<td>95</td>
</tr>
<tr>
<td>High-end premium</td>
<td>117</td>
<td>121</td>
</tr>
<tr>
<td>Super Premium</td>
<td>169</td>
<td>252</td>
</tr>
<tr>
<td>Tequila Value</td>
<td>77</td>
<td>77</td>
</tr>
<tr>
<td>Premium</td>
<td>115</td>
<td>118</td>
</tr>
<tr>
<td>High-end premium</td>
<td>179</td>
<td>183</td>
</tr>
<tr>
<td>Super premium</td>
<td>336</td>
<td>372</td>
</tr>
</tbody>
</table>

Note: 1 l = 33.8 oz.

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Table 4

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
<th>Premium</th>
<th>High-end premium</th>
<th>Super premium</th>
<th>Total</th>
</tr>
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<tr>
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<td>664</td>
<td>513</td>
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<td>739</td>
<td>665</td>
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<td>2006</td>
<td>1919</td>
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<td>795</td>
<td>1191</td>
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<tr>
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<td>781</td>
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<tr>
<td>2009</td>
<td>2567</td>
<td>6291</td>
<td>779</td>
<td>1526</td>
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<tr>
<td>2010</td>
<td>2642</td>
<td>6449</td>
<td>911</td>
<td>1560</td>
<td>11,562</td>
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<tr>
<td>2011</td>
<td>2827</td>
<td>6374</td>
<td>1044</td>
<td>1737</td>
<td>11,982</td>
</tr>
</tbody>
</table>

Source: Distilled Spirits Council of the U.S.
Table 5
Estimates of Leblon’s sales volume (9-liter cases, 000).

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume (9-liter cases, 000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>20</td>
</tr>
<tr>
<td>2006</td>
<td>30</td>
</tr>
<tr>
<td>2007</td>
<td>45</td>
</tr>
<tr>
<td>2008</td>
<td>79</td>
</tr>
<tr>
<td>2009</td>
<td>100</td>
</tr>
<tr>
<td>2010</td>
<td>156</td>
</tr>
</tbody>
</table>

7. Supply chain

Product formulation was led by Gilles Merlet, a French distiller specialized in making and selling high-quality cognacs who became a shareholder and strategic partner of the firm. The owner of bottler Maison Merlet et Fils, located in the Cognac region, Gilles Merlet was initially hired by Leblon partners interested in his knowledge of super premium beverages. The idea of finishing the cachaça in France came when the company began to look for a supplier of luxury bottles to package the product. Pavlov explains:

“So then came the idea of improving the product, of aging it in oak barrels. We visited Cognac, France, where they understand aging. That’s when we came upon Merlet, owned by Gilles Merlet, one of the most innovative distillers in the region. He has an open mind; he’s always exploring, traveling the world, selling his line of high end products. We started talking and we entered into an agreement with him: he would handle aging, refining and bottling.”

Gilles’ involvement was initially limited to quality control, but over time his role expanded, reinforced by personal relationships with the Leblon partners:

“He assumed increasing responsibility for the quality of the product, which we sourced in Brazil. He became responsible for all aspects of quality, and also for sourcing the dry materials, bottles, corks, boxes, etc. He created a strong personal relationship with us. And it became a matter of pride for him to produce a super-premium cachaça, a goal that transcended the financial side.”

Merlet signed an exclusive long-term contract and got a stake in Leblon Cachaça. The arrangement included maintaining the service, even if the partners sold the control of Leblon Cachaça. Pavlov explained:

“From the outset, he makes a profit for the service he provides. And so he could work with us, we entered into a production contract at the beginning of the relationship that prohibits him from working with any other brand of cachaça, even his own .... It was a formal agreement, an agreement laying out the production details and establishing that the cachaça formula belongs to Leblon Cachaça. In the event of termination of the contract, any fines, terms, courts for settling disagreements, are all provided for ....”

While Leblon retained ownership of the cachaça formula and was in charge of marketing and brand strategy, the French partner was responsible for the supply chain from Brazil to the country of delivery, including production, logistics and sourcing.

