



# *Looking Back, Looking Forward*

## Headwinds and Tailwinds in the Beverage Alcohol Industry



July 13, 2022  
St Louis, MO





# Headwinds and Tailwinds in the Beverage Alcohol Industry

## Industry & SipSource Analysts



**Dale Stratton**  
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(category/ consumer)  
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Beverage Alcohol Practice



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VP Thought Leadership  
Beverage Alcohol Vertical



Former Director Commercial Insights  
Moet Hennessy USA



**Retail sales (beer, wine, spirits)  
selected off premise channels**

- Food, Drug, Mass Merch, Club (ex Costco)
- Some Liquor (8 states, and 20+ Liquor chains); CA Liquor by end of year
- Convenience / Military channels
- NEW – Omni Channel Solution for total retail with Off / On / eCommerce combined for a single view

- Dollars and Volume

- Product segment, brand, item
- Channel; Geographies (e.g. states); a variety of individual retailers
- NEW – Precision Areas tool allows detailed analysis of specific geographies to analyze distribution

**Depletions (wine, spirits)  
all off and on premise trade channels**

Breakthru, Columbia, E&J Gallo (NJ, CA), Fedway, Great Lakes, Heidelberg, Henry A Fox, Kentucky Eagle, Lipman, Major Brands, Martignetti, RNDC, Southern Glazers, Virginia Imports

Note: several others to be added in 2<sup>nd</sup> half 2022

- Volume share, volume percent change vs year ago

- Product segment
  - Varietals, package size/type, price tier
  - Country of origin
- Channel/sub-channel/chain vs independent
- Geographies (regions; some individual states to come)

**WHAT IS  
SIPSOURCE?**

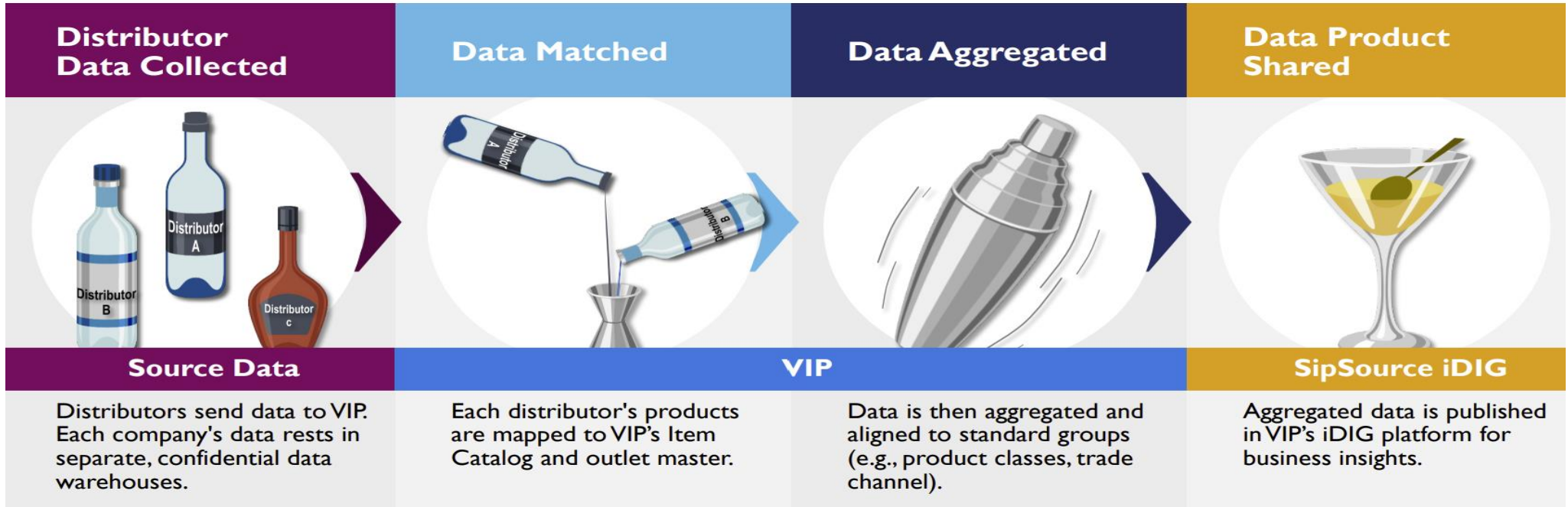
# SipSource Basics

## Who



- In progress:
- Allied Beverage
  - Eder Brothers
  - Horizon Beverage Group
  - Imperial Beverage
  - Opici Family Distributing
  - Saratoga Liquors
  - Winebow
  - NABCA

## How



# Product Enhancement Roadmap (2022)

- Geographic Breaks
  - Seven Regions/Divisions—U.S. Census Defined ([available now](#))
  - States: AZ, CO, DC, FL, MD, SC, WA; Wine Only CA, MI, OR, VA
- Country of Origin for Wine ([available now](#)); Region & Sub-Region coming in 2<sup>nd</sup> half CY 2022
- Package Type ([available now](#))
- Channel Shifting Index (CSI); Price Tier Performance (PTP) Scorecard ([available now](#))
- Custom Reporting ([available now](#))
- Wholesaler overlay
- RTD Master
- Non Alc Adult Beverage reporting
- Innovation Module
- Points of Distribution / Accounts Sold





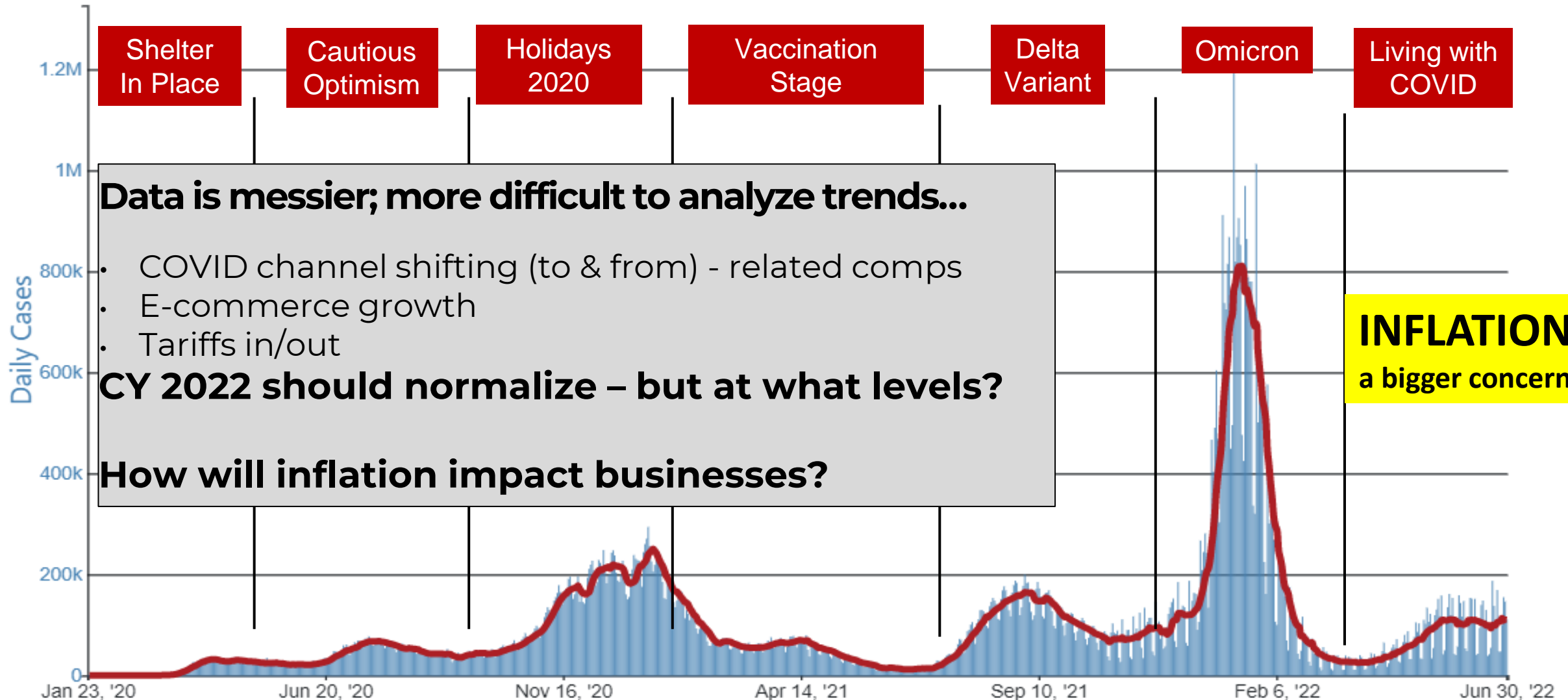
# Our Agenda

- Current Bev Alc landscape
- Channel Shifting
- Inflation/Premiumization
- RTD's
- What's Ahead



# COVID-19 calendar – impacting consumer behavior/channel shifting

Daily Trends in Number of COVID-19 Cases in The United States Reported to CDC



Source: [www.COVID.cdc.gov](http://www.COVID.cdc.gov) 7-Day Moving Average New COVID Cases (red line)





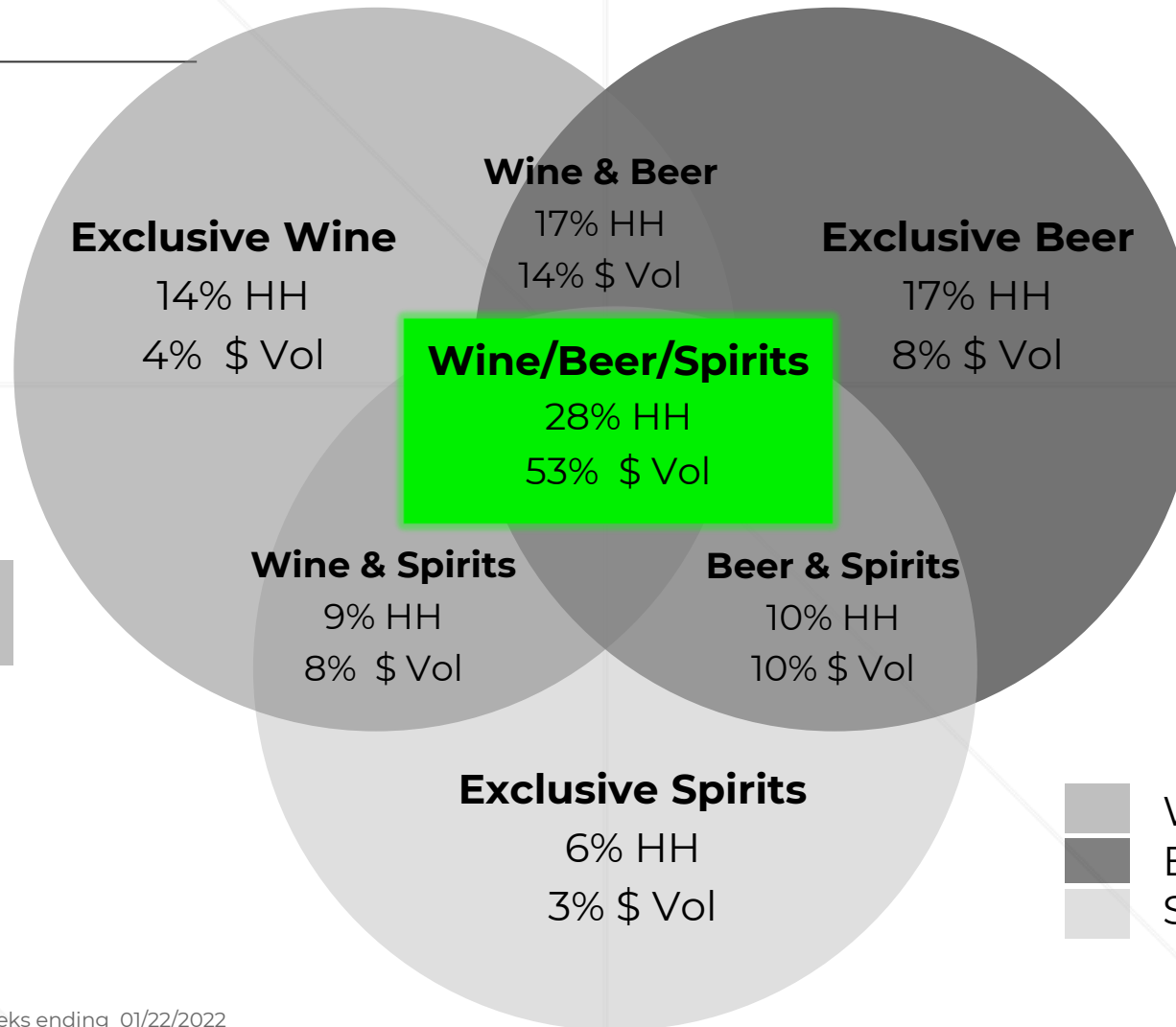
# Broad consumer drivers - COVID accelerated some existing trends

- 1 Total Beverage Alcohol → Growing cross category drinking
- 2 Experience → Authenticity; Discovery; Entertainment
- 3 Flavors → Flavor seekers - what's new
- 4 Convenience → Shopping Right pack type/size
- 5 Wellness - for 'me' & 'we' → Healthier choices/transparency Sustainability/CSR
- 6 Trading up → Drinking "better"
- 7 Demographics → Gender Age Ethnicity



# Buyers of B & W & S contribute over half of Bev AI dollars

**Total Bev AI buyer and sales overlap**  
Off premise



Wine Includes Still & Sparkling

Beer includes FMB/Cider

■ Wine  
■ Beer  
■ Spirits



**BEER**

# Imported beer (Mexican) is biggest share gainer



YTD Off-Premise \$ Growth and Share Change vs Year Ago



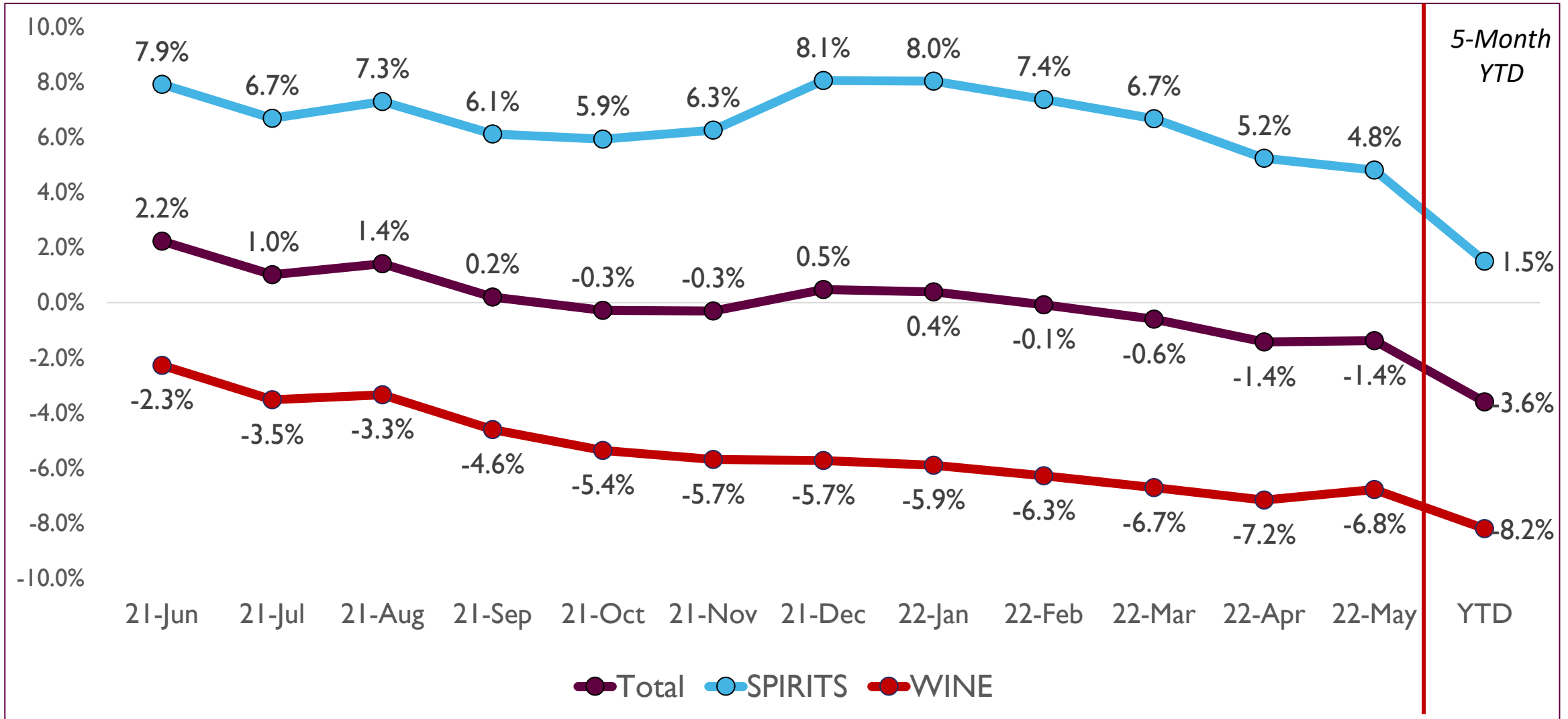
	\$ % Change	\$ Share	\$ Share Change	Price Chg
BEER/FMB/CIDER	-1.3	100%	-	+5.0%
IMPORT	6.4	21.8	1.6	+3.8
PREMIUM LIGHT	-2.9	20.8	-0.3	+4.9
PREMIUM REGULAR	-2.5	5.6	-0.1	+5.1
CRAFT	-7.6	11.9	-0.8	+4.5
BELOW PREMIUM	-4.1	11.4	-0.3	+5.5
SUPER PREMIUM	0.8	10.2	0.2	+2.2
HARD SELTZER	-9.1	8.9	-0.8	+6.6
FMB (ex Seltzer)	6.9	7.6	0.6	+3.8
CIDER	-7.0	1.0	-0.1	+6.4
NON-ALCOHOLIC	17.5	0.7	0.1	+7.2

