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As Ireland Staggers, Guinness Reels

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By **PAUL SONNE** And **GUY CHAZAN**

CARLOW, Ireland—Economic turmoil isn't just crippling Ireland's banks. It also is draining sales of Guinness—the country's famed dark-brown stout and de facto national drink.

Guinness consumption in Ireland had been falling slowly for years as Irish drinkers abandoned pubs to imbibe at home, switched to alternatives and trimmed their alcohol consumption generally. But Ireland's latest woes, which led to a €67.5 billion (\$92.8 billion) bailout for the country's banks in December, dealt an extra blow to Guinness.

Guinness sales dropped 8% in Ireland and Northern Ireland in the six months to Dec. 31, parent **Diageo PLC** reported recently, while the overall Irish beer market fell 6%. Struggling with 13.4% unemployment and the prospect of government cutbacks, the Irish have closed their wallets to extra spending.

The volume of Guinness sold in Ireland has been dropping steadily for a decade, falling to 119.3 million liters last year from 198.9 million liters in 2001, according to Euromonitor International. (A liter is a little more than a quart.) The slide comes amid what the Drinks Industry Group of Ireland has called an "effective meltdown" in the tavern sector, with nearly 1,500 pub closures in the last five years.

Skipping the Pubs

The change has been palpable for Keith O'Neill, the bar manager at the Seven Oaks Hotel in this town 50 miles south of Dublin. He says every other pint he serves is still Guinness but that the stout's sales have slumped as young people are choosing lighter beers and ciders.

"Generally, though, younger people are drinking less in pubs," buying by the case instead, he says. "They go to [convenience stores], buy a crate of beer, get drunk at home and then hit the nightclubs. It's cheaper." Pubs that would have been packed in Carlow a few years ago now are nearly empty, he says.

Scores of other businesses that rely on Irish consumers also are struggling. **Domino's Pizza UK & IRL PLC** spent about \$800,000 last year to bail out its 48 franchise stores in the country. Ireland net revenue at **C&C Group PLC**, the Dublin-based maker of Magners alcoholic cider, fell 6.5% in the nine months ended Nov. 30.

For Diageo, how Guinness stands up in Ireland is no small matter. The stout generally accounts for about 12% of Diageo's £9.78 billion (\$15.85 billion) in world-wide net sales, with Ireland representing about 20% of Guinness's sales. World-wide net sales of Guinness

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declined 1% in the six months ended Dec. 31, with strong sales in Africa helping to offset weak figures in Ireland and the U.K.

John Kennedy, Diageo's managing director for Ireland, says the decrease in the country's pub traffic is longstanding. "It has been accelerated, but it's nothing new, and we know what to do to mitigate that," he says. "But what we haven't seen before is the collapse of consumer confidence that Ireland has had in the last two years."

Diageo has responded by slashing costs in Ireland while giving Irish consumers more reasons to buy Guinness. The company finished restructuring its Irish operations last year, shelving plans for a new Guinness brewery and chopping 100 jobs. Meanwhile, Diageo has sponsored Irish hurling matches and created a rugby-themed ad campaign for the brand. The company also created Arthur's Day, named after the brewery's founder, to generate pub traffic. New products like Guinness Black Lager, which is being tested, and Guinness Mid Strength, released last year, are intended to attract drinkers.

Still, Andrew Morgan, Diageo's president for Europe, says Diageo's sales in Ireland will remain sluggish in the coming months. "There is nothing at the moment to suggest that we will trade any better at the top line than we've been doing in the last six months," he told investors recently.

Ireland's economic swings have hit taverns coming and going. During Ireland's "Celtic Tiger" boom years in the late 1990s and early 2000s, people started abandoning pubs after building new homes that were farther from town centers and better equipped for entertaining. Now, in a weak economy, the Irish are skirting the pub because it's cheaper to drink at home. The number of pub licenses dropped to 7,616 last year from 8,922 in 2005, according to the Office of Revenue Commissioners.

'Rude Health'

The closures have had an effect on Guinness because its thick brew generally is preferred on draft, rather than from a can or bottle.

Pub closures aren't all that's affecting the midnight stout. Ireland's boom years also saw the rise of alternatives, such as Australian wine, and brought fiercer competition to the market. Some Guinness drinkers switched to less-expensive beers in the recession. The Irish also are drinking less in general. Alcohol consumption fell to 11.3 liters a person in 2009 from a decades-long high of 14.5 liters in 2001, according to the Organization for Economic Cooperation and Development.

Simon Hales, an analyst at Evolution Securities in London, says there had been signs that Guinness was stabilizing in Ireland, "but the latest leg down in the economy has hit Guinness sales again."



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Diageo's Mr. Kennedy says the cost cutting in Ireland has prepared the unit to recover quickly once consumer confidence rebounds. The brand is in "rude health," he says.

"The future for Guinness is very bright in that it is still seen as by far the leading beer brand in the marketplace," Mr. Kennedy says. One in three pints served in Ireland is still a Guinness, he says.

But just a few months after the Emerald Isle's banks were bailed out, there's little indication that the Irish will grow confident

and start spending heavily on premium brews soon. A draft pint of Guinness costs €3.91 (\$5.38) on average in Ireland, according to Diageo. That adds up quickly during a night out.

In Carlow, 25-year-old mechanic Declan Gordon says it's cheaper to stay home. "I can get a bottle of rum for €10 and two liters of orange for €2.40," Mr. Gordon said. "Why go to the pub?"

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