“Gilles is a guy who always wants to improve. Every year he understands more about which kinds of sugarcane are superior, how to handle the sugarcane, how to make distillation more efficient... exactly how many months to age in cognac barrels... he’s a true scientist,” noted Luttman.

With the growth in sales of Leblon Cachaça, at the end of 2006 the Leblon partners and Gilles Merlet decided to acquire a distillery in Patos de Minas, state of Minas Gerais (Appendix A). This decision came about when the entrepreneurs realized that if they wanted to increase production volume at the required quality, they would have to have their own production unit, since outsourced production varied in terms of standardization and the company had rejected many lots.

Gilles Merlet observed in an interview that the new distillery allowed for the use of artisanal methods similar to those used in France to improve the quality of the cachaça:

“When I first tried cachaça, I could tell that the processes of harvesting, fermentation and distillation were very similar to what my family and I have done for centuries making brandy, and that the same techniques could be applied to make a cachaça of superior quality.” (Cachaça Leblon..., 2008).

The production process at Leblon thus became one of making cachaça on a farm in Minas Gerais and then sending it to the Cognac region of France ISO containers (for intermodal freight transport), to age the product in oak barrels and to purify it using charcoal filtration and other refining techniques to lend the final product a smooth finish. Maison Merlet then bottled the final product on its premises, and packaged it in a luxurious French glass bottle, exclusively designed for Leblon, and made by Saverglass of France, one of the most respected suppliers of glass in the world. Saverglass is a manufacturer specialized in wine bottles and vials for French perfume. The final step included shipment to distributors located in end consumer markets for resale. As a result of the company’s concern for quality, Leblon cachaça received several awards in consecutive years, including the Top Cachaça Double Gold Medal at the San Francisco Spirits Competition.

8. The internationalization process

Since Luttman founded Leblon Cachaça to supply the world market, there was no decision to internationalize per se; indeed, internationalization was the firm’s very raison d’être. Since the brand was conceived with clear objectives to grow in the U.S., Luttman had designed the structure of the business to avoid geographic constraints. Although, technically speaking, selling to these countries appeared to be export, Luttman avoided treating markets as either domestic or foreign:

“I worked for the French. I learned the reason why their Champagne and brands have been successful ... it’s because they’re here [in the U.S.]; Chandon would never be as successful were Moët & Chandon not here in New York, in San Francisco, etc. ... Veuve Clicquot has been extremely successful because it was built as a strong, national company. That’s why we enter every market with a domestic outlook.”

Leblon Cachaça began distribution at outlets in large American cities, which in global terms had the highest demand for super premium spirits. To build awareness, Leblon Cachaça, besides appearing at select social events, ran advertisements in luxury U.S. magazines and conducted an innovative interactive campaign on the Internet.

The company invested in promotional events at the Cannes Film Festival, in France in 2006, which included the distribution of caipirinha kits for the celebrity guests. This action resulted in orders from France itself. Luttman believed there were many French already familiar with cachaça:

“They love Brazil; they love caipirinhas. They can tell the difference in the quality, There were already caipirinhas in France made by other Brazilian cachaça distillers; but the French can tell the difference in quality — and we won almost their entire volume.”

Concurrently with the 2006 launch, the company signed a contract with a local distributor in England, after visits to explore potential sales in that country. Márcio Pavlov explained as follows:

“London is the city that most influences consumers in Europe. People imitate the lifestyle they have there. The innovations start from
there. London is the most international city. So we thought it would be strategic to open in London. We hired two brand ambassadors to work the market and a local PR firm; in addition, we made several prospecting visits."

Exports to France and England reached total year-end sales of $500,000 by 2006; the company had an initial staff of 15. By its second year, sales reached $3 million and the staff expanded to 35, in addition to the six employees in overseas offices in Brazil, France and England. Sales in France and England received the support of the local partners, who let Leblon use their offices.