- Imports - driven by Mexican - ahead of Premium Lights - and FMB's gaining the most share
- Non-alcoholic beer is the fastest growing segment
- Hard seltzers declining, along with mainstream segments, incl Craft
- All segments moving upwards in price

**WINE & SPIRITS**

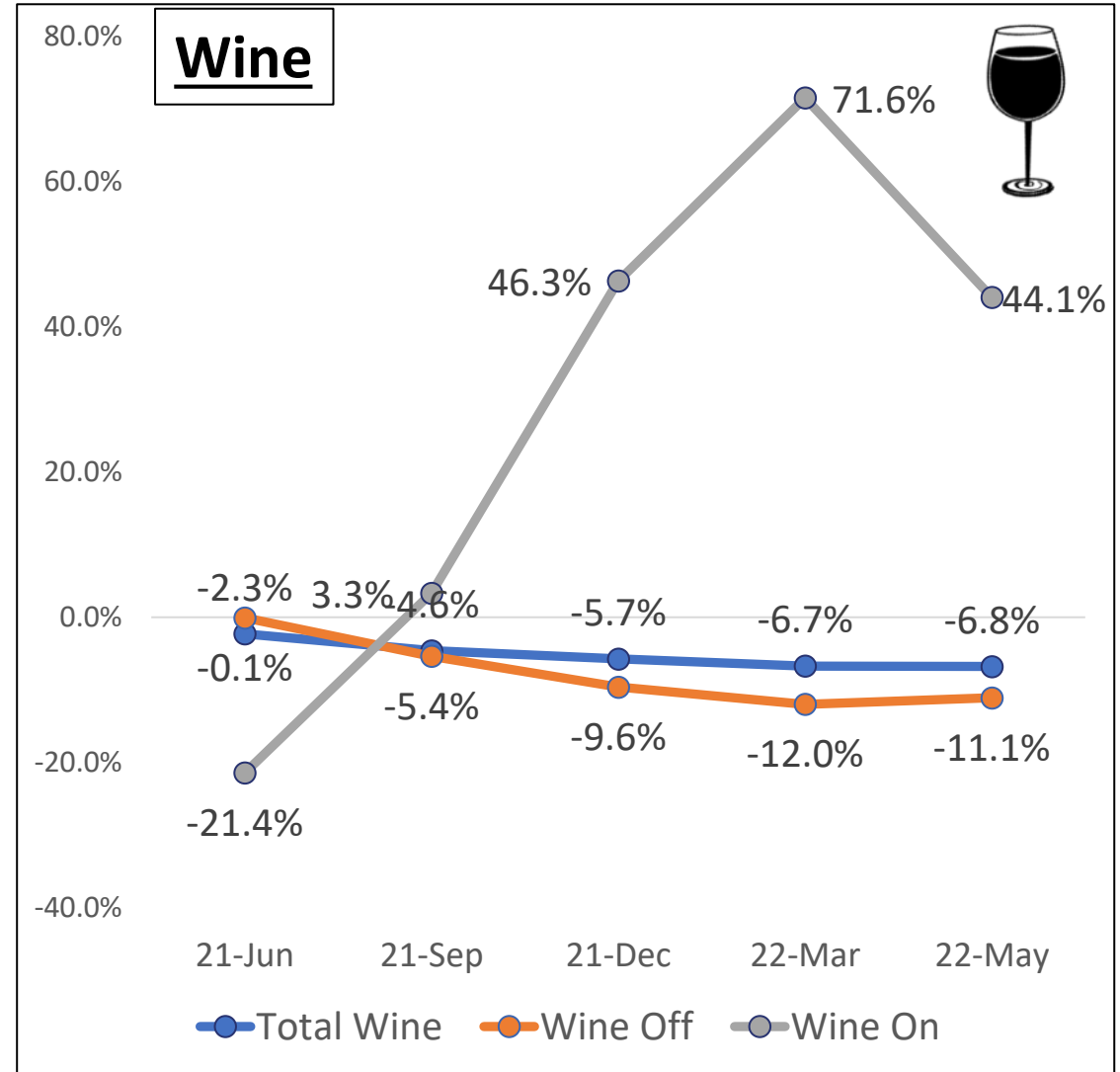
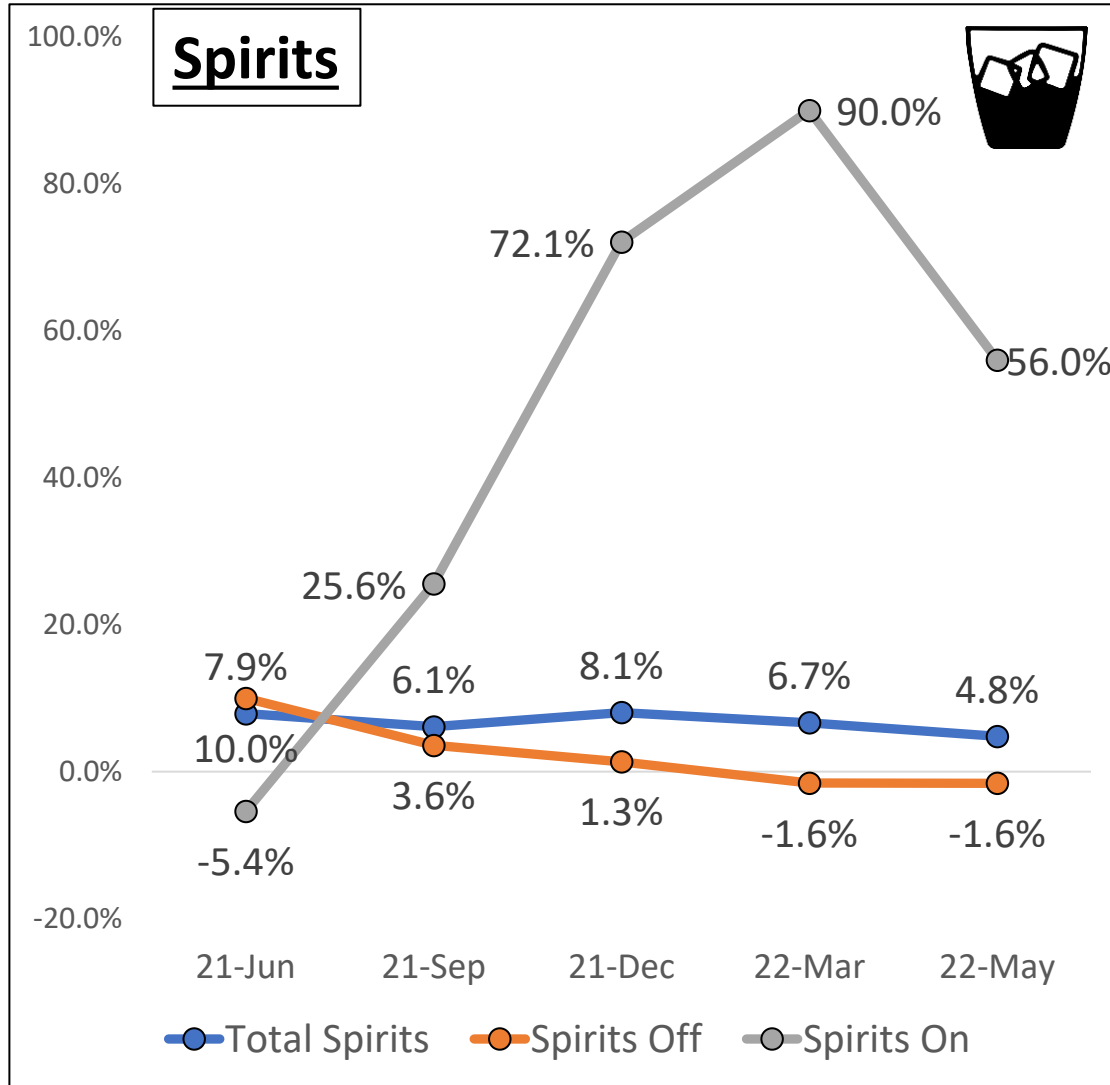


# Year to date depletions remain soft for wine; spirits growth deceleration





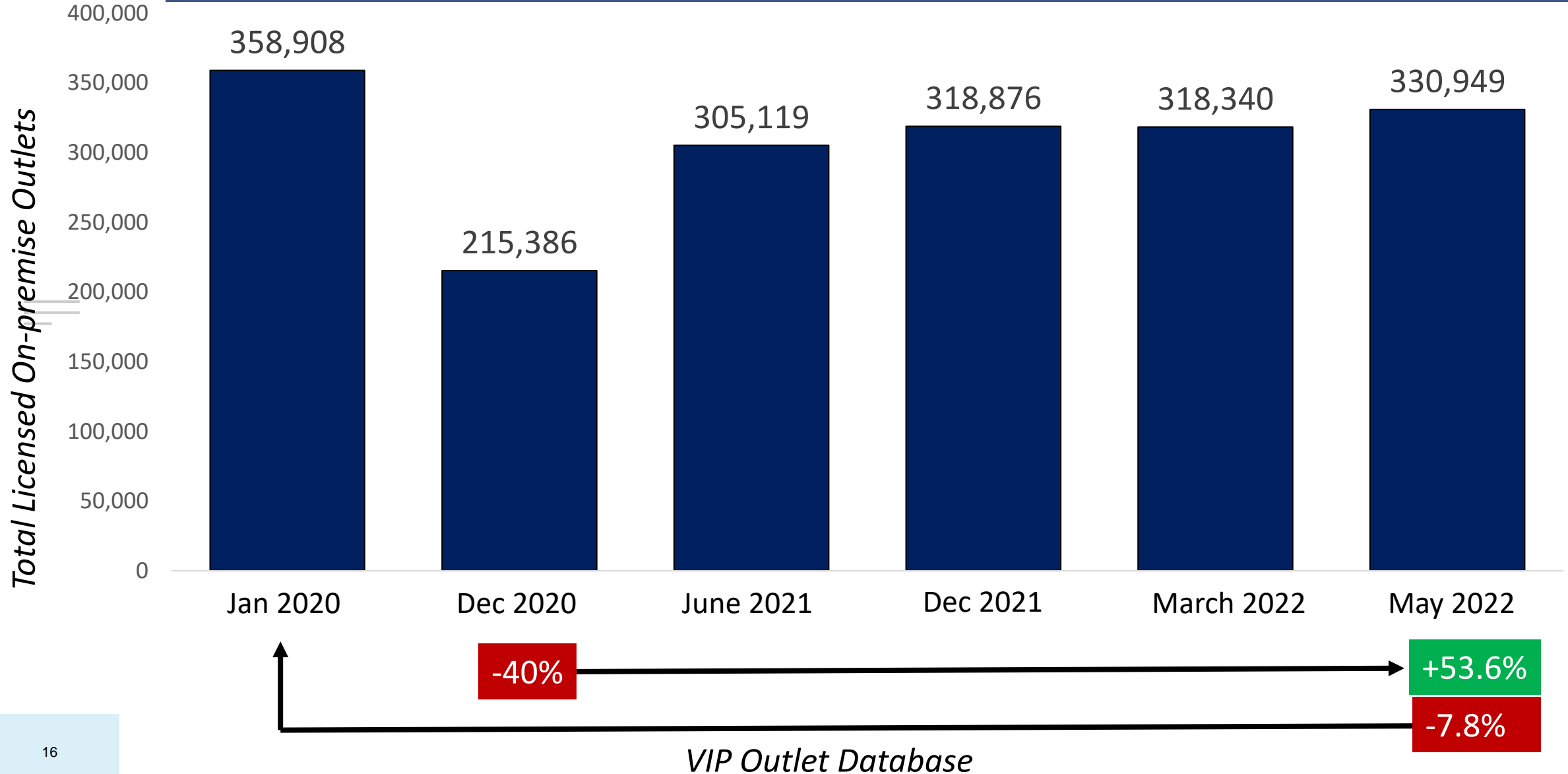
# On-premise trends normalizing as Shelter In Place data leaves history





