

# Sobering up

The radical changes affecting the drinks industry



Spirits and beer brands know things need to change. People are drinking less and buying differently.

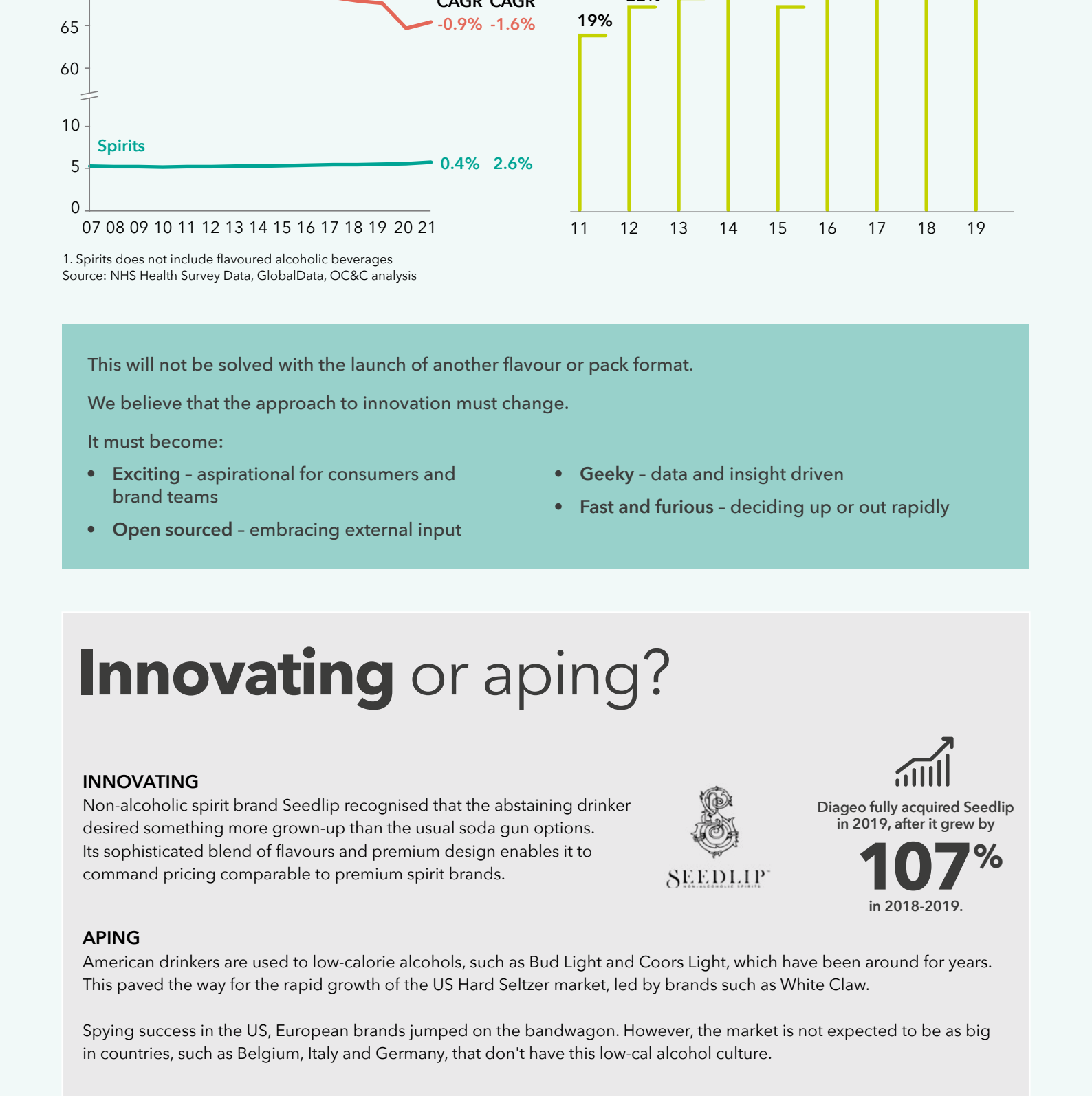
Companies regularly update shareholders on their latest no-alcohol launch, high-end tequila, or influencer campaign, but are they changing fast enough?

- Covid has disrupted drinking habits
- Societies and governments are getting serious about ESG
- Digital marketing is changing how brands communicate
- Customers can order 10-minute home deliveries
- Brands seem to be ignoring the next generation of drinkers
- Inflation is reaching record levels

The industry must respond quickly to this incoming torrent of market forces. Incrementalism is no longer an option.