As the brand gained strength in U.S., British and French markets, orders started to come in from other countries, too. In 2007, Thailand, Puerto Rico and Austria put in orders for the cachaça. After the first order from Thailand, larger orders came, which enabled the hiring of a salesperson to promote the brand there. In 2008, sales began in Brazil and Canada. In Canada, sales started with a single order, triggered by the brand awareness efforts in the U.S., which flowed over into the neighboring country. In Brazil, in contrast, sales were the result of a strategic plan that included opening a local office, a local sales team, and a public relations firm, similar to the rollout in the U.S. and U.K. The brand launch, which began in Rio de Janeiro and Sao Paulo at the end of 2008, expanded to other large cities, including Belo Horizonte, Brasilia and Porto Alegre. Luttman explained the late entry in Brazil as follows:

"We launched in Brazil only after two years because we wanted to create credibility outside Brazil. We discovered two things about cachaça in Brazil: vis-à-vis affluent consumers: first, they don't like cachaça; second, they love anything that's foreign. So, we rolled out an international brand. We pushed the idea of cachaça and food — we used people who add credibility — we used places that are significant. And it works."

The following year, 2009, Leblon Cachaça simultaneously entered Spain, Italy and Portugal, expanding the country portfolio to twelve. And in 2010, the company began to develop the German and Austrian markets. At the end of 2011, Leblon had around 65 direct employees, of which over half were outside the U.S. The Brazilian distillery alone employed almost 30. The administration, headed by the president, included executives with significant experience in the sales and marketing of premium spirits.

9. Marketing strategy in the U.S.

Leblon’s marketing strategy intended to create “the spark that lit the fire.” The firm’s entire launch campaign aimed at piquing consumer curiosity so that the target audience would try the product. Aided by a market research institute, company managers defined the target audience as being formed of people of both sexes, high-income, single, and between 20 and 45 years old. With an initial focus on Los Angeles, New York and Miami, Leblon Cachaça was visible at cocktail parties and restaurants frequented by the target audience of these cities. Luttman believed that affluent consumers in different parts of the world were very much alike in their tastes and preferences:

"Wealthy consumers from London, New York and Sao Paulo have much more in common with each other than with less affluent consumers of their own countries. Paradoxical as it may seem, they are very similar. So geographical location does not matter; what matters is social class. Affluent consumers have a certain mentality; they think more like world citizens.... The hardest part pertains to local aspects: rules and laws; margins; who can distribute there. These issues are what matters most. Basically, what's important is relationships. You have someone locally who develops your product, someone who knows everyone — bars, suppliers, the government. That's what's important."

The public relations campaign implemented by the company was very effective in terms of the U.S. launch of Leblon Cachaça and garnered coverage in the Wall Street Journal, US Weekly, Newsday, Crain’s Business, New York Daily News and New York Post. Mass-circulation magazines in the U.S., such as Fortune, Ocean Drive and OK!, also ran articles on Leblon Cachaça.

The brand quickly gained broad acceptance among retailers and wholesalers in the company's target markets. Southern Wine & Spirits, Fedway, and Eber-NDC initially handled the distribution of the product in the U.S. market. By May 2006, the product had reached 15 states, and by September that year, Leblon Cachaça was available in most states throughout the country. At this point the brand began to be sold in nationwide establishments, such as Bahama Breeze, a national chain of 24 restaurants which signed an agreement with Leblon the following year.

Company sales to distributors in New York and Florida exceeded 2000 cases in the first few months and Leblon Cachaça was available in 2274 establishments nationwide within a year of launch. Approximately 40% of establishments re-ordered Leblon at least once in the first three months, mostly those that used the drink in their cocktail menu. Restaurants featuring Leblon included Kittichai, Nikki Beach, Esperanto, Hotel on Rivington and Churrascaria Fogo de Chão, the latter a Brazilian steakhouse chain. In 2010, Leblon was in every state, and was present in large chains such as Marriott and T.G.I. Friday’s. Leblon became the leading brand in the U.S. cachaça market, with a 32% share, followed by the Pitú, Caninha 51 and Sagatiba brands.