# On-premise openings improve significantly YTD

Open on-premise accounts increased by 12,073 since December 2021

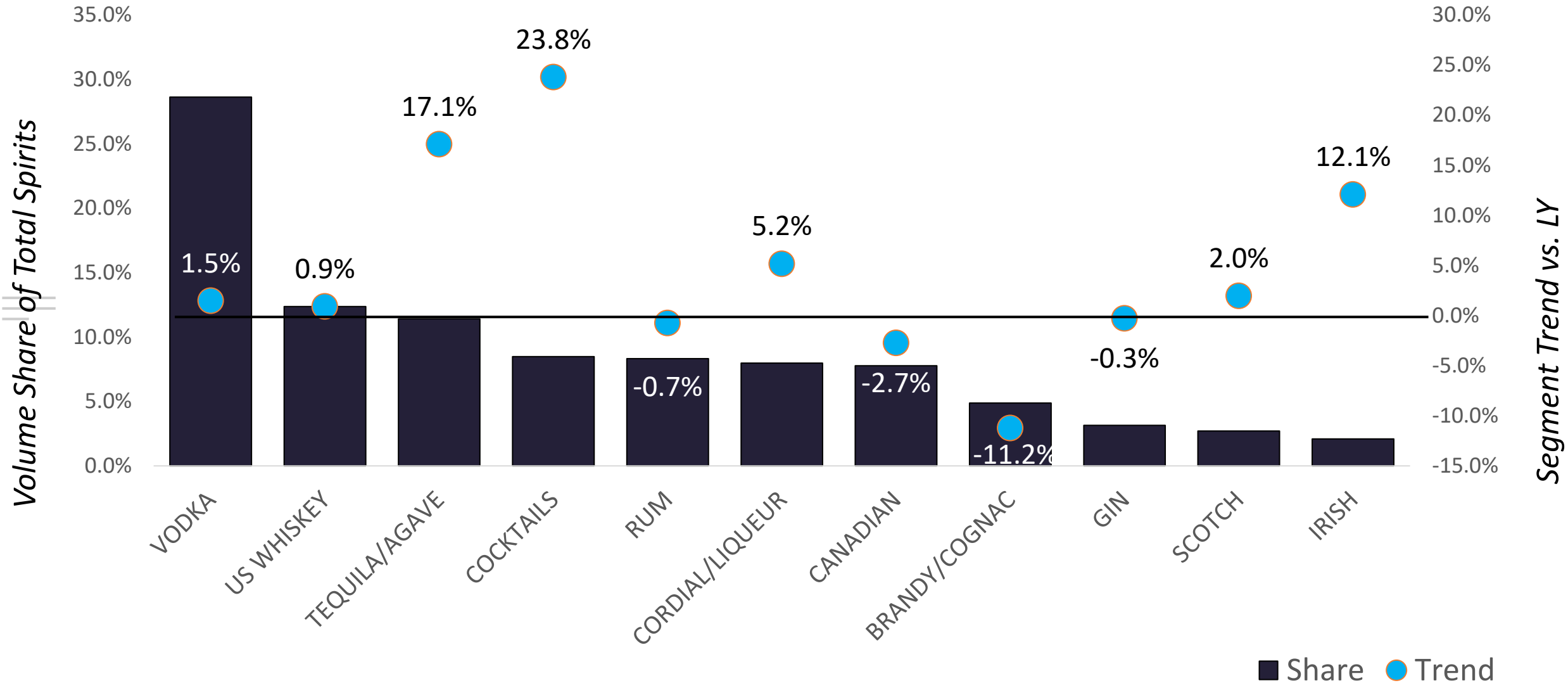




**SPIRITS**



# Premixed Cocktails & Tequila continue to drive growth

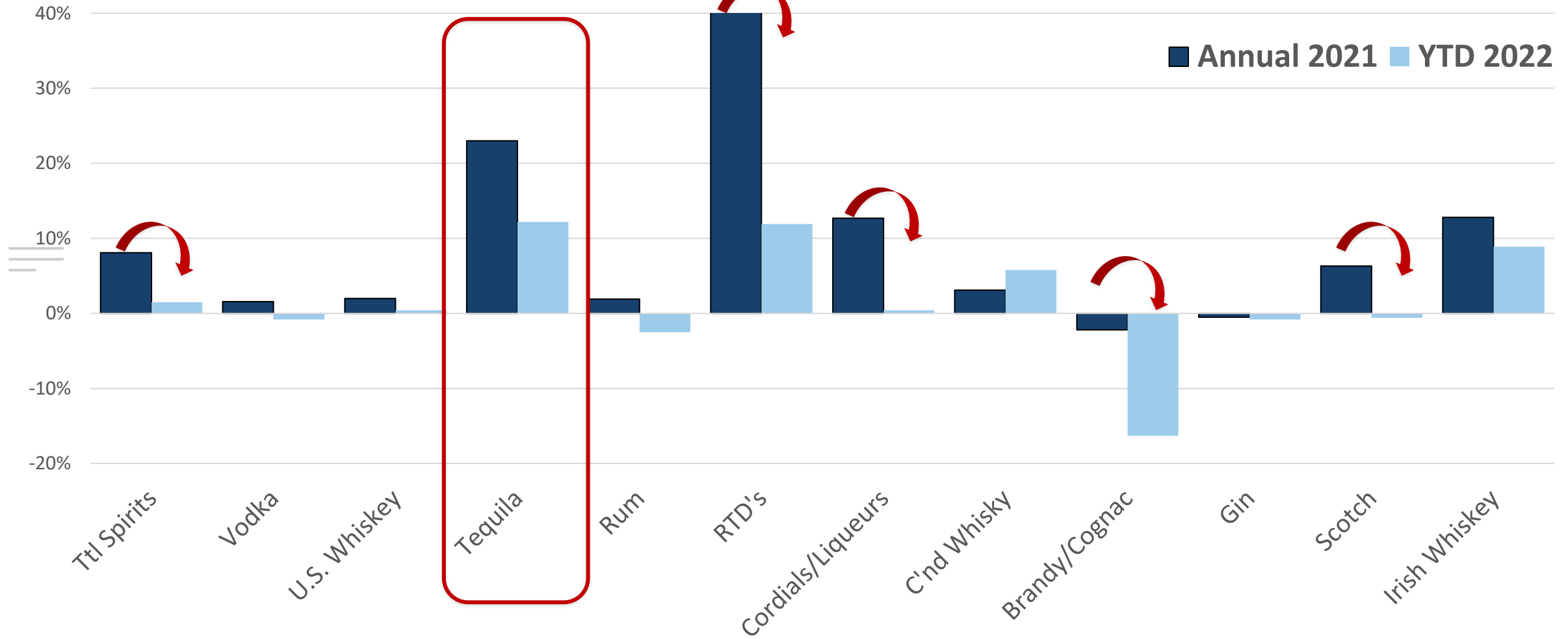




# General deceleration across Spirit segments – but Tequila still a growth monster; Cognac down



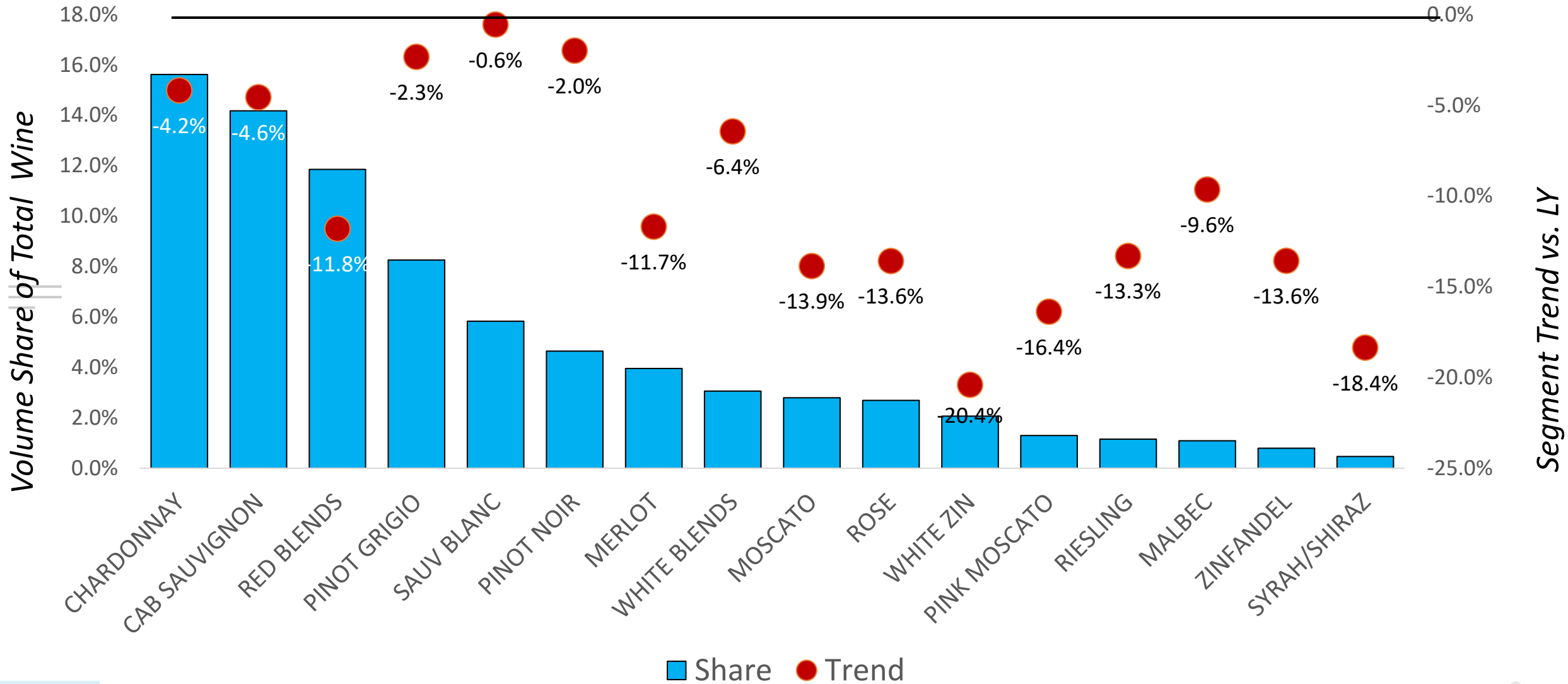
Total U.S. – Volume percent chg vs Yr Ago