In this report:

- The five forces shaking up beer and alcohol
- Bold changes to future proof your business



# The five forces shaking up beer and alcohol

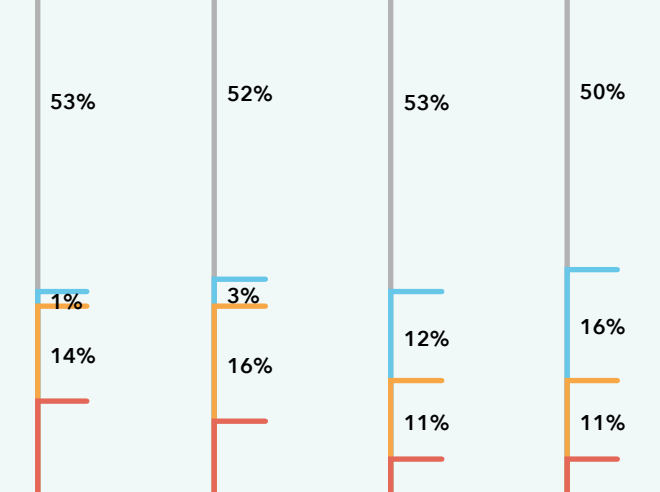
## 1 Innovation is failing to recruit consumers

Spirits consumption is stagnating and beer sales are falling. There's more aping than true innovation to attract consumers back.

A new generation of young people are abstaining and those of all ages are drinking less. Consumption demand spaces and category profit pools are shifting away from consumption quantity to quality, from impact to indulgence, from bonding with others like me to sharing with someone I care about.

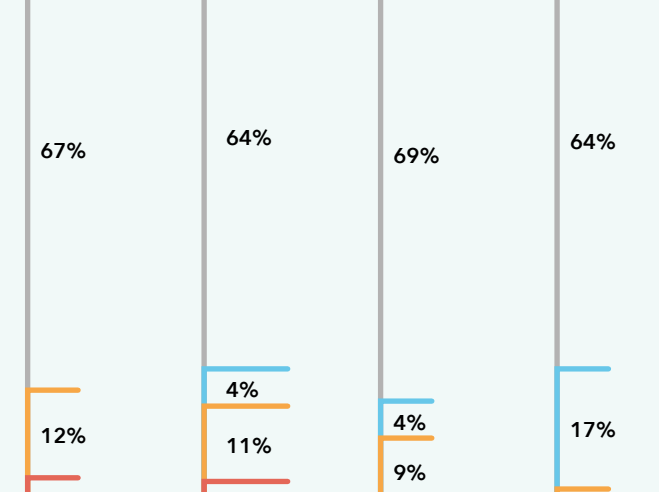
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ALCOHOL PER CAPITA CONSUMPTION, 2007-2021 (LITRE/CAPITA)  
Mean of US, UK, France, Italy, Spain & Germany, weighted by population



1. Spirits does not include flavoured alcoholic beverages  
Source: NHS Health Survey Data, GlobalData, OC&C analysis

PROPORTION OF PEOPLE AGED 16-24 WHO DO NOT DRINK, 2011-19 (%)  
Based on UK Health Survey Data



This will not be solved with the launch of another flavour or pack format. We believe that the approach to innovation must change. It must become:

- Exciting – aspirational for consumers and brand teams
- Open sourced – embracing external input
- Geeky – data and insight driven
- Fast and furious – deciding up or out rapidly