Luttman saw the development of a distribution network as the most challenging task in establishing the brand in the U.S.:

"The hardest part about launching Leblon was the distribution. There was a clear barrier for us in terms of getting cachaça accepted. Cachaça has never worked here; they have never considered selling it because quality was very low. The market is spoiled because everybody who tried it before disliked it. It was necessary to break this pattern — this consumer mindset. So, from the first two years until now the barriers have really dropped."

The print advertising focused on the Leblon’s flavor, with ads appearing in upscale local publications such as Time Out NY, Lincoln Road Magazine and LA’s 944. On the other hand, SendTraffic.com, a firm specializing in search engine marketing, developed the interactive internet campaign. The campaign created substantial traffic on the company website by manipulating keywords that ranked the site highly in search engine results. The Leblon rollout events presented the brand as an entire concept, with music, decorations and a team of ambassadors (brand promoters). The brand sponsored events such as Leblon Beach Volleyball at Nikki Beach (a volleyball event on the beaches of Miami), and the Nightclub and Bar Trade Show, Las Vegas (a bartenders’ trade show organized in Nevada). Other major events included New York Fashion Week, Miami Music Conference (an electronic music festival), and a benefit concert by the Black Eyed Peas, a hip-hop dance group that has sold thirty million records around the world. Regarding the figure of ambassador, Luttman explained:

"The main reason for the so called brand ambassadors, is that, by law, we are not allowed to sell directly in the U.S. We sell to a distributor that sells the product; but they have so many brands they can’t focus on our brand, so we have brand ambassadors who help them sell...."

In addition, Leblon often held special events at its “key establishments,” that is, restaurants and bars with high volume sales of alcoholic beverages. Among them were events with a Brazilian theme, as those that took place at the Bahia restaurant, Four Seasons Hotel Miami, and
the caipirinha/Brazilian barbecue combination, sponsored by the Fogo de Chão chain at its Texas outlets. Luttman believed that the presence of the caipirinha on menus was a factor crucial for brand awareness and getting people to try the drink. To this end, Leblon encouraged opinion-maker bartenders to create drinks to be copied by New York and London restaurants and bars. In retail stores, however, the only marketing tool was the caipirinha kit, which included, in addition to the bottle, a free muddler (i.e., bartender’s pestle) and a card with instructions on how to make caipirinhas. Prices for a caipirinha would run around $12 in a bar or club. The company also had the caipirinha featured as “drink of the week” in several restaurant menus. Luttman explained how the strategy worked:

“Our focus has always been on trade. Trade refers to bars and restaurants; in our experience, that’s where people get ideas, new trends and ideas for cocktails. And we focused initially on those bars and restaurants that are very popular, very influential. We have our brand ambassadors – our sales force; each ambassador is responsible for about 150 outlets. And their goal is to get Leblon Cachaça and Leblon caipirinha on the menu. It all starts with that. That is our strategy. And when you get on the establishment’s menu, you have to do a training for staff, waiters and bartenders on how to make a caipirinha or some other cocktail with cachaça … because one customer might want a lime caipirinha, another might want a very creative caipirinha, the other might want a Brazilian margarita, or something that has nothing to do with caipirinha…. Around 70% of our volume is trade. And basically if you’re doing well on trade, retailers will find out about it and order the product. You don’t need to focus on retail.”

Information technology stood out by enabling many aspects of global management and communications. The internet was one of the chief enablers, allowing quick contact and exchange of information, which was crucial since executives were constantly traveling abroad. “We rely heavily on teleconferencing on Skype. Without the internet we would be lost,” said Luttman. The company also used the internet for promotions based on its mailing list, to strengthen the brand using social networks, and directly through the Leblon website. The site served as a tool to create and publicize, along with other media, the brand’s visual and corporate image, as well as to provide information for distributors and educate consumers, who could get recipes for caipirinha and other cachaça-based drinks (Fig. 2).