**WINE**

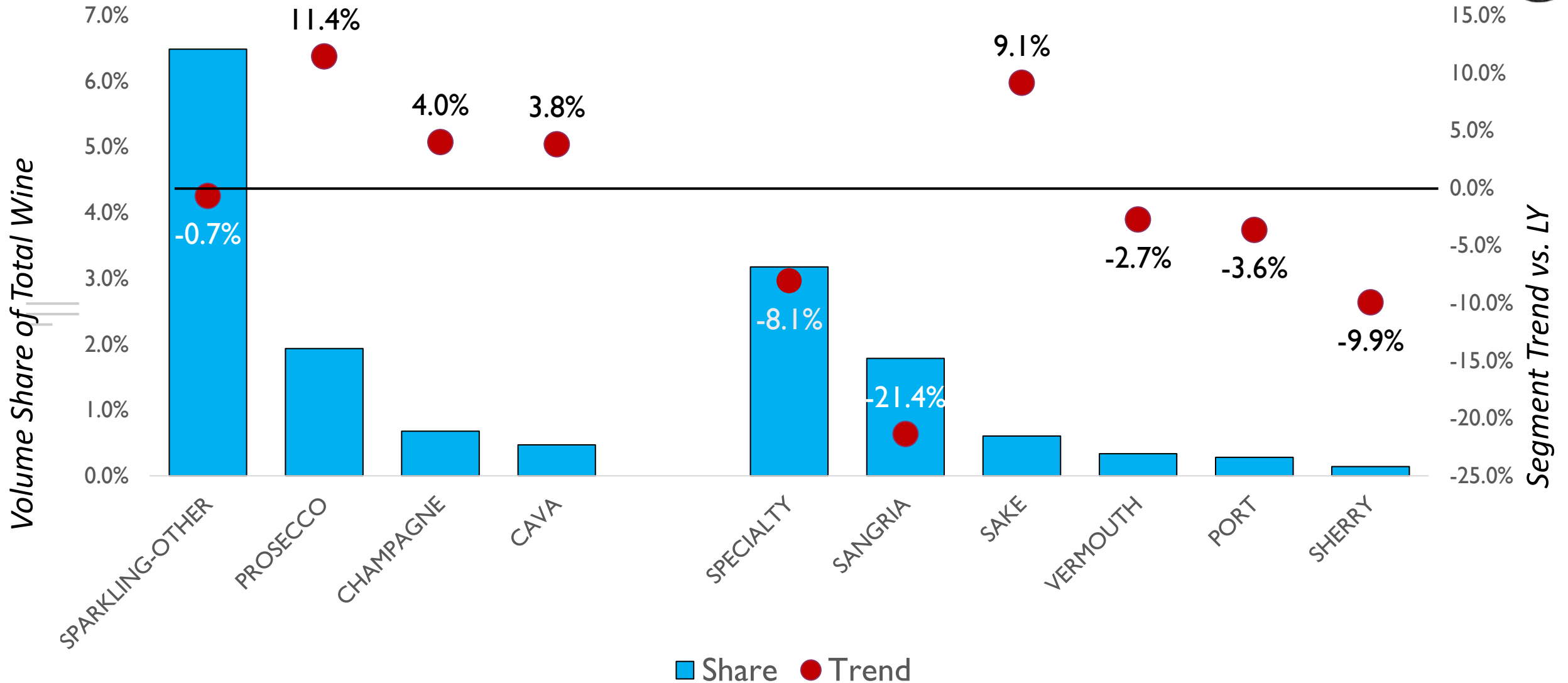


# Table Wine continues to struggle



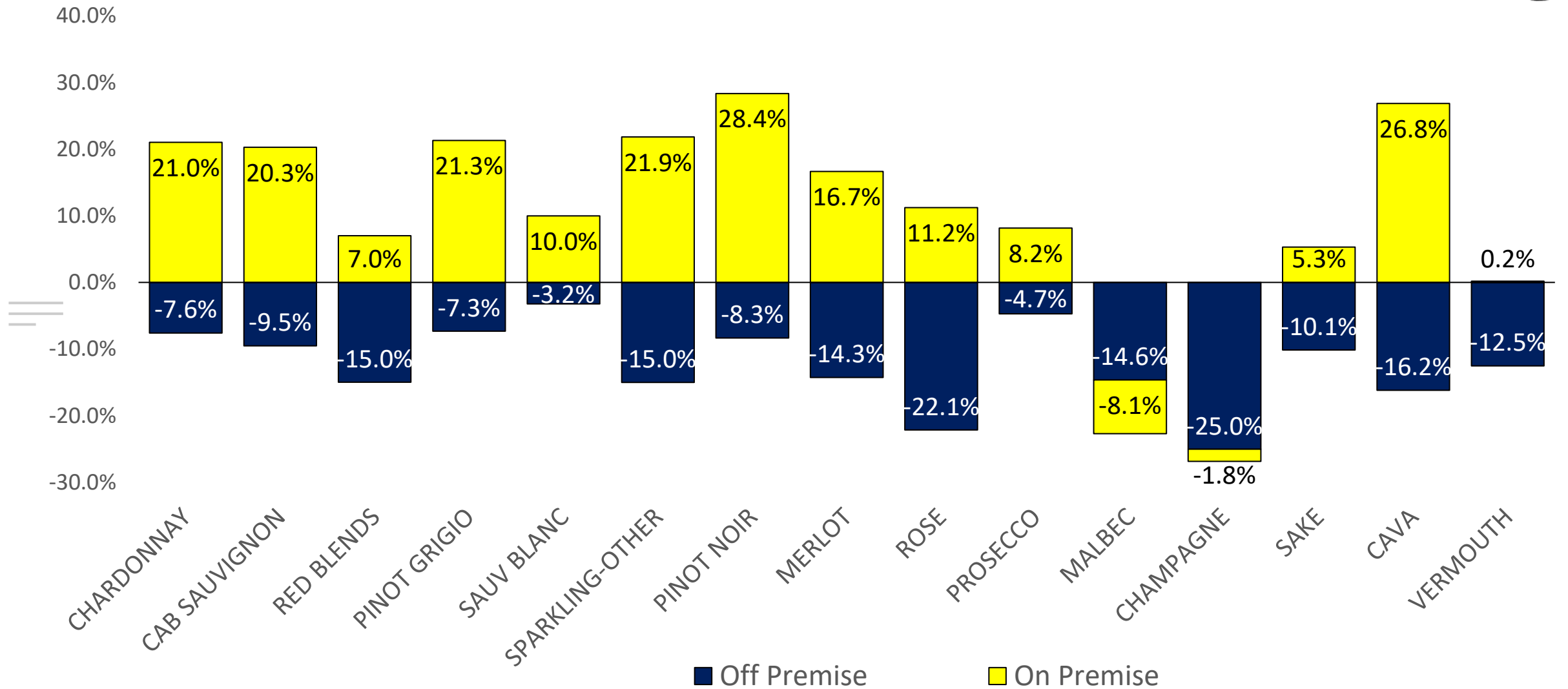


# Prosecco continues to lead growth in wine category



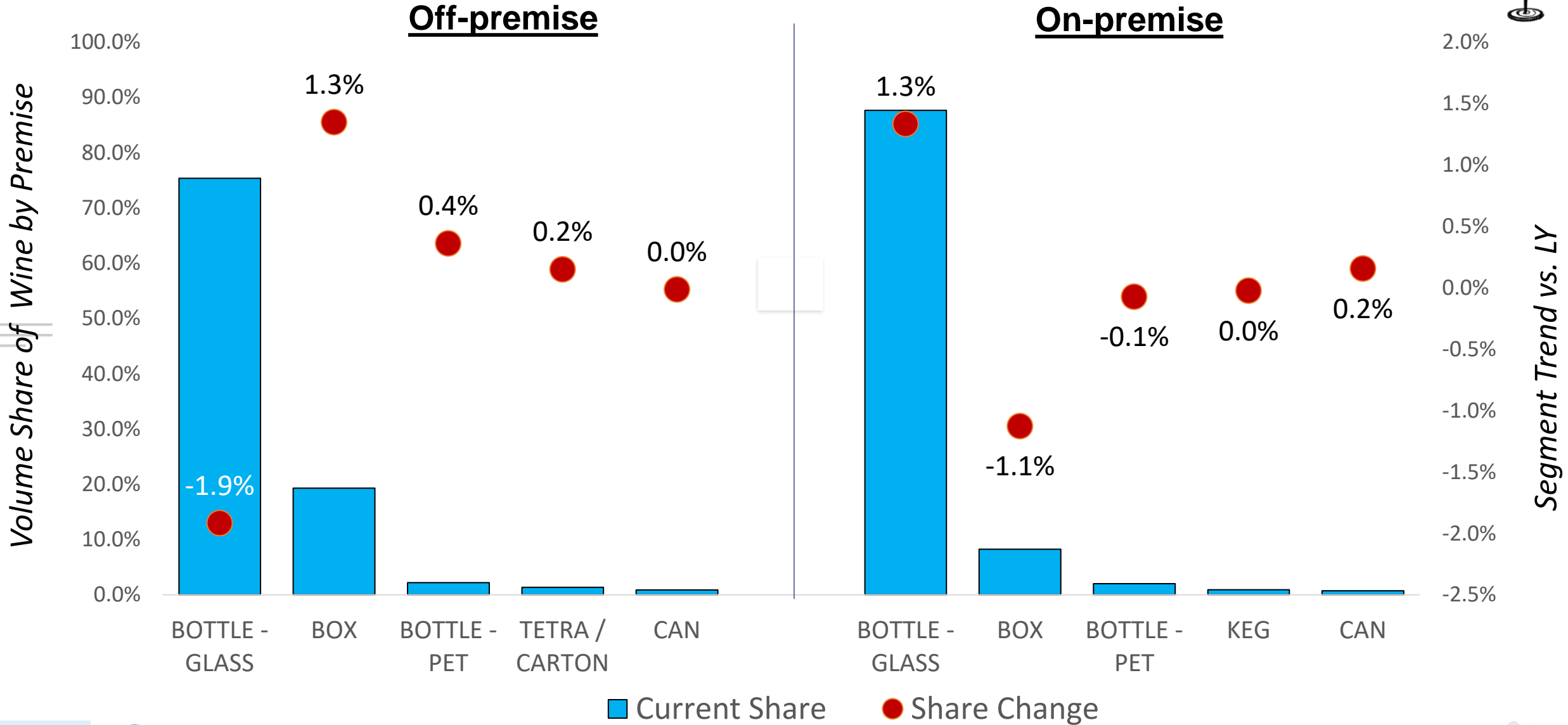


# When will off-premise depletions return to growth?





# Alternative packaging beyond Box not impacting Wine





# Core wine drinkers unlikely to grow in coming years



**2017**   **2022**

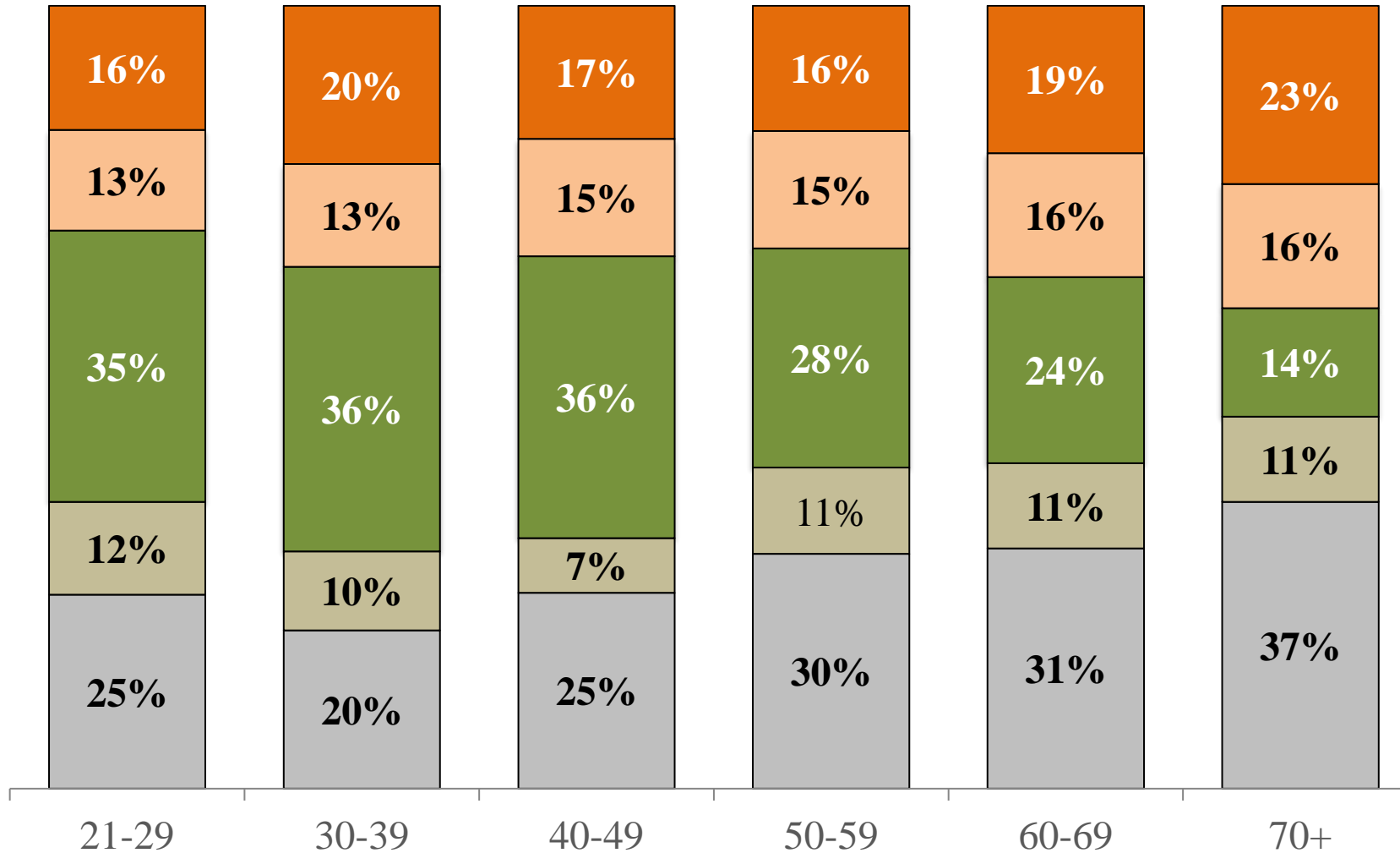
22%   18%

19%   15%

26%   29%

9%   10%

24%   28%



- Core Wine Drinker
- Marginal Wine Drinker
- Non-Adopter
- Infrequent Alcohol
- Abstainer

Base: U.S Adults, 21+, n=7,569

Source: WMC – U.S. Wine Consumer Segmentation Survey, Fall 2021/Spring 2022 Combined

# DtC Wine Shipments - 2021



**8.5 million** Number of 9L cases sold;  
+1.4% vs 2020; 2MM more cases than 2019

**\$4.2 billion** Dollar value  
+13.3% vs 2020; +\$1 billion more than 2019  
25 states grew volume vs 2020; 23 did not

**\$41.16** avg price paid per bottle  
+\$4.33 vs 2020

**DTC \$ (with carryout) now >10% of Wine \$**

## YTD 2022 (thru May)

**Dollars: +5.3%/Volume: -8.5%**

YTD 2022 to May	Dollar percent chg vs Yr Ago	Share of Dollars
<\$50	-12.4%	38%
\$50-\$99.99	+6.1%	30%
\$100+	+36.3%	32%

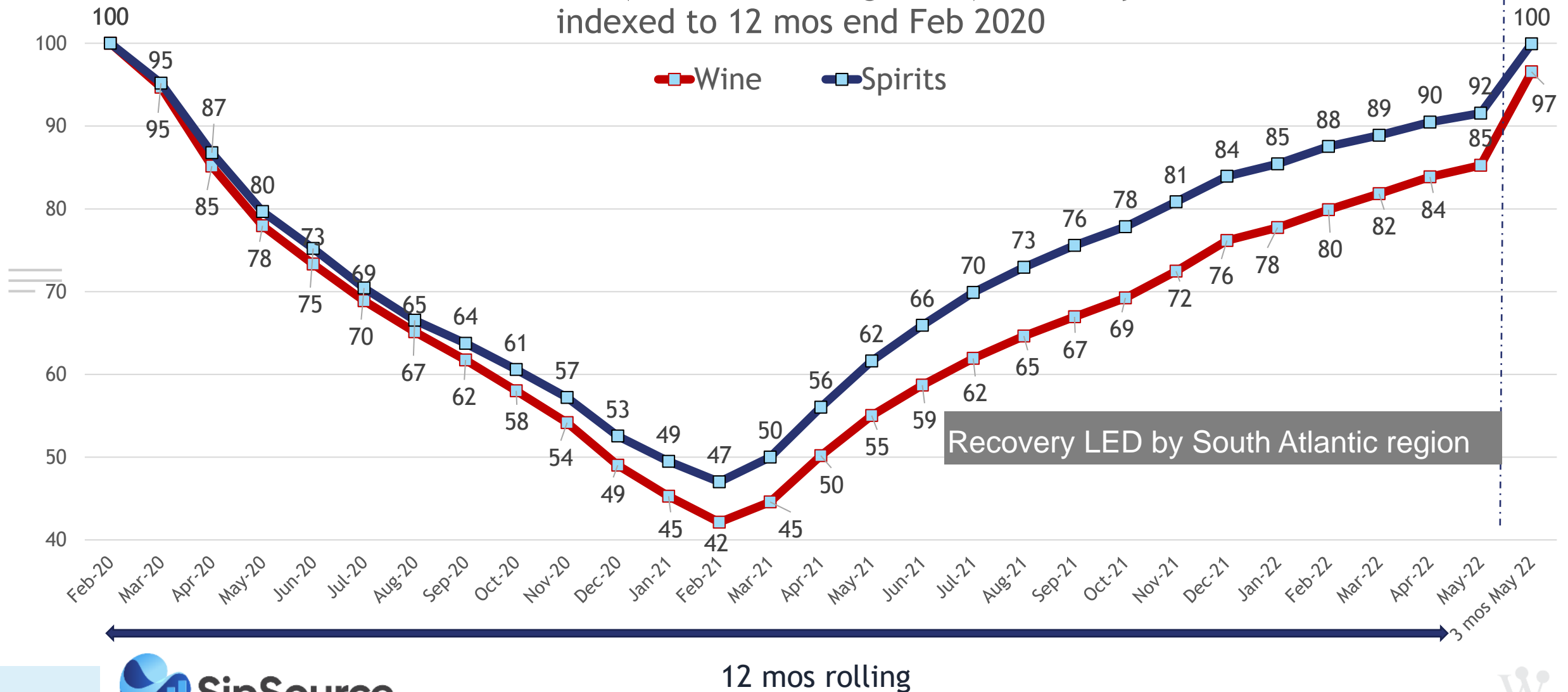
# ON PREMISE





# On Premise rebounds; consumers increasing comfortable going out

## On Premise CSI (Channel Shifting Index)\* thru May 2022 indexed to 12 mos end Feb 2020





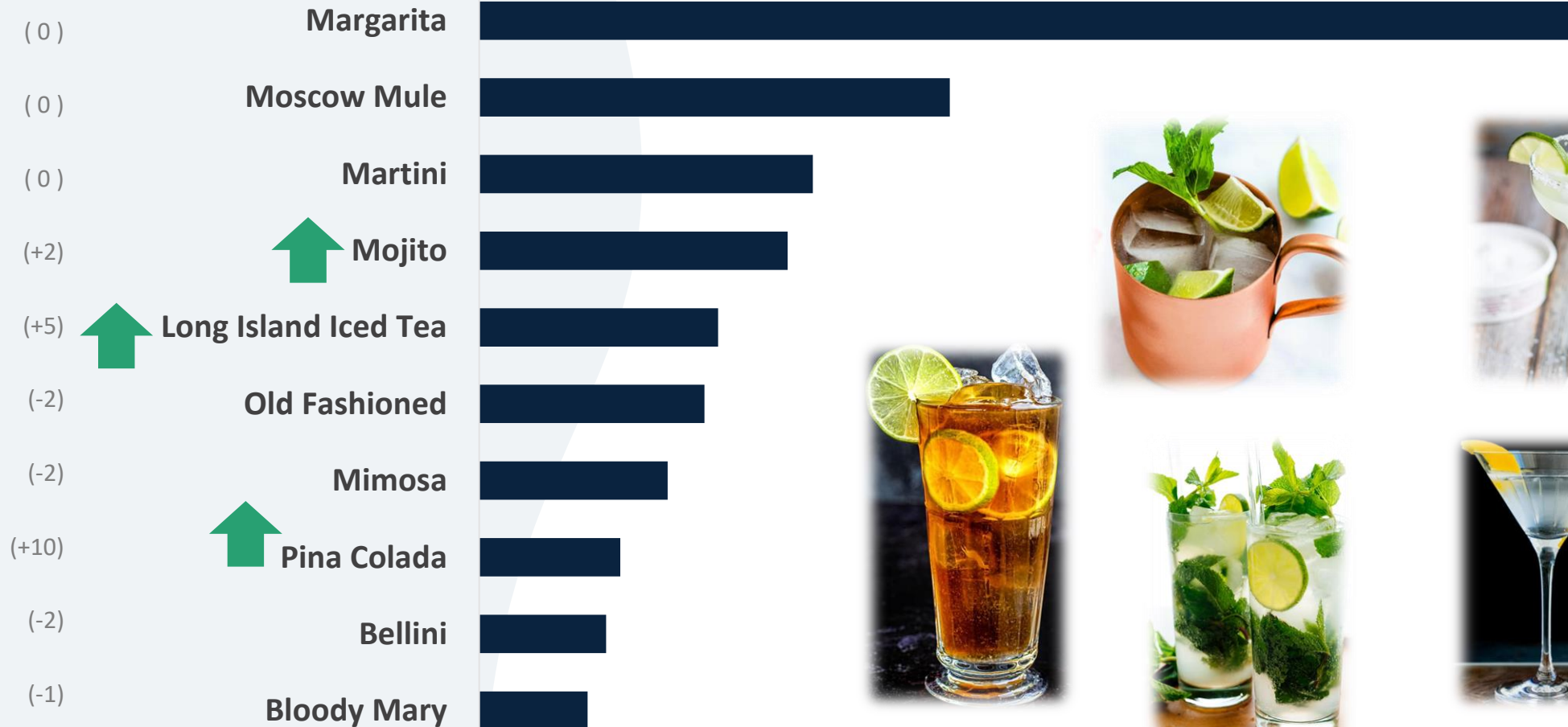
	On Premise Volume Importance				
	20-25%	25-30%	30-35%	35-40%	40%+
Table Wine	Italy France Argentina S Africa				
Sparkling		Prosecco U.S. Sparkling	Champagne		Cava
Other Wine	Vermouth		Sherry		Sake
Spirits	Rum Gin	Rye	Cordials Irish Whiskey Tequila		