## Innovating or aping?

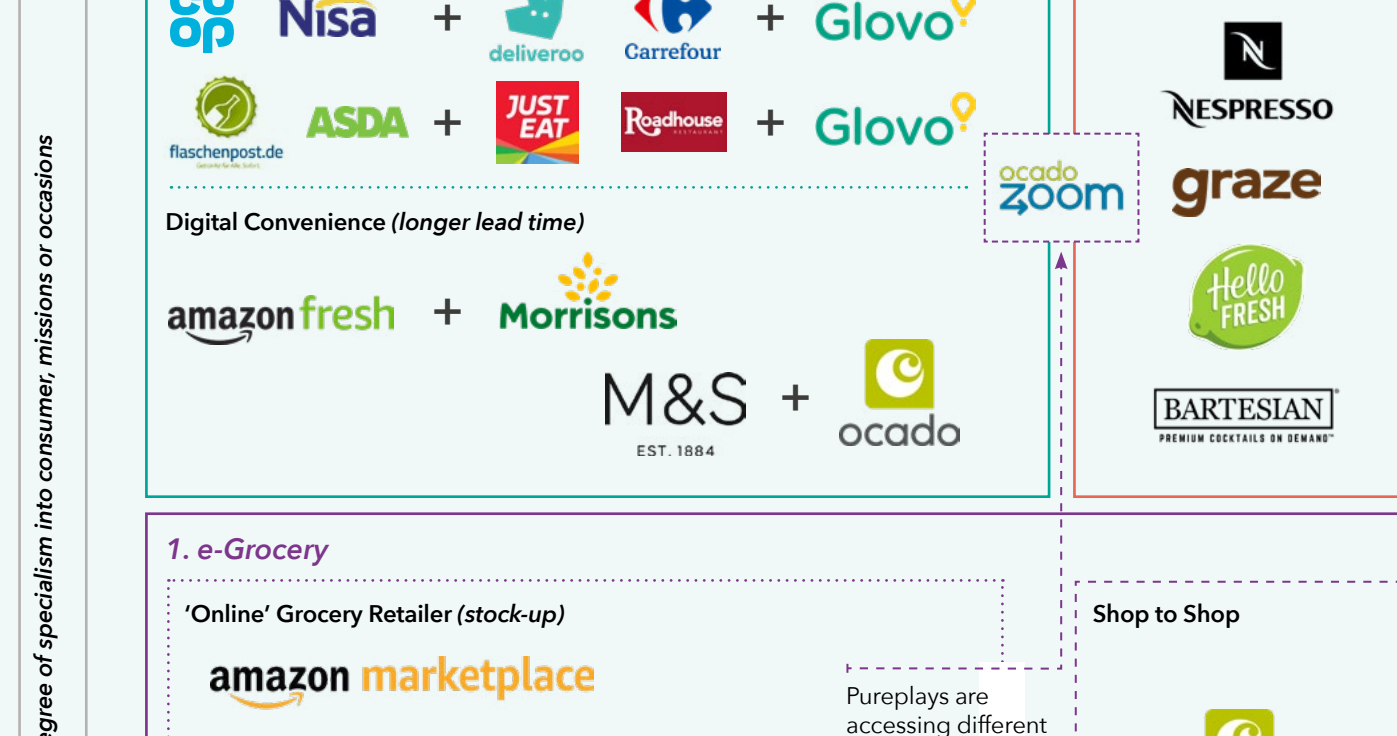
**INNOVATING**  
Non-alcoholic spirit brand Seedlip recognised that the abstaining drinker desired something more grown-up than the usual soda gun options. Its sophisticated blend of flavours and premium design enables it to command pricing comparable to premium spirit brands.



**APIING**  
American drinkers are used to low-calorie alcohols, such as Bud Light and Coors Light, which have been around for years. This paved the way for the rapid growth of the US Hard Seltzer market, led by brands such as White Claw.

Spying success in the US, European brands jumped on the bandwagon. However, the market is not expected to be as big in countries, such as Belgium, Italy and Germany, that do not have this low-cal alcohol culture.

HARD SELTZER AS A VOLUME SHARE OF THE BEER MARKET BY GEOGRAPHY 2016-25, (%)



US forecast to grow from 0% to c. 20% 16-25 (11% in 2021)  
Forecast  
Hard Seltzer Δ %pts 16-21 21-25  
FR 0.0% 0.7%  
UK 0.1% 0.4%  
BE 0.0% 0.1%  
DE 0.0% 0.0%

Source: GlobalData, Desk Research, OC&C analysis

## 2 Margins are at risk

Widespread cost inflation is at levels not seen in the last 30 years. Holding on to profit will require a new set of tools.