In addition, the company used a CRM (customer relationship manager) tool that allowed it to track results at each point of sale, thereby enabling Leblon to monitor sales at each wholesale distributor, supermarket, bar, nightclub, restaurant, etc. Leblon Cachaça continued to receive publicity from the press (Fig. 3).

10. The deal with Bacardi

Among Leblon’s distributors, Bacardi, the liquor giant which sold around 240 million bottles of spirits a year and exported its products to nearly 170 countries around the world, had become increasingly involved.

“In July 2007, Bacardi made a significant investment in the business, beyond the existing strategic distribution partnership. Our distributors in the United States are aligned with them. Bacardi handles our distributors in Brazil; they handle our distribution in France, too. We are negotiating with them for distribution in the Iberian Peninsula. So in other places we can harness the bargaining power they have with distributors in the world market,” said Luttman.

The Italian conglomerate Bacardi was the largest producer and distributor of spirits in the world. Thus, Leblon Cachaça became part of the Bacardi portfolio, which included major brands such as Bacardi rum, Grey Goose vodka, Martini vermouth, Cazadores tequila, and Jack Daniel’s whiskey. At the time, Luttman said in an interview concerning his deal with Bacardi, “With Bacardi’s involvement as a strategic partner and investor in our Company, Leblon Cachaca will be able to lead the caipirinha trend in the United States and around the world.” The Bacardi CEO in the U.S. also saw advantages in the deal: “Bacardi’s investment in Leblon shows our group’s desire to develop and grow new opportunities in the premium and super premium spirits segments,” adding that “With Leblon, Bacardi has found a brand that reflects the quality and luxury our group is known for, and we look forward to a successful relationship as the brand continues to grow.” (Menai, 2010)

Since then, Bacardi had held exclusive distribution rights of Leblon Cachaça in Brazil and Europe, besides being one of the largest distributors of the product in the United States. Luttman rationalized maintaining control of distribution of Leblon Cachaça in the United States based on the complex legislation there:

“In the U.S., we handle the distribution ourselves, directly. By law, we need a distributor in each state, so we have 50 distributors to manage. But it’s complicated selling spirits in the U.S. In 20 states, the state itself is the distributor. They own the retail liquor stores. In Pennsylvania, the state liquor stores sell wines as well as spirits. In California you can get everything in the supermarket; and here in NY, you will find spirits and wine shops in liquor stores; at NY supermarkets, you’ll find only beer.”

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Fig. 2. Example of recipe in Leblon’s site.
11. The “Legalize Cachaça” campaign

Cachaça sold in the U.S. had to be labeled “Brazilian rum.” Yet this constituted a problem to expand the market for the beverage, since consumers did not recognize the taste as rum. Although efforts have been underway by the Brazilian government for more than ten years to have the product appellation officially recognized by the Alcohol and Tobacco Tax and Trade Bureau (TTB), the petitions had not been approved.

Steve Luttman was the leader of a movement to recognize cachaça (the “Legalize Cachaça” campaign) as a distinct beverage from rum. He declared in an interview: “It’s like calling Mary a person who was born and raised as Jane. You can’t change the cultural value of a product according to scientific criteria. Not to mention the fact that the taste of cachaça is nothing like rum: it’s much more like the tequila.” (Baccardi invests..., 2007). Luttman mobilized cachaça consumers in the U.S. to sign a petition to be presented to the U.S. Government Authority, the TTB. Also, several Leblon distributors wrote individual petitions to the government, supporting the claim. In addition to Luttman’s efforts, The Brazilian Institute of Cachaça (IBRAC) hired a lobbyist, and the various parties, together with the Brazilian embassy, made a new effort to convince the U.S. Authority that cachaça was a distinct product.

12. Future prospects

By the beginning of 2012, there were realistic expectations of approval of the cachaça appellation as a unique alcoholic beverage by the TTB in the same year, which raised new opportunities and challenges to Cachaça Leblon. To meet the growth expected from this opportunity, management intended to further strengthen the company’s presence around the world and consolidate its main market in the U.S.