# The Margarita continues to be – by far – the most popular Cocktail

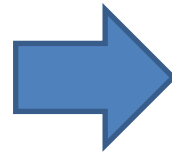
## 2021 Top 10 cocktails value velocity

(Rank change vs 2019)

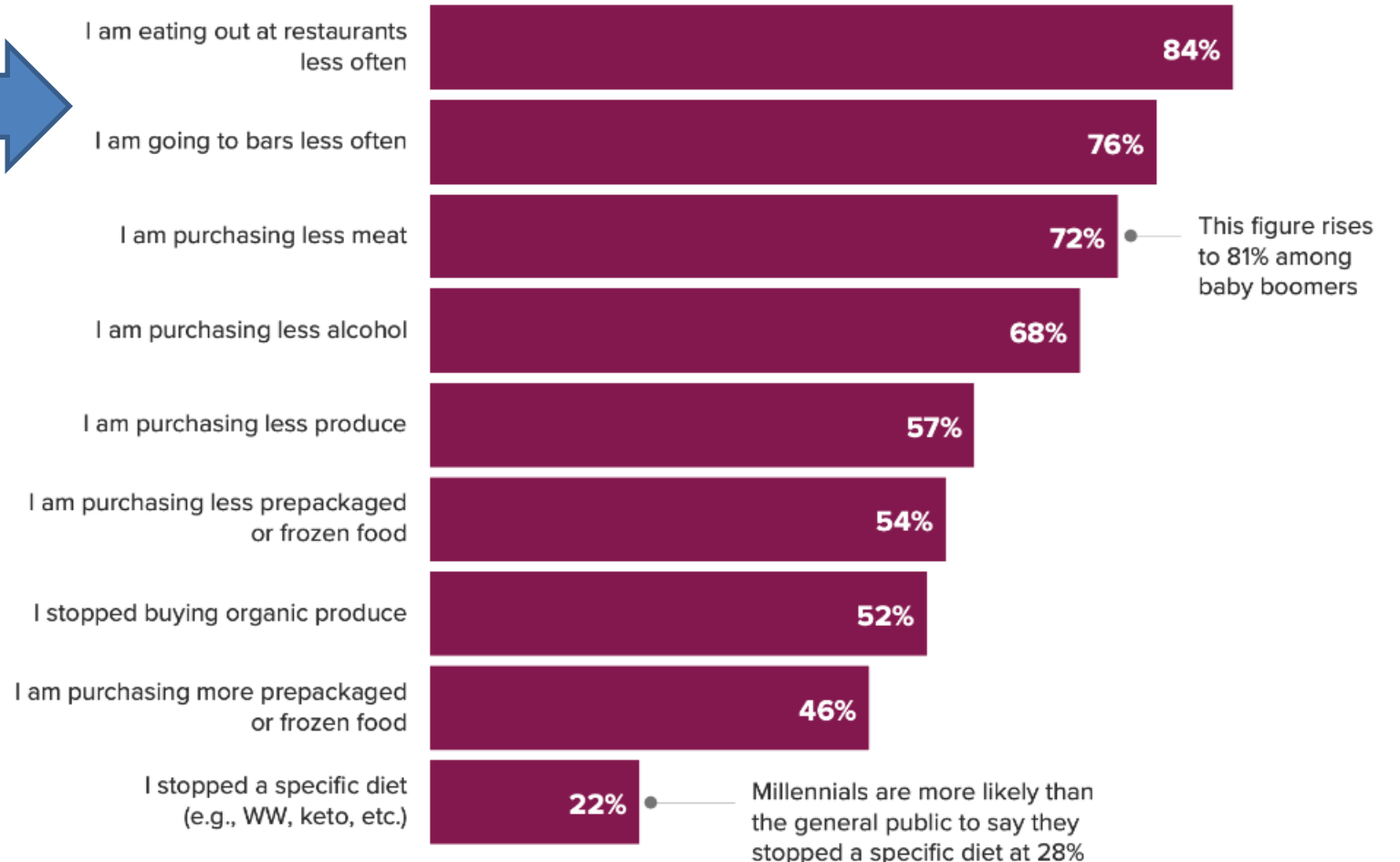


# Will Inflation slow On Premise recovery?

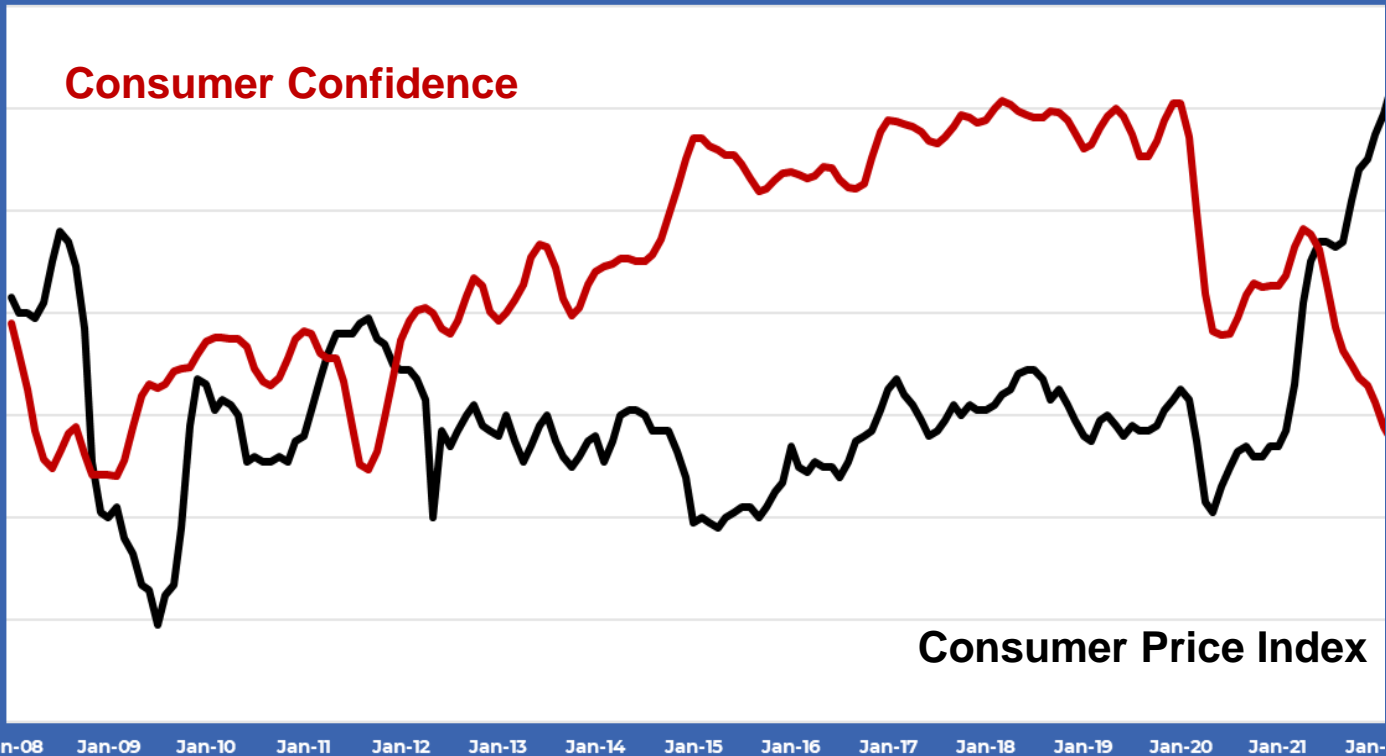
over half (53%) of U.S. adults last month reporting that they changed their eating and drinking habits as a result of inflation



Share who have done each of the following among those who have changed the way they eat or drink as a result of inflation:



# INFLATION





# Impact of Inflation has replaced COVID as the biggest concern; recession fears are mixed

## Inflationary pressures

- Inflation: **+8.6%**
- Food: **+10.1%**
- Housing: **+5.5%**
- Beverage Alcohol: **+4.0%**



## Inflationary pressures

- Wine (at home) **+1.8%**
- Beer (at home): **+4.5%**
- Spirits (at home): **+1.4%**
- Alcohol (away from home): **+5.9%**

## Employment

### Unemployment Rate

**3.6%**



## Rising interest rates

### Interest rate

**6%**



## Rising gas prices

**+63% YAGO**

**\$5.11 Avg**

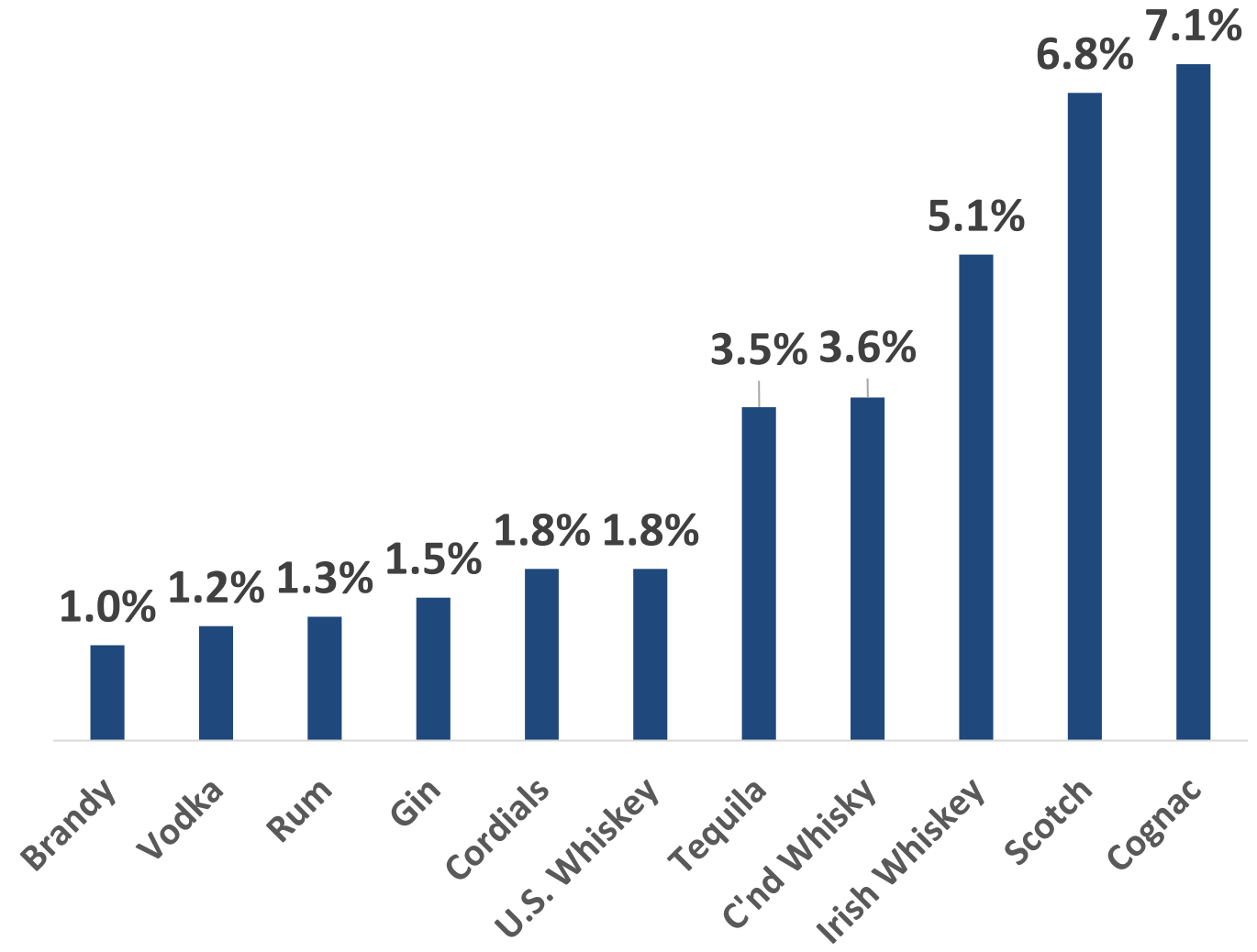
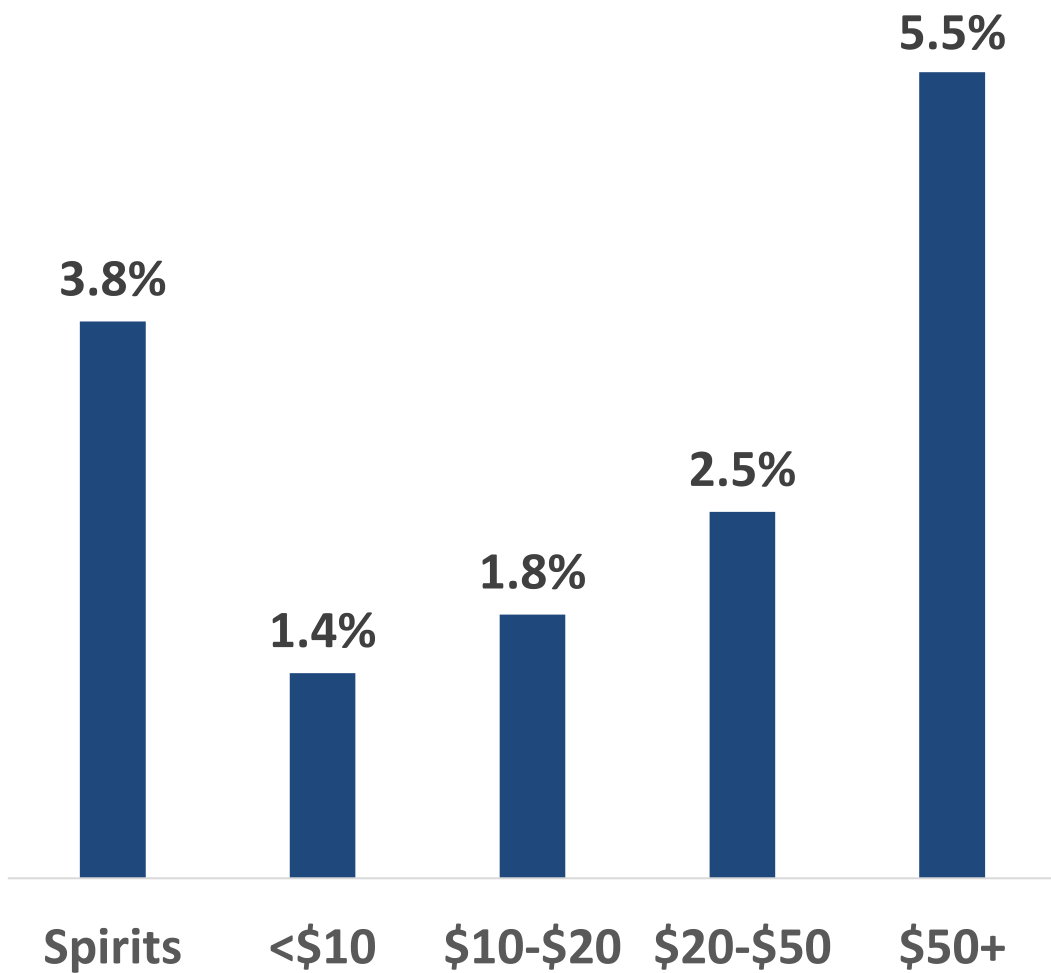


Another report indicated that companies announced **32,517 layoffs in June, a 57% jump** from a month ago and the highest total since February 2021.

