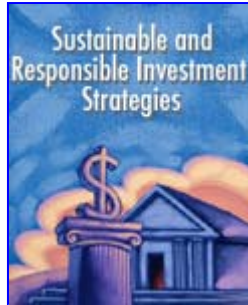




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News

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Are Alcohol Screens Outdated?

by Jay Falk

Social investors have used exclusionary alcohol screens for decades. It's time to reconsider this strategy?

SocialFunds.com President Jay Falk recently spoke with Rob Frederick, Director of Responsibility at Brown-Forman (owner of brands such as Jack Daniel's, Southern Comfort, etc.), to discuss the use of alcohol screens and what Brown-Forman and the beverage industry are doing in the area of corporate responsibility.

Jay Falk: Your company, Brown-Forman, recently began engaging the social investment community on the idea of reconsidering alcohol screens. Why should social investors reconsider alcohol screens?

Rob Frederick: The screens were created under the assumption that certain industries are simply incapable of behaving responsibly. Many beverage alcohol companies, including Brown-Forman, have publicly recognized and accepted their responsibility to reduce the societal impacts of their products. There is an opportunity for investors to assess the societal impacts of their investments, such as ours, based on performance and recognize those who are best in class. No company can be more responsible than another.

Furthermore, I believe that alcohol is different than other "sin" industries and not inherently harmful for the vast majority of people. There are some people who should never drink, but for most, however, when enjoyed responsibly, alcohol can enrich the experience of life, from a toast at a big family holiday meal to a fine wine over a romantic dinner. In fact, I have shared cocktails with some of our stakeholders while actually debating the merits of alcohol screens.

Nevertheless, when consumed irresponsibly, our products can result in great societal impacts, such as drunk driving to domestic violence. These harmful effects are very personal and have a profound effect on individuals, families, and society.

JF: Do you think social investors can have a greater impact on the alcoholic beverage industry by becoming financial stakeholders?

RF: Absolutely. As financial stakeholders, social investors can bring a carrot and a stick. I witnessed the power of this influence firsthand in my past work on sustainable development in the auto industry at Ford Motor Company. A company that makes decisions to behave responsibly than its peers should be rewarded in the marketplace. Investors and shareholders hold a great deal of power in bringing about positive change. The fact that socially responsible investors currently don't leverage that power with our industry is unfortunate.

JF: Your industry has created several different standards for responsible advertising and marketing of alcohol. How are these standards being implemented at Brown-Forman?

RF: Advertising is the classic standard. To ensure we market and advertise our products responsibly, we can really control two things: the content - what is in the ad - and the placement - where the ad appears. On the former, we have a strict code of conduct that includes provisions such as not featuring children or cartoon figures, no suggestive alcohol use, and alcohol use represents a "rite of passage" to adulthood or as a means to attain success.

The latter is a bit more complicated. In the US, for example, the industry standard population breakdown of the country, which is approximately 70% age 21 and above and 30% below age 21. Brown-Forman carefully observes this requirement and we will pull publications that dip below this level.

In 2006, we increased our internal standard where the media impressions, the actual audience seeing the ad, must average at least 80% adults. In other words, even if we purchase space in publications that promise 70% adult readership, we are not satisfied unless the actual audience seeing the ad averages at least 80% adults.

Our internal standards continue to develop and evolve as we learn more about new and emerging potential concern, such as the promotion or advertising of shot consumption or high alcohol content energy drinks mixed with alcohol.

JF: What kinds of enforcement mechanisms exist to ensure that signatory companies are following the standards?

RF: The marketing standards are primarily self-regulated by industry groups like the National Spirits Council of the United States (DISCUS) and the Wine Institute. In the case of the spirits industry, for instance, code violations are submitted via mail or email. After a review board determines whether the complaint does indeed violate the code, a letter is sent to the offender with a request to pull the advertisement.

Enforcement results are reported semi-annually on DISCUS' website.
[editor's note: <http://www.discus.org/responsibility/report.asp>]

JF: So how is the industry doing with regard to the implementation of responsible and marketing standards?

RF: During the most recent reporting period, there was 100% compliance with the decisions among DISCUS members and nonmembers alike.