Managing to profit in a high inflation environment requires high confidence. Brands need to take prices to a new base level. And they must keep the consumer's confidence that they are still offering them the best value. This can be hard for consumers when they have so many brands to choose from:

SHARE OF SPIRITS VOLUMES BY TOP BRAND, 2020 (%)



Source: Euromonitor, OC&C analysis

**Declutter**

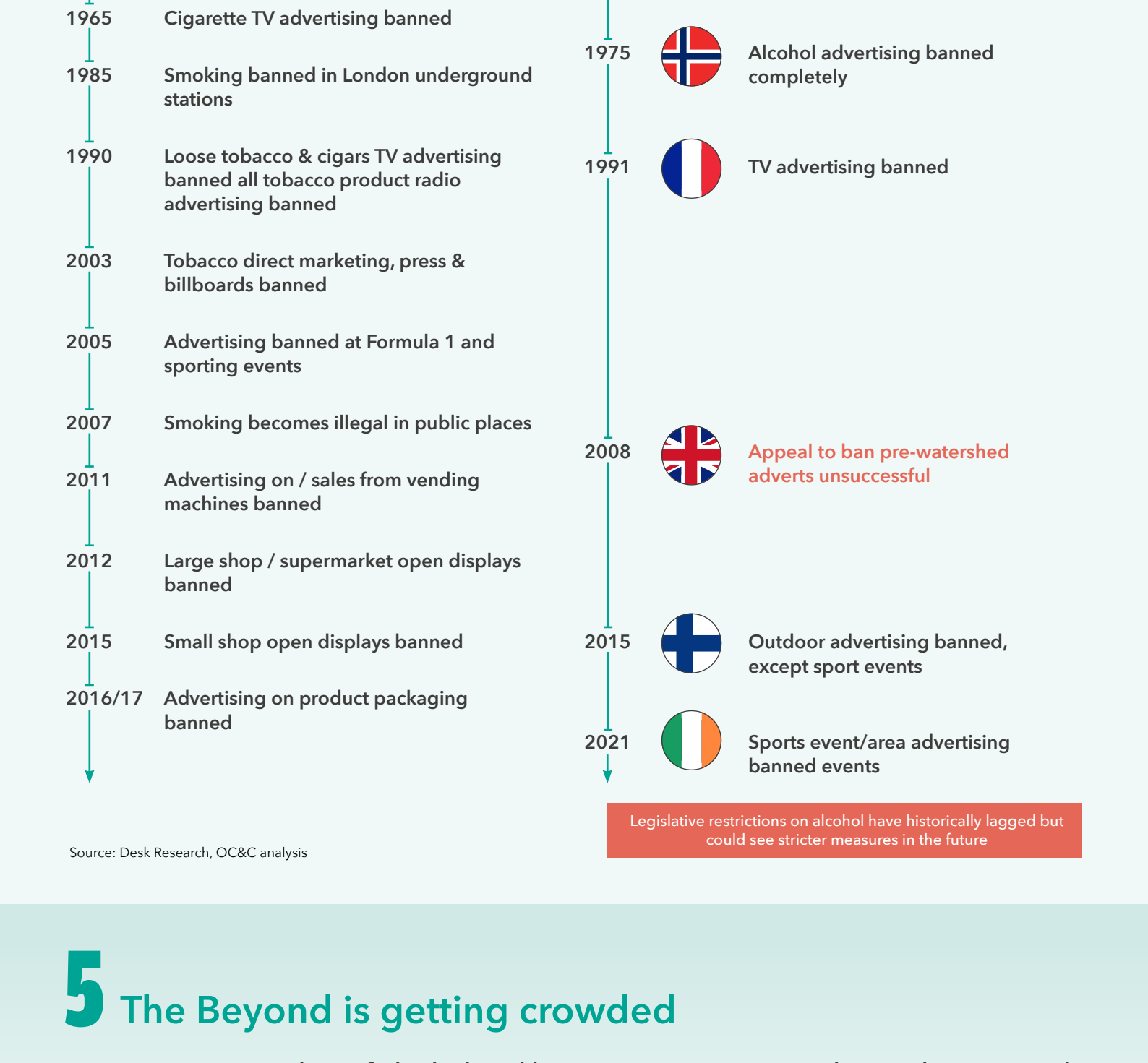
- During high inflation consumers want less choice, they want to be guided to the single best value option
- Declutter the "noise" of too many undifferentiated brands in any given demand space - take your "best pick" and drive it hard
- Allow your brands to spread, so they have enough space to take prices up without cluttering the space of another brand
- Invest in trust - consumers need to be reassured that they can trust the brand as the smartest choice in these tough times

**Re-segment**

- During high inflation consumers trust retailers more than they trust brands. Tesco's price matching of Aldi is paying off
- Re-segment retailers based on their value perception and level of consumer trust. You want to be with the good guys
- Gameplan your brand, price and pack formula for this new segmentation of value and trust perception

**Bust some myths**

- **Myth 1** - consumers always prefer non-returnable packaging (i.e. cans) and brands have to pay for it. The high inflation truth - this is the retailers' choice, consumers would welcome the value of returnable packaging
- **Myth 2** - you have to own everything: i.e., capacity, infrastructure, systems. The high inflation truth - act like a platform, share risk, earn the take rate
- **Myth 3** - selling requires a large sales force. The high inflation truth - all your customers and consumers have smartphones. Selling needs to leverage salesforce.com



## 3 Reaching consumers has become complex

The old simple channel model - On Trade for experience and Off Trade for volume - is becoming less relevant. How do you build brands and reach consumers in a much more complex channel setting?