# Spirit average retail selling price changes



Average Retail Selling Price (@ item level)  
4 w.e June 18, 2022 vs Year Ago

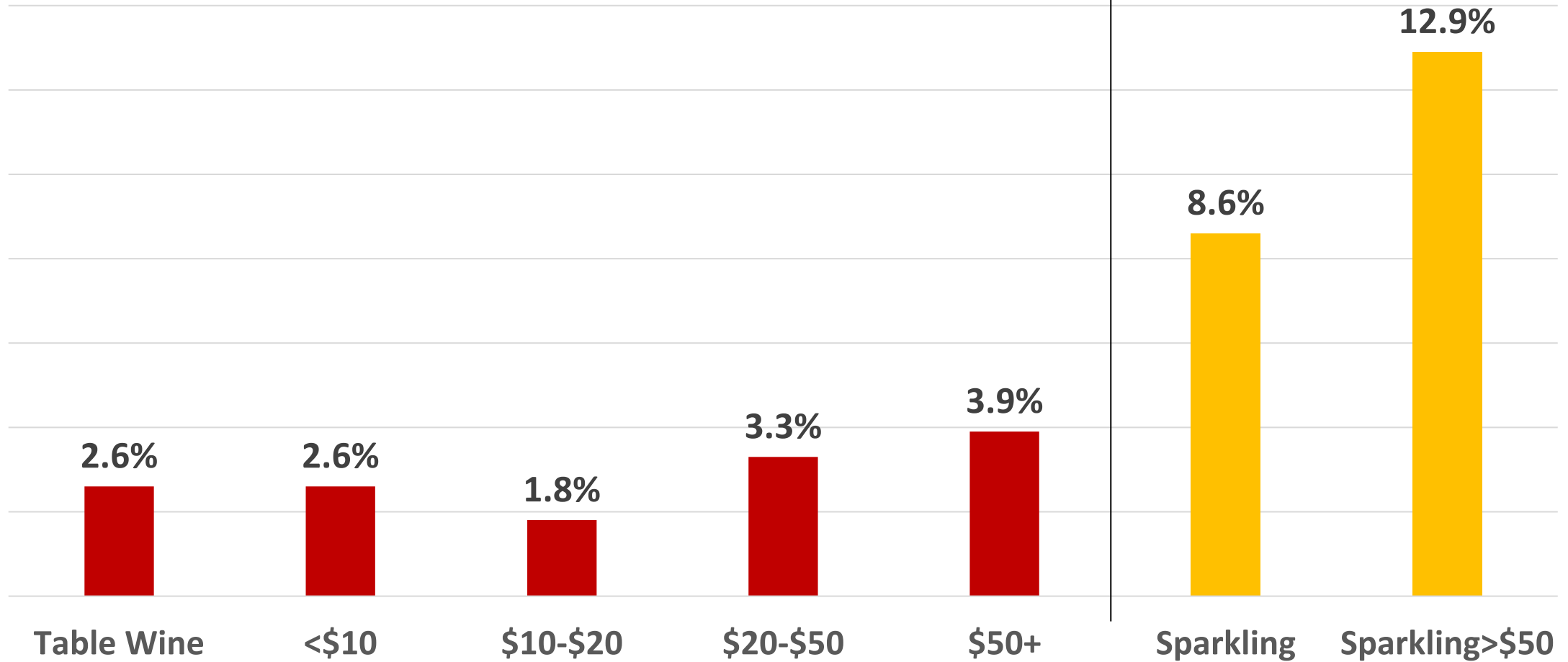


Source: Nielsen Measured Off Premise Channels (Top Items); Equiv 750 ml prices

# Wine average retail selling price changes



Average Retail Selling Price (@ item level)  
4 w.e June 18, 2022 vs Year Ago



Source: Nielsen Measured Off Premise Channels (Top Items); Equiv 750 ml prices

# Pricing Headlines in the News ... More will Certainly Come

“CEOs bragged for months about how they could charge higher prices. Customers are now pushing back.”

“.... recent earnings calls from major US retailers *Target* and *Walmart* suggest that companies boosting their margins may have **overplayed their hands.**”

“**We don’t just accept cost increases,**” said Don Clark, chief merchandising officer of *Giant Eagle* Inc.

“*Kroger Co.* said they are **asking brands to prove why higher prices are necessary** before accepting them, and warning manufacturers that they will stop carrying products if food companies won’t negotiate prices.”

In the words of Stuart Aitken, chief merchant and marketing officer at *Kroger*: **“We want a justification for it, and what we then do is validate.”**




**Pricing power is the ability to raise your prices over time to achieve business objectives**

- ✓ Quantify Risk and Opportunity (Elasticity)
- ✓ Justify Increase
- ✓ Examine Context (Source of Volume)
- ✓ Mitigate Vulnerabilities (Gap / Thresholds)
- ✓ Manage the Message



## Beverage Alcohol is Recession Resistant (though not Recession Proof)

- **U.S. in better economic shape than in prior recessions** 
  - consumers - strong bank balances, investment account values & home values
  - Strong demand for goods and services
  - Inventory levels – low; mfrs continue to ramp up production
  - Job market - healthy
  - Wages - rising
  - Current housing market is strong
- **History suggests overall Bev Al consumption is only mildly affected by economic factors**
- **There could be some trade-down in price tiers in the face of broader inflation, and some slowdown in the restaurant recovery – but...**
  - Alcohol is an affordable luxury
  - After 2 years of COVID, consumers relish going 'out'
  - Retailers often use Bev Alc as a traffic driver; lessens inflation impact
  - Wine + Spirit consumers tend to be higher income; less economically impacted

# Bev AI consumers are MORE insulated

## 2022 US consumers vs Beverage Alcohol dollar spend

US consumers



Beverage Alcohol dollar spend



	Overall Consumer	Bev AI Spend
Struggling	25%	10%
Unchanged	18%	36%

**Strugglers:** Have suffered financial insecurity and continue to do so today.

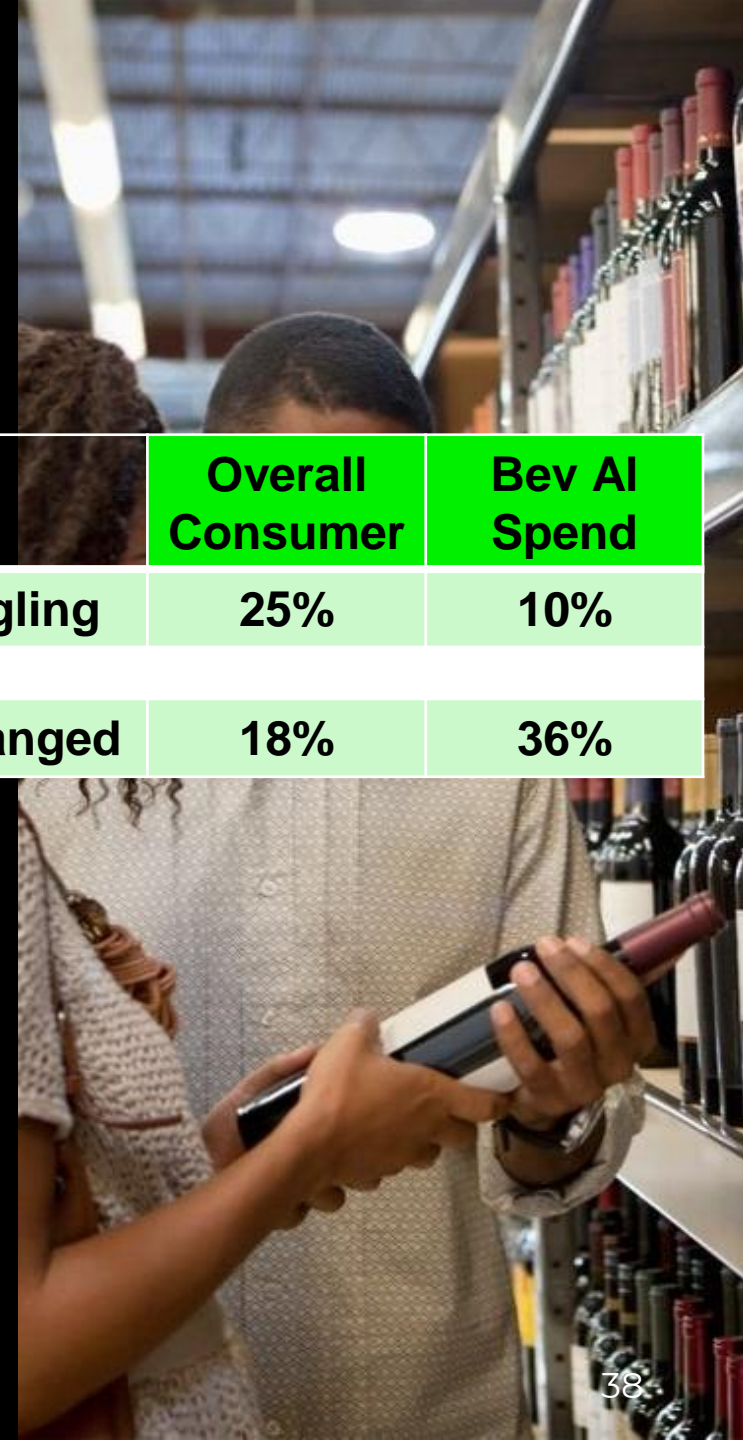
**Rebounders:** Experienced income or job loss but now feel they are back on track.

**Cautious:** Not impacted financially but are cautious with spending.

**Unchanged:** Not impacted and continued to spend the same.

**Thrivers:** Saved money and feel more financially secure.

Source: NielsenIQ 2022 Consumer Outlook Survey, Dec 2021 . United States.  
 Q. Which of the following best describes how COVID-19 impacted your overall household financial situation over the last 2 years?

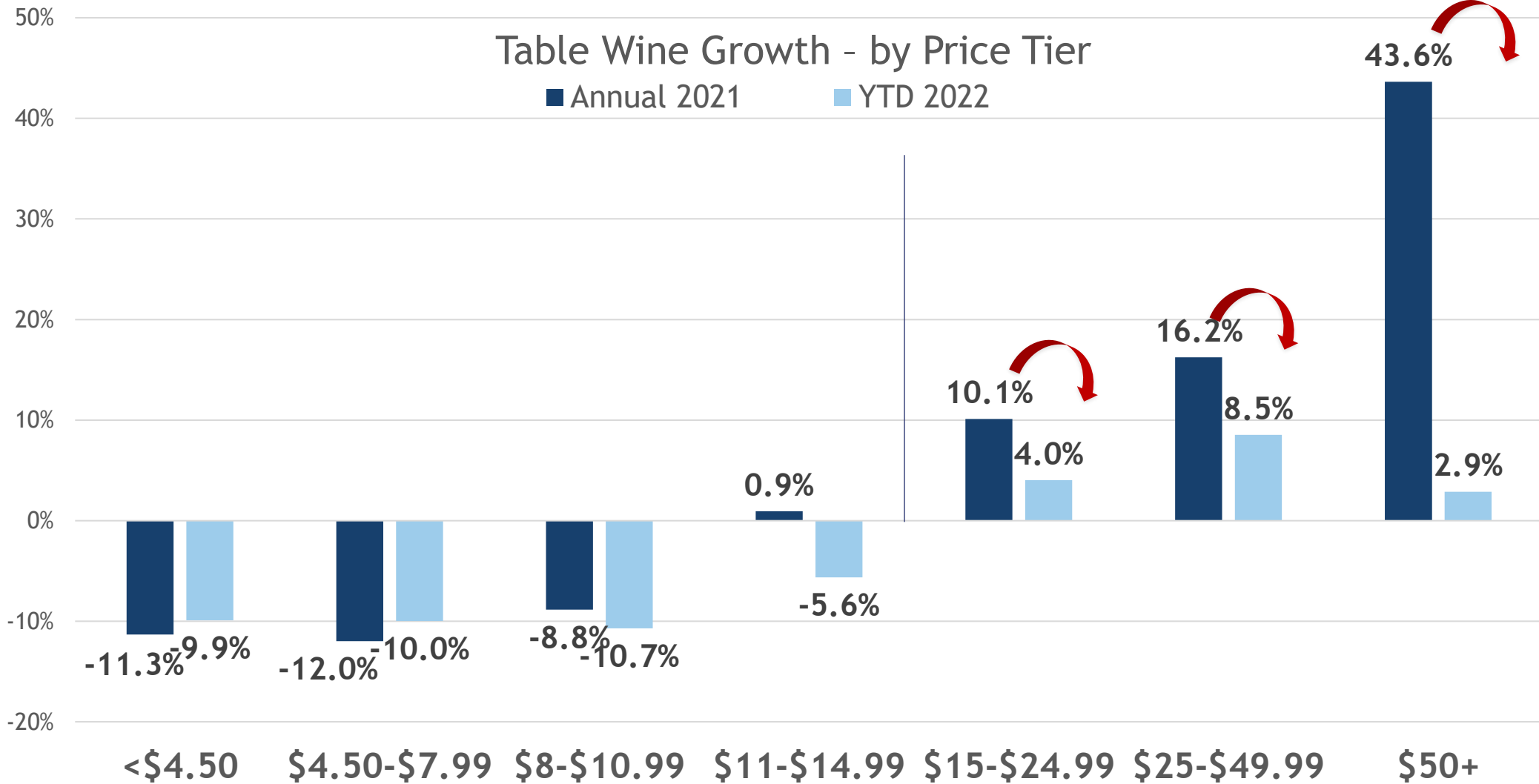


# PREMIUMIZATION

*Slowing, but still there*



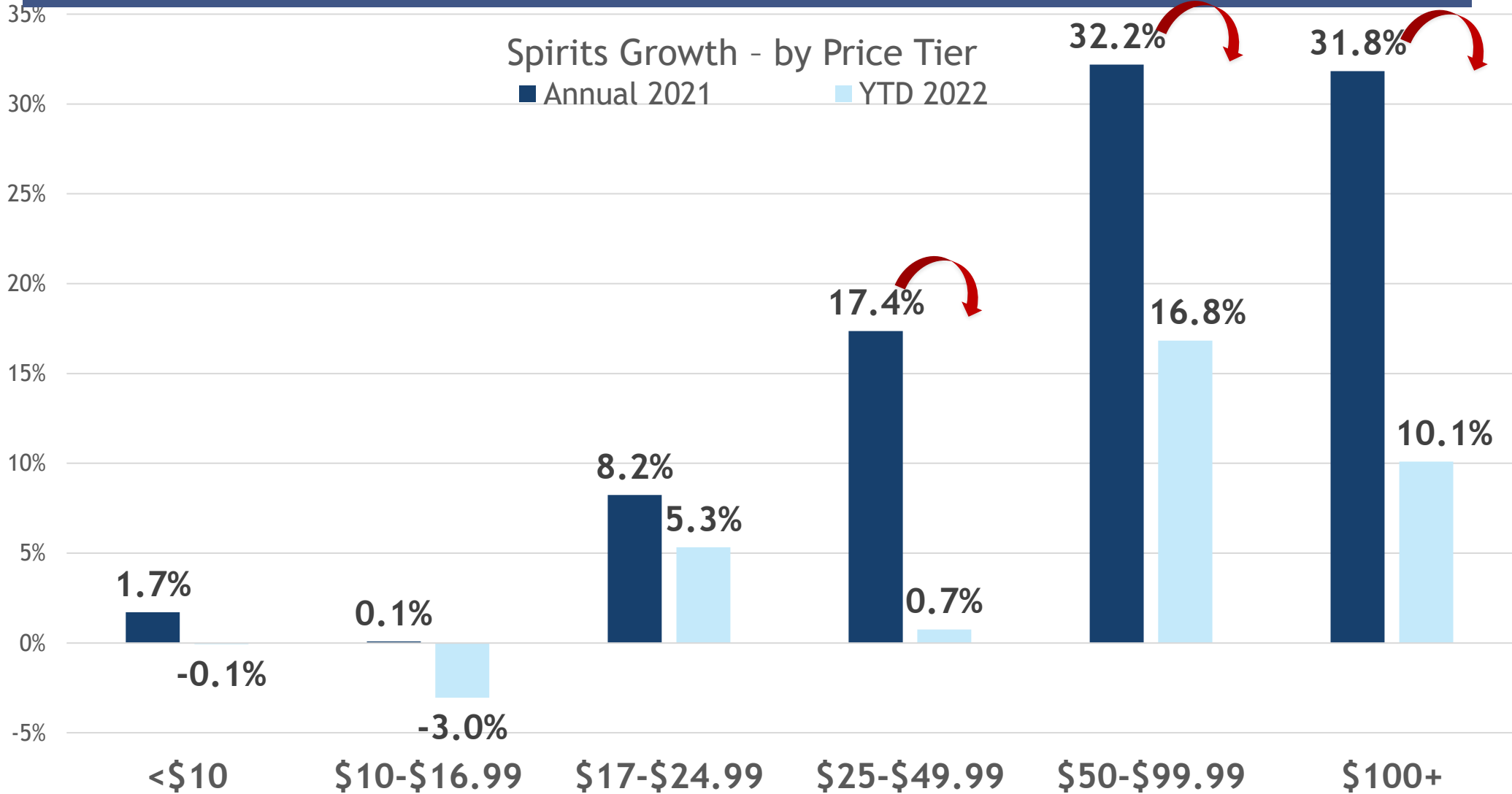
# While high end growth has sharply reduced YTD 2022 vs HUGE growth in 2021, it's still in positive territory