While I recognize that some might see this as the fox guarding the henhouse, I believe that participation in such enforcement measures actually can set a top performer apart from a performer—a key issue for social investors.

There are many companies in our industry that choose neither to join DISCUS nor to self-regulate. An interesting recent example is Svedka Vodka, a repeated violator of DISCUS standards that refused to pull ads. Svedka's producer was not a member until recently when it was bought by Constellation. The new owner has agreed to pull any ads found in violation. I'm curious to see how Svedka's brand messaging evolves now that it's owned by a responsible member.

JF: What does Brown-Forman do to encourage responsible consumption—the marketing responsibility side of the equation?

RF: I think people would be surprised by how much responsibility plays into the day-to-day conversations and decisions inside our company and the industry. I was really struck by this since joining Brown-Forman in 2005. In fact, we have a strategic imperative, "Beir Responsible in Everything We Do," that is one of the five major drivers of our long-term business success.

An example of this imperative in action is including "responsibility statements" as part of our advertising, not making them an afterthought. Instead of putting "please drink responsibly" in the fine print at the bottom of our ads, we strive to include them in the brand's voice to send the signal it is something we care about and to make it more prominent with consumers.

A more controversial example is the Jack Daniel's sponsorship of a NASCAR race. While some may argue that any promotion that links cars with a spirit encourages reckless driving, we have leveraged this sponsorship as a vehicle to promote responsible consumption. In fact, the entire sponsorship is centered on a responsibility message: "Pace Yourself Responsibly."

Through our consumer research, we've found that this type of message resonates and sticks with consumers. It is quite difficult to measure if our ads actually change behavior, but we would like to dig deeper into this challenge. For example, we wonder whether consumers truly know what it means to "drink responsibly."

JF: Social investors are concerned about other issues such as underage drinking and driving under the influence. What is Brown-Forman doing to address these issues?

RF: These are serious issues that require serious and substantive solutions. Historically, Brown-Forman has focused its efforts to combat these problems through the power of collective action. We have felt that third parties are the experts in developing and delivering solutions and lend credibility to any program.

Thus, in 1991, we joined forces with other distilled spirits companies to found the Century Council, a non-profit focused on reducing underage drinking and drink driving. By contributing more than \$24 million, we have supported the creation of more than a dozen currently active programs and campaigns.

Since underage drinking is such a complicated problem without a single solution, the Century Council targets multiple root causes. For example, the "We Don't Serve Teens" campaign, created in partnership with the Federal Trade Commission, empowers retailers and wholesalers to fight underage drinking by reminding and explaining how selling alcohol to underage drinkers is unsafe, illegal and irresponsible.

But, retailers are only one part of the problem. Research has shown that 65% of underage youth who drink obtain that alcohol from family and friends. This finding spurred a new campaign of public service announcements that encourages parents to play a more active role.

Finally, there is another critical audience that third parties are best able to reach: youth. Girls, in particular, are more at risk. The Council created the Girl Talk campaign, which is an online resource to educate mothers and girls about the problem and empower them with strategies to make the right decisions.

Regarding drunk driving, we are proud to have been involved in the National Hardcore Drunk Driving Project. The Project, created in 1997 and updated in 2003, convened top experts representing a wide variety of stakeholders, including law enforcement, corrections, traffic safety, and hardcore drunk driving research and treatment. They created an incredible, comprehensive resource of the best research and strategies to help community- and state-level leaders effectively reduce hardcore drunk driving.

The project has successfully empowered leaders to create coordinated systems of three core, reinforcing components: special criminal charges for hardcore violators, appropriate punishments, and remedial treatment to reduce recidivism.

We also support the Council's Judicial Education Project to promote innovative strategies that reduce relapse. The accompanying aggressive outreach campaign conducted workshops instructing more than 2,000 judges across the country on how to apply the Program's practical recommendations.

JF: Collective action through the Century Council seems like a good start, but how is Brown-Forman handling these issues from a strategic perspective?