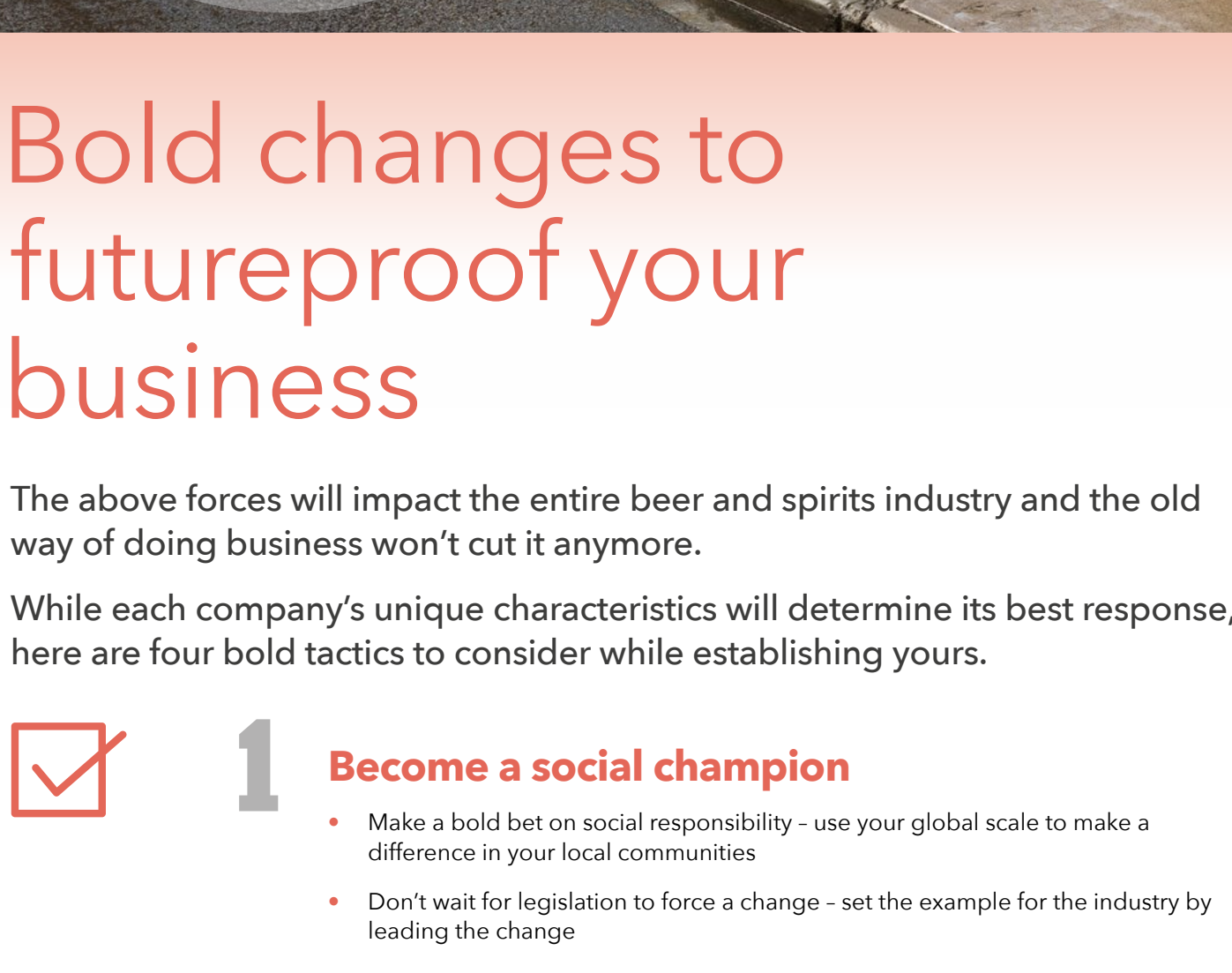
Spirits and beer drinkers are drifting away from pubs and bars in favour of supermarkets and discounters. During 2020 and 2021, when the world was in on/off lockdowns, the on-trade's share of the drinks market fell by double-digit percentage points.