“Awareness of the caipirinha today in the U.S. is 25%... The mojito is at 85%. Ten years ago it was zero. So, just as we’ve grown up now, we can still grow dramatically. This is our strategy: penetrating new accounts and building awareness,” said Luttman.

In the next years, Leblon hoped to further expand the business in other parts of the world outside the U.S., even though the U.S. was more profitable. Among other markets, the company planned to strengthen Brazil as the second largest Leblon market. As Luttman explained, “We created a global brand ... and in ten years I think 50% of our sales volume will come from other parts of the world.”

Appendix A – Maison Leblon Facilities, Pato de Minas, State of Minas Gerais, Brazil

Source: www.lebloncachaça.com
2. What was the strategy employed by Leblon Cachaça in the U.S. alcoholic beverage. Specifically the case serves the following objectives:

➢ understand the design and structuring of a company that is international from inception;
➢ examine the opportunities and risks of the development process of a company in the U.S. spirits market;
➢ understand the impacts of liabilities related to smallness on a firm's ability to develop a market for a new product category in a mature market.

Suggested questions for class discussion

1. What are the problems faced by Leblon Cachaça in 2012?
2. What was the strategy employed by Leblon Cachaça in the U.S. market and how successful was it?
3. Much of the cachaça production technology is in the hands of the firm's French partner. Has Leblon Cachaça's management taken steps to minimize the risk of loss of this technology? What are these measures? What other measures would you adopt?
4. Steve Luttman saw a business opportunity for a product from a typical Brazilian industry, positioning it in the super premium segment of the U.S. distilled spirits market. Is this positioning replicable in other markets?
5. The entrepreneur points to the United States as the largest and most profitable market in the world for its product, but sets up commercial structures in France, England and Brazil. Do these actions make sense in these countries? Are they appropriate? Why?
6. How do you evaluate the impact of the agreement with Bacardi on Leblon's future development?
7. What can be said of Luttman's efforts to have the cachaça recognized as a distinct beverage?
8. What changes, if any, should Luttman introduce in Leblon's marketing strategy in order to protect the brand value against potential new entrants?

Case analysis

The company faces two simultaneous challenges in its two most important markets: the adoption and diffusion of a new category of distilled spirits in a highly competitive market, the United States, and the repositioning of the product concept in Brazil — from popular, low-quality to luxury, high quality. These are tasks that, to achieve such goals, require large investments of resources and time. This could mean that company managers should continue their search for new investors, since early investors can reap short-term profits and withdraw their resources from the company. A related problem faced by Leblon is the firm's reliance on two persons: on one side, Steve Luttman, who has the vision; on the other side, Giles Merlet, who is responsible for product quality and to some extent for Leblon's super premium reputation. If either Luttman or Merlet leave the company, it could be the end of Leblon.

In addition, Leblon faces the potential entry of large competitors in the next few years, once TTB recognizes cachaça as a different beverage than rum. Luttman's task, therefore, is to develop the company fast enough to make it attractive to larger competitors. Steve Luttman is not ready yet to sell the company to a large spirits conglomerate, since the company has not reached the expected size and profitability. Although the entrepreneur refuses to reveal financial data, it seems to the authors that the company is barely at break-even.

The case is suitable for use in graduate courses that address issues relating to born global perspectives, entrepreneurship, international entrepreneurship and international marketing. Analysis and discussion of the case can provide a better understanding of the specific challenges faced by entrepreneurs in a global market.

Teaching objectives

The case provides an opportunity for students to learn about the process of how a small entrepreneurial firm develops a market for an alcoholic beverage. Specifically the case serves the following objectives:

➢ understand the design and structuring of a company that is international from inception;
➢ examine the opportunities and risks of the development process of a company in the U.S. spirits market;
➢ understand the impacts of liabilities related to smallness on a firm's ability to develop a market for a new product category in a mature market.
assumptions, the company’s communication plan is the same for the different countries where it operates. However, the case indicates that cachaça’s direct competitors are different in the company’s two major markets — tequila in the United States and vodka in Brazil. Therefore, adaptation of the communication message for specific target audiences in each country seems necessary. Similarly, the same problem could manifest in other countries, such as England and France.