RF: While we believe that third parties are the best messengers in many cases, starting with the publication of our first corporate responsibility report this past summer, Brown-Forman has embarked on a more aggressive tact. We want to do more. We have reconstituted an executive subcommittee solely focused on developing a proactive strategy to promote responsible consumption and reduce the harmful effects of alcohol abuse.

A primary goal of this committee is to fill our knowledge gaps and increase our own understanding of alcohol related problems and solutions. Believe it or not, this is a big change for our industry. Historically, we were afraid of actually having information about the problems because we could be accused of trying to capitalize on them. Today, we believe that we really need to know much more than we do about problems and solutions in order to take the right

actions.

We will invite others to provide us with feedback, insights, and ideas. In fact, there is no time like the present. If your readers have any thoughts they would like to share, I encourage them to email me. I look forward to hearing from them.

Overall, my hope and expectation is that we will develop an innovative and exciting signature program or programs through this process. We're not the biggest company in the industry so we really need to think through what makes the most sense for us and where we can make the greatest difference and positive impact. Stay tuned!

JF: It sounds like you are at the beginning stages of this process, but are there any other programs or initiatives that you are engaged with that could be relevant to social investors?

RF: CityScoop, an example of a small, but innovative program, is a Louisville-based designated driver service. People who want a ride home call a local number and then drivers are dispatched to the caller's location on a collapsible scooter. The driver folds-up the scooter, puts it in the caller's trunk, and drives the customer and their car home safely—eliminating the problem of not having your car in the morning, unlike when you call a taxi.

Not only did we sponsor the effort, but we also helped bring one of our business partners on board with this effort - Republic National Distributing Company. I'm particularly excited about this local partnership because it provides a real world, community-based solution—something we need more of. I have a feeling that social entrepreneurs, such as CityScoop, will be the ones to bring the most innovative ideas to the table.

While the social impacts of our products are the critical responsibility issue for investors, we have also done some exciting work on the environmental side as well. We are proud of Fetzer Vineyards and Bonterra Wines, for example, as pioneers and leaders in the sustainable and organic wine space. Our Jack Daniel's Distillery practiced environmental stewardship long before it became the thing to do. Grains and grapes are the source of our product, so in many ways we are an agriculturally-based company. Water is an essential ingredient in our wines and spirits. We believe environmental issues will only continue to grow in importance for our company and industry.

JF: How do you think social investors should judge the performance of companies that produce and market alcohol?

RF: In some respects, our industry is different than others in that our core issues deal with how consumers use our product, not with how we make it. Many companies will tell you about how they make their product ethically or with minimal environmental footprint. We work on these issues too, but our biggest challenges are apparent in how we can encourage and empower consumers to behave and use our product in a certain way. As a heavily regulated and tiered industry, we are often several layers removed from our consumer and have enough of a challenge delivering a marketing message, let alone a responsibility one. The best companies are the ones that overcome these challenges and help make a real difference at the point of consumption.

In other ways, I think that social performance within beverage alcohol is not really very different from any other industry. Best in class companies strive beyond standards and compliance, engage with a wide variety of stakeholders, and are transparent about their behavior and knowledgeable about their core issues. They recognize where there are legitimate challenges or mistakes. Such companies also demonstrate and measure a significant and growing financial investment. They put real dollars into real programs. Employees within the company, from the CEO to the sales person in a bar account, walk the talk. They also align public policy agendas with corporate responsibility efforts. These types of behaviors should be familiar to any social investor.

We aim to be a top performer. We plan to bring the same creativity and energy to social responsibility as we do to our brand building and other pursuits. We aim to influence behavior throughout the value chain, including that of our consumers. And, we have already taken steps to understand and address the concerns of U.S. Attorneys General, the WHO and others.

In addition, sometimes it's important to think about what we don't do. Brown-Forman, for

example, does not produce a pre-packaged, ready-to-drink highly-caffeinated energy drink mixed with alcohol because of concerns we have. We said “no” to this type of product.

JF: Any final thoughts for our readers?

RF: This year is the 75th anniversary of the end of Prohibition. It was an experiment that didn't work. Brown-Forman believes there are other means to address the harmful effects of alcohol. In a similar vein, I call for social investors to end their prohibition of engaging with us! Their feedback and contributions would make a real difference.

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