# \$25+ Spirit price tier growth has decelerated – but still robust for \$50+; lower tiers hanging in there (unlike Wine)

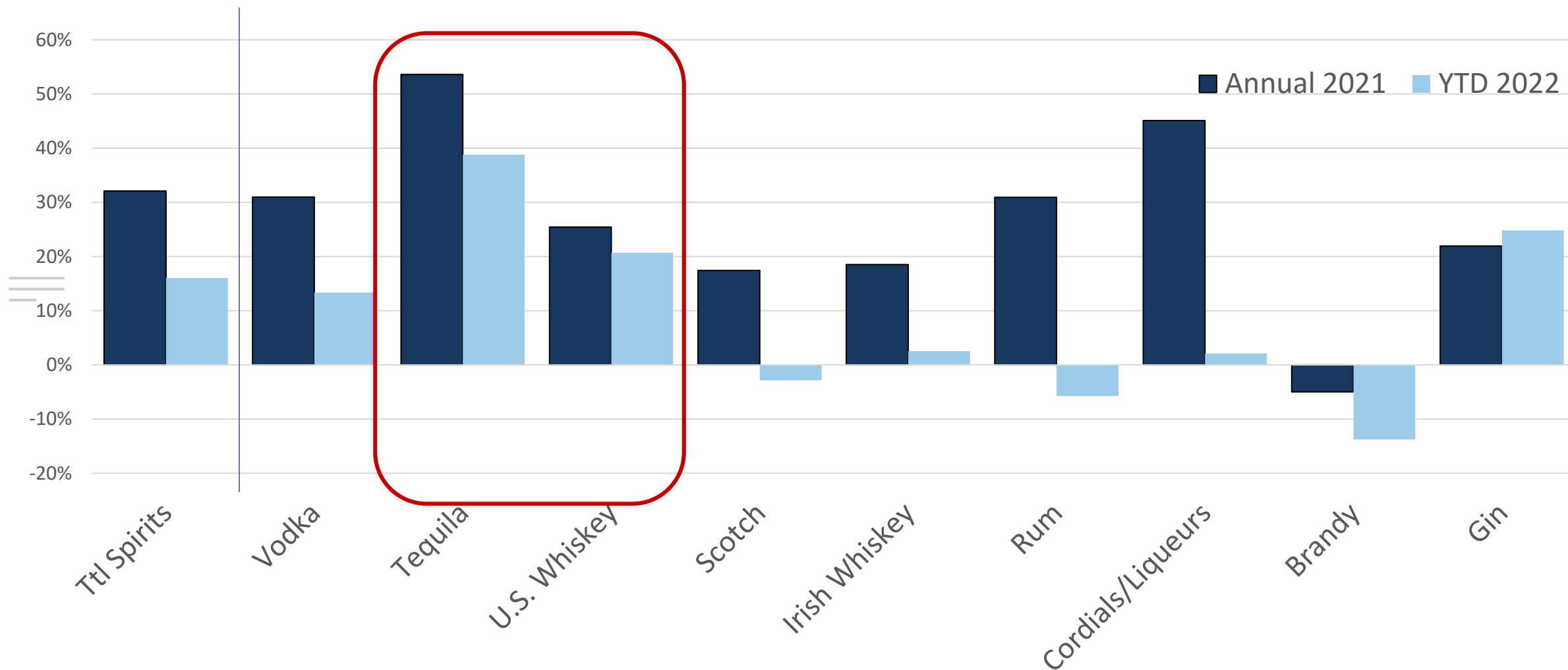




# Deceleration across most Spirit high end segments – but NOT all



### \$50+ Spirit Price Tiers - Volume percent chg vs Yr Ago

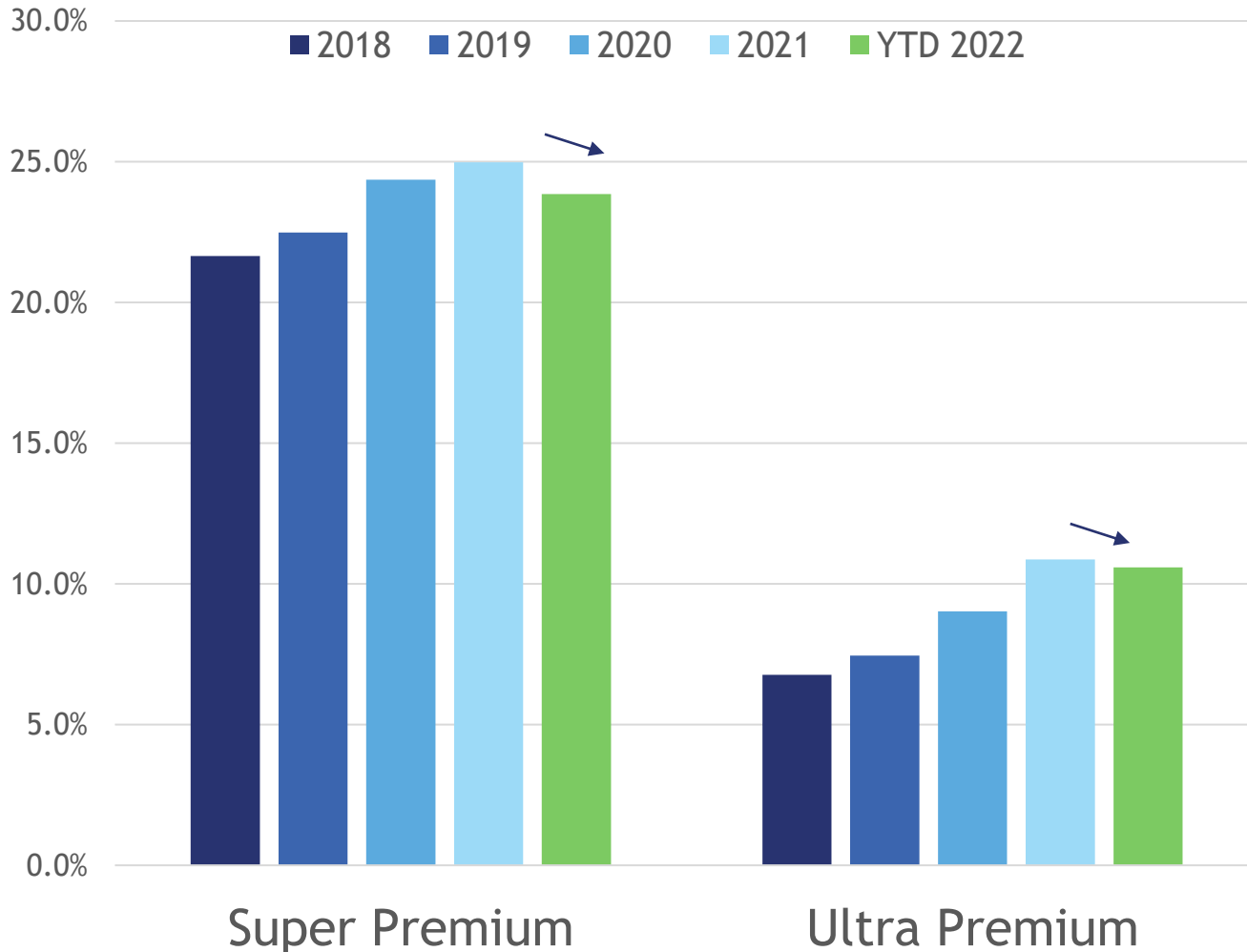




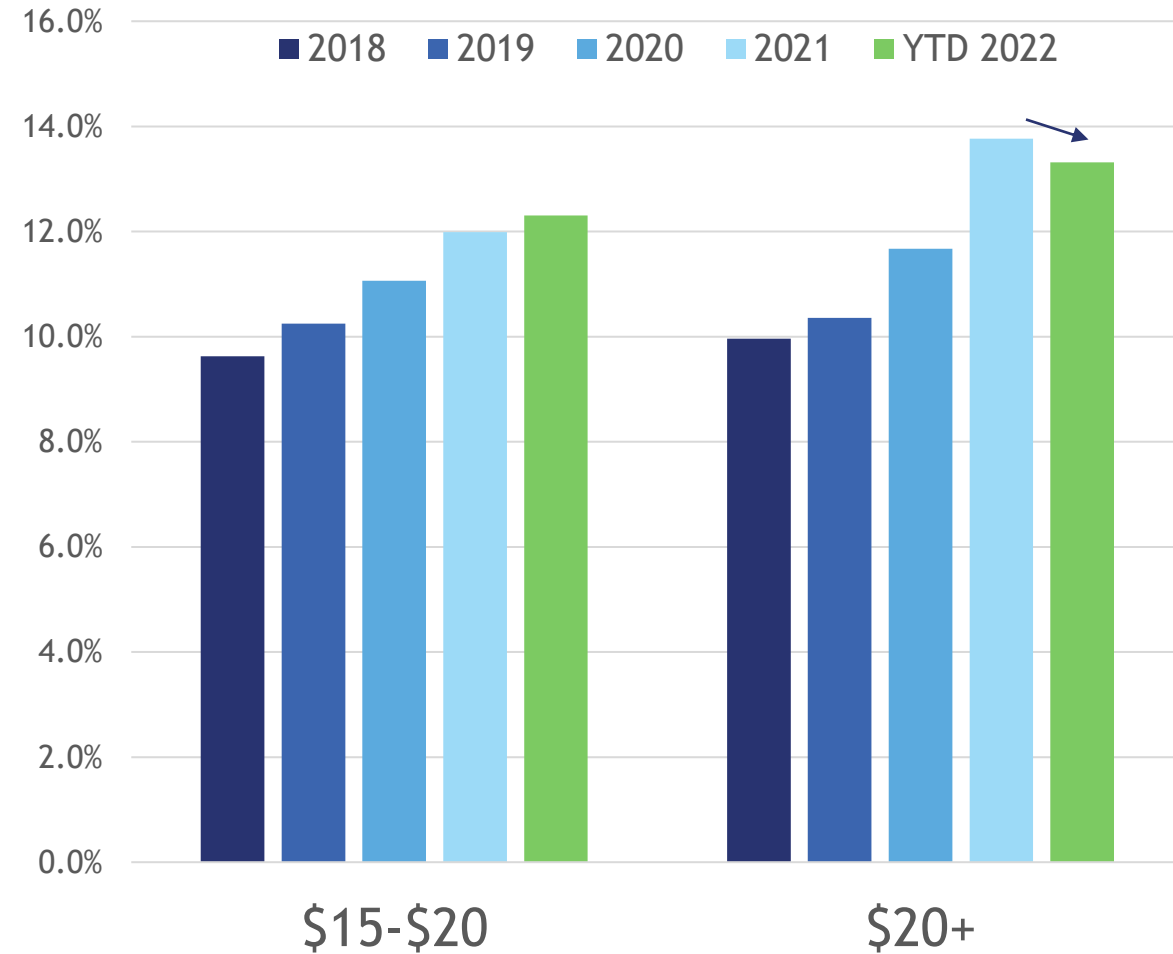
# Premiumization slowing YTD 2022



### Spirits - Share by Price Tier (Dollars)



### Wine - Share by Price Tier (Dollars)



# RTD's

BEER



WINE



SPIRITS



***RTD's (or whatever you call them)***

*Key consumer drivers: convenience, flavor, "better for you"*

# ~\$10 BILLION Annually in Nielsen

largely cans - smaller serving sizes

**RTD's???**

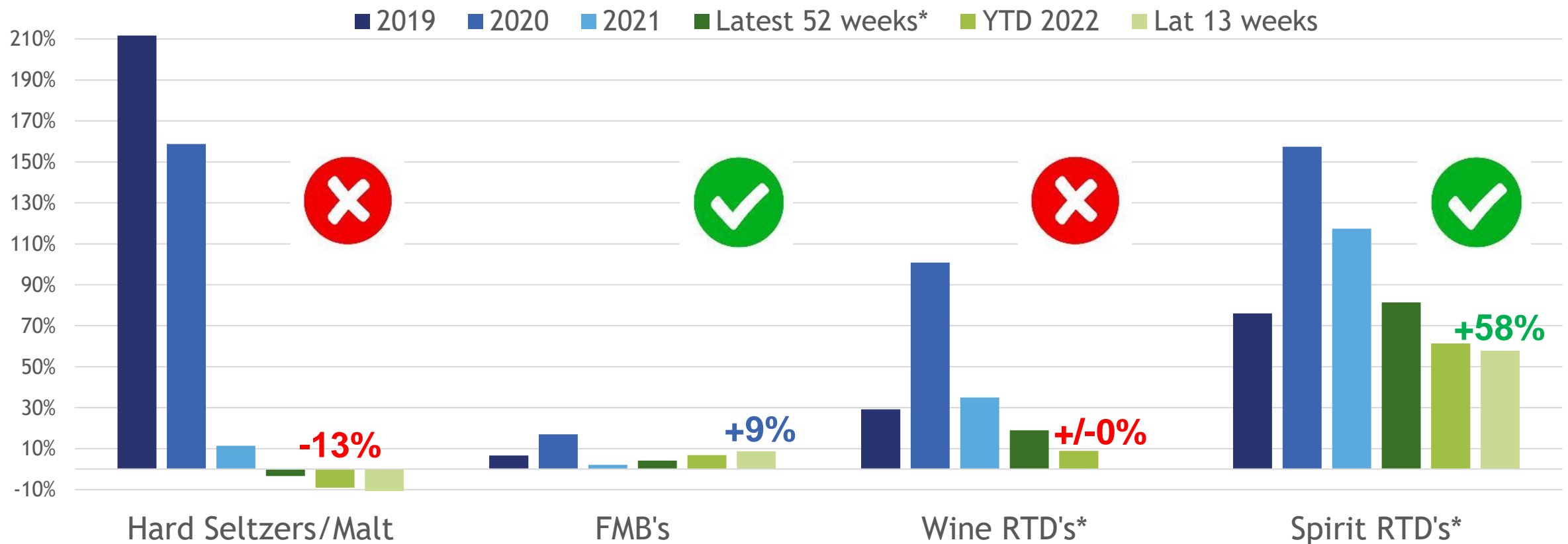
	Beer/Malt Base		Wine Base	Spirits Base	
	Hard Seltzers	Flavored Malt Beverages	Wine RTD's/ Flavored Bev Wines <750 ML	Spirit RTD's <750 ml	Spirit RTS 750ML or more
<b>Annual \$ Size</b>	<b>\$4.4 BILLION</b>	<b>\$3.5 BILLION</b>	<b>\$325MM</b>	<b>\$890MM</b>	<b>\$300MM</b>
<b>Leading Brands</b>	White Claw Truly Bud Light Topo Chico Vizzy	Mike's Twisted Tea Smirnoff Seagrams Four/C Jack	BuzzBallz Daily's Chi Chi's BeatBox Stella/RLGloria	High Noon Cutwater Monaco On the Rocks Crown Royal	J Cuervo 1800

# Overall, still growing...

Spirits RTD's leading growth; Hard Seltzers now in decline but FMB's healthy



Total U.S. Off Premise Dollars Percentage Growth Rates vs Year Ago



\*Less than 750 ml

Source: NielsenIQ Scan Off-Premise Channels; period ending June 18, 2022

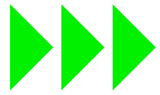
\* Less than 750 ml

1. Almost **50%** of Bev Shoppers have purchased an RTD of one kind or another<sup>1</sup>
2. Hard Seltzers interact across Bev Alc – of their dollar gains, **30%** were from **Wine**; **25%** from **Spirits**; remainder from Beer; especially **Craft**<sup>2</sup>
3. **Hard Seltzer** core age group **21-34**; **Spirit** RTD’s **35-54**, and **Wine** RTD’s **45-54 & 55+**<sup>3</sup>

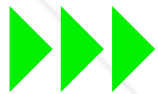
1 & 2: Period: 52 W/E 04/30/2022 vs. 05/01/2021

3. Source: Nielsen Homescan Premium; Total US; data WE 6/8/2022

# Big brands have helped RTD sales create momentum



... Now the next wave of cocktail creativity is hitting the store shelf







PEPSICO



BOSTON BEER co.  
ESTD. 1984



DIAGEO  
Captain Morgan



BROWN-FORMAN

THE Coca-Cola



MOLSON COORS beverage company

COMPANY



Non Alc companies in the mix – directly or via partnerships



Talking Rain.