As the firm grows, Luttman will have to concentrate efforts in developing the U.S. market, a formidable task for a small company. On the other side, to expand in Brazil is a much easier task since the product is well known in the country and Leblon’s positioning as a super premium spirit has few competitors and none with its international credentials (except perhaps Sagatiba).

Above all, the most important issue concerns the decision on how to proceed in the years to come. Leblon’s strategy in the U.S. aimed at developing primary demand for the cachaça, which was basically unknown in that country. According to Luttman, there was a substantial rise in awareness of the beverage in the target group, as well as for cai- pirinha. Nevertheless, the company is too small to develop adequate marketing efforts to continue to develop primary demand. Now that more powerful competitors may start to invest in shares in the U.S. market, the company needs to move to a strategy to promote selective demand for its brands. Therefore, Leblon has to move to a marketing strategy that emphasizes the firm’s brand name and not the generic category (cachaça). Yet the company should not move abruptly, but perhaps combine both approaches in its marketing communications and watch out for the entry of new competitors. The last thing a small entrepreneurial firm wants to do is to invest in the demand for the product category (primary demand) and give these assets to a more powerful competitor. Leblon has differentials, compared to the other brands of cachaça, including Sagatiba, and the firm should emphasize them.

On the other side, industry data on rum and tequila suggests that there is still a very large and untouched potential for cachaça in the U.S. But the task of developing this demand for the product is too much for a small company such as Leblon. One possibility would be to run a cooperative advertising campaign with other Brazilian producers, which would probably get funds from the Brazilian government. Although this strategy would benefit the product category as a whole, since Leblon has the largest share, the firm would benefit more from a campaign to expand primary demand — inasmuch as Leblon is not the only to bear the cost.

The students should visit the company’s website to better understand the product and Leblon Cachaça’s positioning (www.lebloncachaca.com).

Theoretical approaches to be used by instructors

Instructors can adopt several theoretical approaches to position the case in a course.

The born global perspective can serve as a backdrop for a student discussion. Leblon Cachaça fits perfectly within the concept, yet in a different way, since the majority of published studies on the subject are based on high-tech companies; this is not the case with Leblon Cachaça, which runs a business in a traditional sector. In addition, it might be interesting to discuss how a born-global firm develops. Gabrielsson, Kirpalani, Dimitros, Solberg, and Zucchella (2008) and Rialp, Rialp, and Knight (2005) provide useful reviews of the extant literature, and can help instructors to access the theoretical and empirical basis concerning the phenomenon of international new ventures and born globals.

Studies on international entrepreneurship (e.g. Isenberg, 2008; Matthews & Zander, 2007) may also be useful for a discussion of the role of entrepreneurs in the process of internationalization of the company and their characteristics and values, asking students to assess the adherence of these studies to the reality of the company. Luttman is certainly the soul of the company; but as the company develops it may be necessary to have more professional managers running the business.

Although risks are very small at the beginning, since there is not much to lose, there is a tendency to become more risk averse as the company grows and the stakes are higher. The case of Leblon illustrates a critical point in the growth of a born-global firm and the need to re-evaluate the firm’s strategy.

Another issue relates to liabilities of smallness and newness (Auster & Aldrich, 1986), a relevant issue to Leblon’s case. The success of Leblon, a small and young firm with limited resources, in a competitive market such as the U.S. depends on its ability to develop and protect its market niche against large competitors.

In addition, it may be interesting to consider the literature on gradual internationalization, which describes firms that follow a traditional international trajectory. Leblon does not follow this trajectory at this point, but it might move to a more gradual internationalization pace as the company matures. Two seminal articles by Johnson and Vahlne (1977, 1990) can serve as basic references.

Finally, the strategic marketing literature can be useful in terms of examining the issues of market pioneer versus followers, and first-mover advantages (Bryman, 1997; Suarez & Lanzolla, 2005).

References


