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Its public offering shelved, Taliera switches strategy for buying underperforming brands of booze

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Last summer, locally based Taliera Corp. revealed ambitious plans to uncork the latent value in neglected alcoholic beverage brands with a "blank check" initial public offering. Taliera's intention was to raise $60 million.

On March 27, Taliera withdrew its IPO registration statement from the Securities and Exchange Commission, citing "adverse market conditions."

But Taliera isn't going away. It's simply trying a different approach.

CEO J. Smoke Wallin said he and his team of eight beverage industry veterans still believe their business plan is ripe.

"We had finished our roadshow the day the Dow dropped 500 points. In spite of that, we had commitments for $32 million from investors," Wallin said. "We just decided that, instead of trying to prolong it and keep it open for an indeterminate time, we'd rather do it privately."

Wallin aspires to raise a great deal of money, which will then be invested in underperforming brands of beer, wine or spirits. Taliera's IPO plan was called a "blank check" because the company doesn't yet own any of the brands it hopes to revitalize. And Taliera won't yet publicly identify any of its specific acquisition targets.

Wallin, 40, said his team pooled $3 million of their own funds, then raised a great deal of interest, particularly from East Coast hedge fund managers, before withdrawing Taliera's IPO. Now Taliera plans instead to tap private-equity investors for its acquisitions on a deal-by-deal basis. Wallin said those deals could range in size from $100 million to $500 million.

"It's a little bit of a chicken and an egg. Do you do an acquisition or raise capital first?" Wallin said. "Our preference would be to find the right deal, and then fund around it. There was always some downside to the public approach."

Taliera will focus on finding alcoholic beverage brands that your parents or grandparents once enjoyed, but that now languish. Wallin said regulations on alcohol advertising, particularly for liquor, make it much easier to reposition an older brand than to introduce a new one.

Wallin said major brewers and distillers spend most of their resources on a handful of major brands, even though they may have hundreds more in their portfolios.

He pointed to opportunities such as the pending sale of Absolut vodka. Owned for decades by Sweden's government, Absolut went on the market last year when the country's new conservative leadership decided to privatize the liquor industry there.

Absolut is expected to fetch up to $6 billion on the open market—far more than Wallin hopes to raise. But to fund its purchase, major alcohol producers will likely sell off some of their non-core brands. And that creates the kind of opportunity Taliera wants.

But turning around a brand involves more than simply identifying undervalued assets.

Jonlee Andrews, a professor of marketing at Indiana University's Kelley School of Business and director of IU's Center for Brand Leadership, said there are many reasons why brands fall out of favor.

Wallin

Sometimes they just don't get enough attention or marketing money, and all it takes is a fresh idea to reinvigorate an established brand. Other times, the brand has developed a negative reputation that's difficult to overcome.

"Have consumers ever heard of it?" she asked. "Is it like Oldsmobile? Will it be hard to change the 'Brand of your grandfather' perception? Or is it like Ovaltine, and you just haven't seen it in 30 years?"

Another challenge: getting brands back into the public's hands. Retail shelf space is almost always a limited commodity. Ditto the room for new bar taps. To reach the market, producers must often pay retailers to stock their goods. And since a change requires displacing something else, the cost can be steep.

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J. Smoke Wallin, Taliera Corp. CEO

A third obstacle is the quality of the product itself. Cutting corners can be an attractive way to reduce expense. But over time, consumers notice the change, Andrews said. For example, she said, the formula for Pabst Blue Ribbon was downgraded 22 times. By the end of the process, the beer had a negative reputation, and has only recently begun to be revitalized.

Duncan Cameron, spokesman for the Mason, Ohio-based World Association of the Alcohol and Beverage Industries Inc., was skeptical about Taliera's prospects.

"If revitalizing a once-popular brand was a matter of applying a simple formula, it would happen more often than it does," he said. "The market for distilled spirits is, in many ways, a fashion business, with popular trends, along with some enduring traditions, often unique to certain regions greatly influencing which products are selling well. There is easily as much art as there is science to getting it right."

"Companies can spend all the money they want on advertising and marketing, but ultimately it is the consumers collectively who decide what sells and what does not," Cameron added. "Consumers are not slaves to big business advertising, as some would like to portray them."

Indiana Licensed Beverage Association Executive Director Brad Klopfenstein said Taliera might have its best chance for success if it targets sales toward small, independent bars and restaurants, which rely on quirky alcoholic brands to distinguish themselves. The beverage menu for major chains is often negotiated at a corporate level. Breaking into Applebee's or Lone Star Steakhouse is a difficult proposition for any upstart.

"From what I see, though, I think there's a niche for them to play in. Certainly a lot of the bars and restaurants I represent are more of your independent bars and pubs," Klopfenstein said. "They're going to have to weigh whether they want to be a small brand in a big house, or a big brand in a small house that doesn't necessarily reach everybody."

Wallin, who has served as chairman of the Washington D.C.-based trade group Wine & Spirits Wholesalers of America, is probably best known locally for his IT company eSkye Solutions Inc., which makes ordering software for the liquor industry's supply chain.

Wallin raised $60 million for eSkye before the dot-com bubble burst. The company hasn't yet reached its original promise of spectacular growth, but Wallin said it now has 30 employees. Its customers include several large alcohol distribution companies and about 250 wineries.

Prior to eSkye, Wallin served as executive vice president and chief financial officer for liquor distributor National Wine & Spirits, one of Indianapolis' largest private companies. He is the son-in-law of its CEO, James LaCrosse.

Joining Wallin in the latest venture is Taliera's chairman, S.K. "Skeeter" Johnston, a former Coca-Cola Enterprises Inc. vice president and business development officer. The other members of the Taliera group have similar resumes.

"There's really nobody in the [alcoholic beverage] industry that we don't know directly or through one phone call," Wallin said. •