

CONFERENCE SUMMARY

Understanding US Beverage Alcohol Trends and the Drivers of Future Consumption



Vinexpo America | Drinks America
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Presented by

IWSR

drinks market analysis



INTRODUCTION

This is a recap of “Understanding US Beverage Alcohol Trends and the Drivers of Future Consumption” presented by The IWSR at Vinexpo America | Drinks America on March 9, 2022.



PRESENTER:

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Founded 50 years ago, The IWSR is the leading source of data, analysis, and insights on the global beverage alcohol market. It tracks alcohol consumption trends in 163 countries and helps clients benchmark performance, identify market entry opportunities, and stay on top on innovation for product development. This presentation is based on current research by The IWSR.

Pandemic-Fueled Trends Lead with Off-Premise Consumption

This session covered a new vision of the new normal market context, and covered trends including premiumisation, moderation, better-for-me-better-for-the-planet, and e-commerce. Looking at trends to watch sets the foundation to understand everything that unfolds moving forward.

In the past two years, people have invested in their homes to make them better places to live and socialize. What before might have been a barbecue in the backyard is now a movie night out in the backyard with ambient lights, a fireplace, and drinks. People have been premiumising at home. The IWSR believes that home off-premise is here to stay, at least for the next few years.

It is important to remember that in the U.S., pre-pandemic, 83% of alcohol consumption already happened off premise. The difference now is that the industry is looking beyond the point of purchase. Before, brands would work on marketing strategies geared to point of purchase, making sure displays were correct and arranging for sampling, etc. Now brands are really looking for occasions

to bring the role of their product into consumers' homes as well.

Consumers are extremely comfortable to try trends and to experiment at home. In the U.S. in particular, they have been blending alcohol beverage categories at home – mixing and exploring. The industry has responded to this very well. Beer companies are producing spirit-based RTDs and spirit companies are producing RTDs. There's portfolio diversification occurring in the industry. In the U.S., it is interesting to note that 11% of RTD drinkers also drink wine. Moving forward, premiumising is going to be happening more in the RTD category.

With these new locations at home to drink along with a more complex repertoire, the frequency of drinking increases. The need for moderation is a reality now, so people are drinking more no- and low- alcohol options. The industry is responding to that by bringing forward a lot of interesting products.

We also see the emergence of rare categories going beyond scotch and cognac. During the pandemic, the wealthy became wealthier, and some developed a hobby around premiumising their spirits. In fact, super premium and above spirits performed the strongest in the pandemic.

Premium wines are also performing very well and will continue to do so.

Outlook for Lower Grade Wine Grapes

Even as wealthy consumers gravitate to premium

wines and spirits, opportunities exist to capture the younger market, particularly LDA consumers between 21 and 24 years old. They are trying gin, wine, tequila, rum, and fresh cocktails, with gin and wine leading consumption.

Since they are younger, they do not have the purchase power to go premium, so it may make sense to shape the wine offering to compete more directly with RTD. This includes lowering the volume to 375 ml, for example, and creating messaging that resonates with younger consumers, such as low calorie, low carb, and using wine as base for cocktails, a trend that has grown among RTDs and for cocktails in general.

Acceleration of E-Commerce, Brand Ethics

The alcohol industry was a bit behind in e-commerce in the U.S. before the pandemic because the system is so tight. But companies found ways to navigate through the three-tier system and distribute online. For the wine segment that has posed a bit of a threat because now there is an avalanche of other categories online.

Companies are differentiating themselves with marketing that talks about sustainability, about the environment, about social concerns and how companies are conducting their governance. Consumers are aware of these issues and will endorse brands that resonate with their values. And investors are also looking at which companies are socially concerned and ethical.

Inflation's Impact

Brands are dealing with external pressures including inflation in the U.S. and in many parts of the world. Supply chain disruptions are a factor for



many. Now transformation is necessary with raw material cost increases and rising fuel prices forcing producers to seek savings to control final prices to consumers.

Inflation is going to have a significant impact on consumer purchase power, which will influence how people will make decisions when buying alcohol. In advanced countries, The IWSR expects about 4% inflation – not the end of the world when looking at Argentina with 50% inflation. But Americans are just not used to that type of price fluctuation. They are very intolerant of that. So, it is expected that most brand owners will take a step-change price approach, and the value end will struggle.