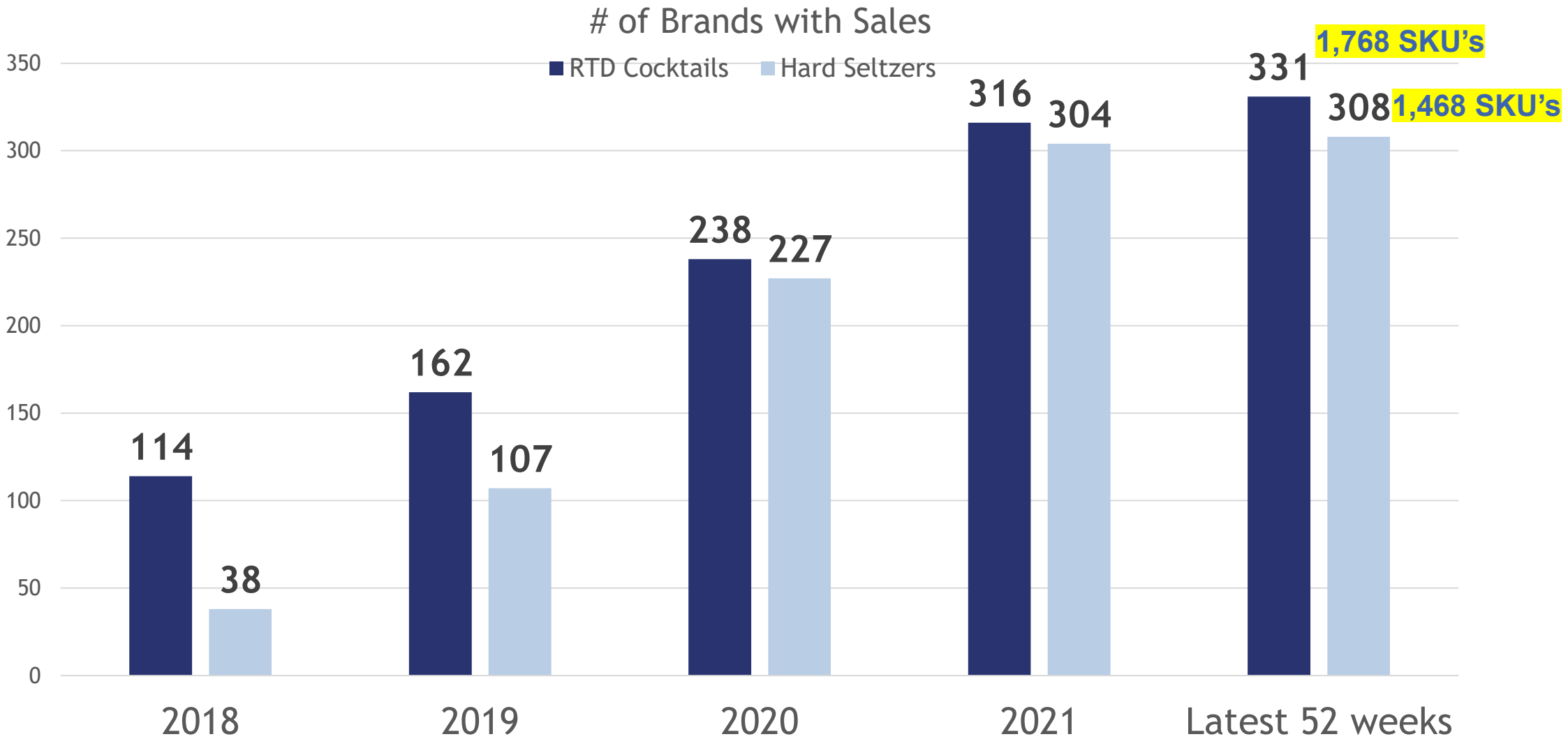


Constellation Brands

NielsenIQ



# Explosion of Hard Seltzer & RTD Cocktails; will/when there be a shakeout?



Source: NielsenIQ Scan Off-Premise Channels; period ending June 18, 2022  
RTD's <750 ml



**Top 15  
RTD  
Spirit  
Brands**

6 brands \$5MM+  
in 2018

2018
Monaco
Buzzballz
J. Cuervo
Cutwater
Kahlua
Malibu
The Club
Montebello
Chi Chi's
Joia
Jim Beam
Mule 2.0
Fishers Island
Seagrams
The Copper Can

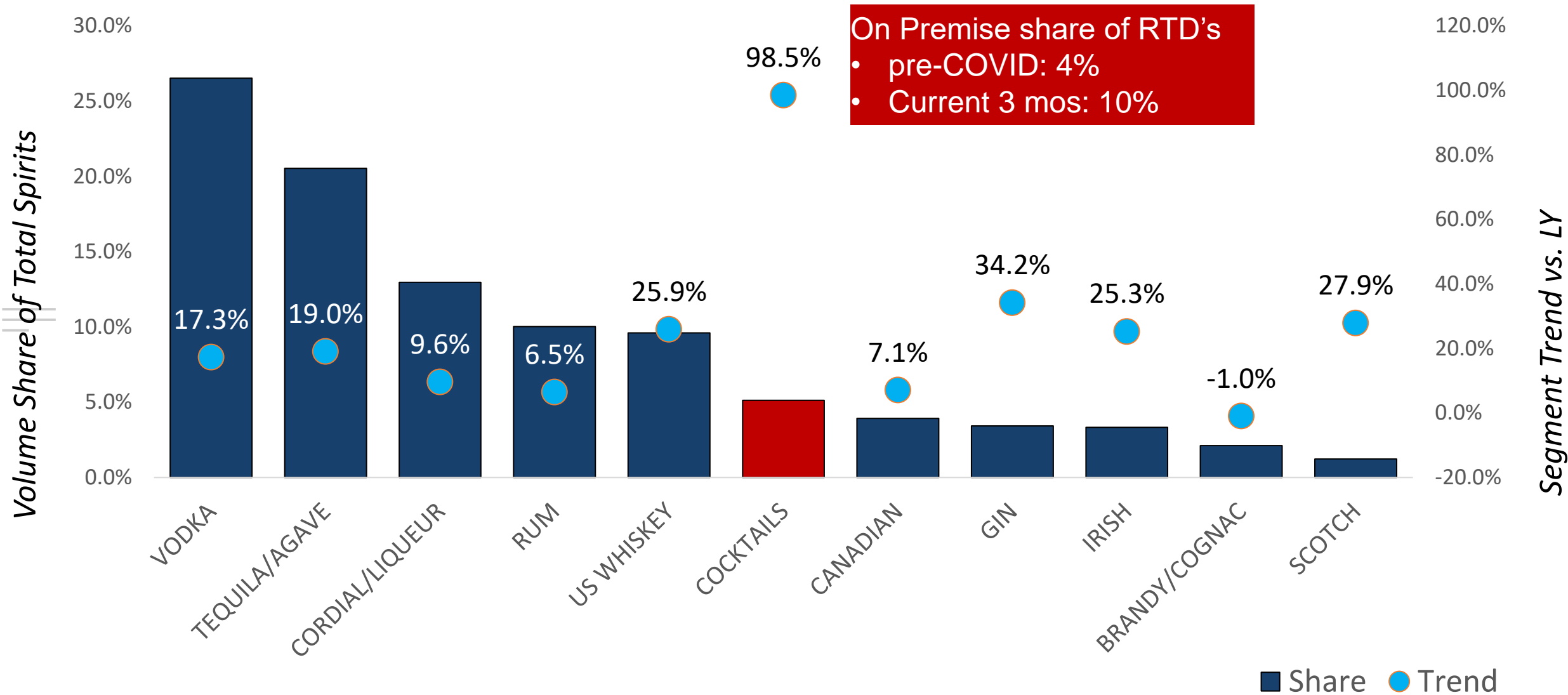
Latest 13 weeks
High Noon
Cutwater
On the Rocks
Monaco
Crown Royal
BuzzBallz
Nutrl
J. Cuervo
Devil's Backbone
Long Drink
Absolut
Bacardi
J Daniels
Malibu
Two Chicks

**New to top 15**

25 brands \$5MM+  
in Latest 52 weeks



# Premixed Cocktails still growing fast in on-premise

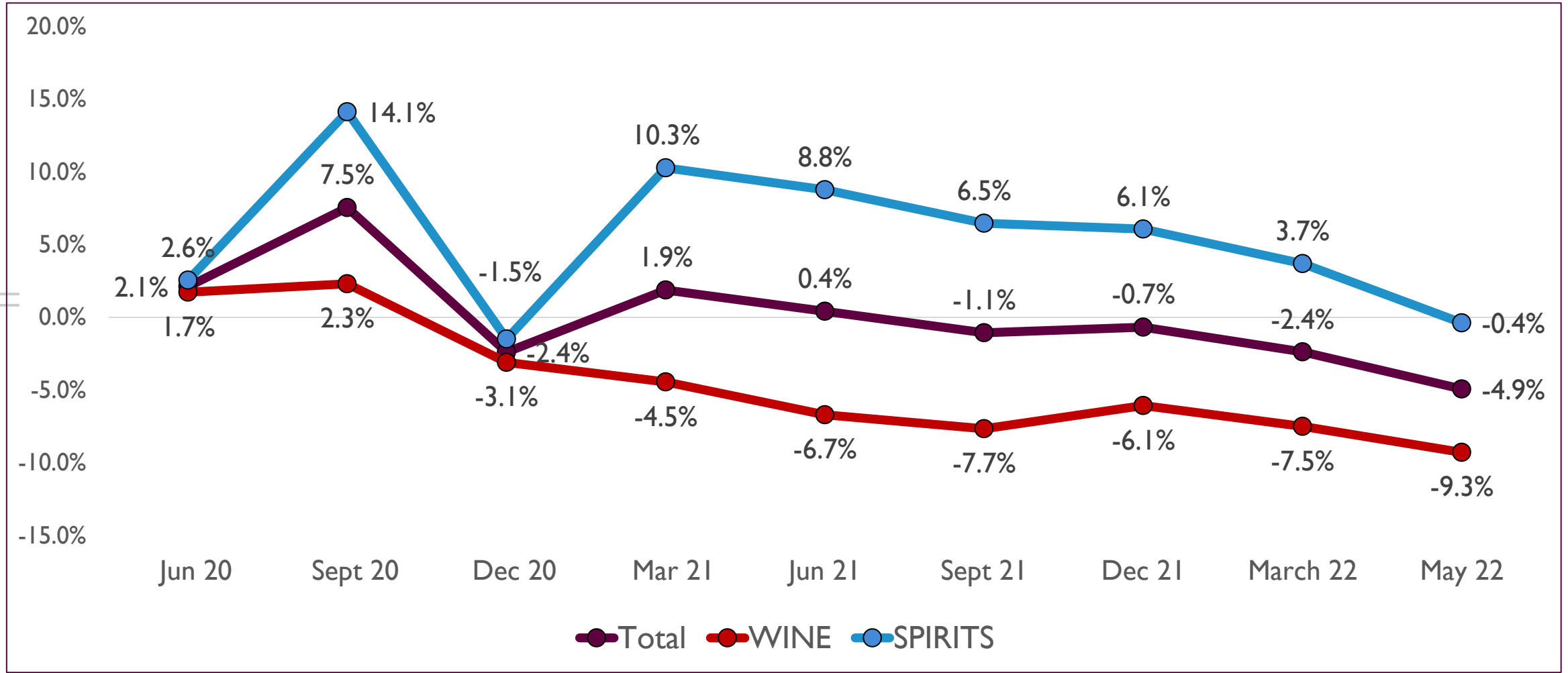


**What  
should we  
expect?**





# What kind of second half should we expect?



3 Month Rolling % Change vs. LY



# Beverage Alcohol – Looking Back / Looking Forward



## In the Rear View Mirror

- Economy has been running **hot, low unemployment**
- **Premiumization** due to 2020 stock up, sustaining
- **Tequila** is a big winner in Spirits
- **RTD on steroids**, SKU proliferation everywhere
- **Sparkling Wine** takes off; **Table Wine** premiumization
- **On Premise** nose dives; then begins recovery in earnest



## Out in Front of Us Now

- **Inflation** impacts – **recession** in the future??
- Will **consumer economic divide** impact **premiumization**?
- Will it continue? Will **another category** emerge?
- Is there an **SKU rationalization** in 2022?
- Can **Wine category** find growth, and build on it?
- Will **off premise** get back to growth?

# THANK YOU!

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# Many questions re: what lies ahead

## Channel Shift Impacts

- How will inflation impact on premise? Will it?
- How do you picture assortment playing out in the On-Premise?
- What will the growth rates be for e-commerce?
- Any significant changes in traditional retail?

## Economic/Inflation Impacts

- Which categories are impacted the most by Inflation?
- How much impact will high gas prices have on Beer, Wine, and Spirits?

## Product Impacts

- Are RTD's here to stay? What's the future for Hard Seltzers? Will there be a shakeout?
- Will premiumization slow? end?
- Is Cannabis or Non Alc Bev impacting Bev Alc?

## Legislation Impacts

- To what extent would DTC law changes impact Beer & Spirits suppliers?
- Are “Cocktails to Go” the savior for On-premise operators?
- Cannabis legalization impacts?

## Technology Impacts

- At what rate, and how will B2B platforms continue to grow?
- What is the biggest B2C breakthrough you predict for wholesalers and retailers?

## Demographic Impacts

- What category/categories will gain from the changing ethnic makeup of the U.S. population?
- Will younger consumers simply “age into” traditional consumption habits? Or not?