A decrease in the on-trade's share of the alcohol and beer market poses a problem for experiential marketing. A swanky hotel bar may put a consumer in the mood to try a new premium spirit; a supermarket aisle, less so.

Companies need a very different toolbox to build premium brands in a non-premium setting. To build brand presence, they can look to other FMCG categories that are further ahead in using new experiential channels, such as eCommerce and qCommerce.

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DIGITAL GROCERY ECOSYSTEM



The emergence of the Digital Grocery Ecosystem created complexity that is hard to navigate, with players addressing different segments of consumer demand, resulting in multiple battlegrounds:

- **eGrocery** - multichannel and pure plays serving the continuous switch of consumer demand from physical to digital shopping
- **D2C** - New model serving new missions
- **Ambition** - Maintain fair share in this growing channel
- **Ambition** - Win with the winners as the market consolidates
- **Ambition** - Be ahead of the pack to lead disruption and capture scarce capabilities



## 4 Societies and governments are getting serious about ESG

They are rapidly classifying industries and brands into those that are ready to respond to social responsibility and those that have fallen behind.

Like tobacco and fossil fuels, the drinks industry is likely to come under scrutiny for the 'S' - social accountability - side of things.

It took over half a century for a ban on complete television smoking advertising to evolve into a complete veto of any sort of tobacco promotion. However, a look at the automotive industry shows how quickly governments can move today.

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Regulation (fuel tax and congestion charging) and legislation (the EU has proposed an effective ban on the sale of new petrol and diesel cars by 2035), coupled with consumer concern for the environment, have forced the industry to pivot to electric vehicles much faster than it had wished.

ADVERTISING LEGISLATION TIMELINES



Source: Desk Research, OC&C analysis

Alcohol legislative changes (Europe)



Legislative restrictions on alcohol have historically lagged but could see stricter measures in the future

## 5 The Beyond is getting crowded

An increasing number of alcohol and beer companies are exploring the potential of 'Beyond Drink'. This might be in the form of no and low alcohol variants of existing drinks, new innovations such as hard seltzers, or (moving down the value chain) spirits with RTD mixes.

BUT SO ARE SOFT DRINKS COMPANIES. BIG ONES.

In 2020 The Coca Cola Company broke over 130 years of tradition with the launch of Top Chico Hard Seltzer in Latin America. It has since rolled this out across several markets, including the US and UK. PepsiCo has done similar with HARD MTN DEW.

Increased competition from brands with huge marketing power and prowess may make this market more difficult to crack than first anticipated.



## Bold changes to futureproof your business

The above forces will impact the entire beer and spirits industry and the old way of doing business won't cut it anymore.

While each company's unique characteristics will determine its best response, here are four bold tactics to consider while establishing yours.

**1 Become a social champion**

- Make a bold bet on social responsibility - use your global scale to make a difference in your local communities
- Don't wait for legislation to force a change - set the example for the industry by leading the change

**2 Be honest with your brand portfolio**

- Select the true winners and future stars and then invest behind them
- Concentrate resources - don't confuse consumers with too many options; they want clear signposting in this environment
- Don't cut marketing budgets; set clear performance targets and invest in new tools and capabilities

**3 Revamp your commercial strategy**

- Get your teams used to experimenting at a faster pace - speed up your commercial processes as things are changing too fast to wait for the annual planning cycle to come around
- Get your sales force speaking the same language as the next generation of bartenders and category buyers, and ultimately consumers
- Continue to source new exciting brands as discounters and other functional channels grow
- Don't lose sight of the long-term - short-term changes happening today will not last forever, so keep your eyes on the horizon (e.g. are you thinking about potential deflation?)

**4 Act like a platform**

- Offer more emotional experiences, not just products - you have less and less time to communicate with your consumers so make it count by standing out
- Innovate at scale through partnerships and more innovative commercial models - you don't need to own assets to make the best use of them
- Attract entrepreneurial talent - they are more likely to challenge the way you've done things for years when more of the same isn't working

To share your experience, to start your strategy shake-up, or continue the discussion, please get in touch

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