There are two typical dynamics during unstable economies. One is what is called “shrinkflation.” That is when prices stay the same but the amount decreases. This is what The IWSR believes is going to happen in the U.S. People will look to maintain quality of life, quality of products, and their favorite brands. However, they will compromise on the size. That is the compromise the consumer makes to maintain quality, and that the industry makes to maintain profitability.

In emerging countries “simplflation” is quite common. That is when people cannot afford to shrink quantities, because household composition is larger. So, they will compromise by having inferior quality products to keep the quantity they want.

On-Premise Sales Fueled by Millennials, Gen Zs

In terms of human behavior, The IWSR sees on-premise gaining traction again, particularly in the U.S., in Europe, and in China. Gen Zs and Millennials are eager to go back to the bars and

restaurants. Trial of alcohol has been the highest in these groups, particularly among Millennials. This segment of the population has the purchasing power to try new things. In the past two years, 32% of Americans reported trying some new category.

Behavior continues to be driven by overall comfort levels. In countries where people are less bothered by the pandemic, they will spend more, and they will drink more. That is the case in the U.S. At-home consumption is still especially important because where traveling and on-premise options are not fully back in business, people are spending more in key markets.

No-Low Alcohol Opportunities

The IWSR does extensive research in key markets where it sees opportunities for no-low alcohol. The category has reached about \$11 billion. The volume growth for the no-low category has been 6.1% worldwide from 2020 to 2021. And it is projected to grow another 8% by 2025. The U.S., though, is growing at 30% for no alcohol and 20% for low alcohol.

The IWSR thinks this research marks the first time these consumers have been measured. Interestingly, about 70% of people who drink these products are alcohol abstainers. About 20% are considered blenders – people who will drink will moderately throughout the same occasion. They may start with no, and then go to low, and then to full-strength drinks. Another 43% are what are called substituters. These are people who will pick the occasion to go full strength. At a professional event where they do not want to drink, they will opt for no alcohol. And then for a party, they may go to low alcohol options. For a late-night party, they may opt for full strength. Those in the category called “trialers” – people trying new beverages – are about 21%.

The no and low wine category has faced challenges in the past, but that is changing now, because 40% of people who are consuming this category are choosing wine, and that is just behind beer which stands at 70%. In the U.S., the consumption of no and low wine is at 35% – behind no and low cocktails and mixed drinks.

Local vs Non-Local Preferences

A note on preference for local versus non-local





wine: In Germany, the U.S., Canada, and Australia, more people are endorsing their local wines. This could be due to people wanting to reconnect to what is familiar because there is so much uncertainty in the world. And it could be due to that broader sustainability argument has been around for a while and that prompts people to embrace local producers and local business. Also, local wineries, particularly in the U.S., have had better and easier access to local consumers through e-commerce.

Sustainable luxury also appeals to younger LDA consumers, particularly in the U.S. These are messages—like plastic-free oceans—that resonate, and that the industry is putting out there to connect with consumers and investors. Social Voices by Woodford Reserve, for example, was at Vinexpo America/Drinks America celebrating Black History Month. There is a lot of focus on sustainability, social issues and mental health, the latter which is the next topic that companies will start addressing. It is a delicate topic for the industry. Yet promoting lower ABV and giving people the ability to moderate and to respect their self-limit is a way for the industry to voice a concern.

The Outlook for On-Premise Sales

Is the on-premise segment in danger? The U.S. lost

about five percent of places that consumers used to go to drink and eat, but it is expected that on-premise will fully recover by 2025. E-commerce will continue to take market share, but in the end, it really takes market share from brick-and-mortar locations.

In the U.S., pre-pandemic, brick and mortar was already declining. The IWSR was seeing that in the fashion industry, for example, and now it is happening in this industry, because it has advanced significantly to allow people to access products online.

A Look Forward

At home, people are more likely to diversify. The IWSR sees trends that are encouraging cocktail creation at home, so companies are offering cocktail kits. Subscriptions are also extremely popular. People order online and have their wine delivered every month. People have invested in their bars at home, a trend that is going to continue, so diversification is key.

In most markets, wine is the largest major alcoholic drink category in e-commerce. There are more apps to buy wine than general e-commerce. LDA, the younger generation, is really into apps. It is not only bringing wine in the format that they want, but also in the appropriate apps for them to gain access. ●

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