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2024 INDUSTRY TRENDS:

BEVERAGE

The beverage industry is constantly undergoing remarkable transformations, influenced by evolving consumer preferences, market and competitive dynamics, and the pursuit of sustainable and responsible business practices. This report explores four key beverage industry trends that have been shaping the landscape in recent years and highlights what companies are doing to stay ahead in an ever-evolving market in 2024.

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1 THE DRAMATIC RISE OF 0% ABV

Until recently, 0% ABV beers were often relegated to the bottom shelf in retail because of their low demand and limited product offerings. However, the COVID-19 pandemic accelerated intense health-consciousness trends among consumers. As a result, beverage companies have focused much of their innovation in the category and massively ramped up production quantities. Many of these innovations are premium positioned and gaining a significant share of menu in restaurants and of shelves in beverage retail outlets.

The biggest contribution to the non-alcohol category's growth (70%) is no-alcohol beer and cider. By matching increasing consumer demand with excellent placement, beverage companies are experiencing massive growth in the non-alcoholic beer sector. Category sales are up more than 32% from last year and are averaging 31% growth over the previous four. Importantly, these sales aren't cannibalizing alcoholic beverage sales, as a vast majority of non-alcoholic beer buyers also buy alcohol.

It's not just beer manufacturers riding this trend: non-alcoholic spirit sales are accelerating as well. Diageo's Captain Morgan Rum brand announced in late August that they will be launching an alcohol-free spiced gold rum. Challenger brands are winning as well. For example, Ritual Zero Proof, a distiller producing a wide variety of 0% ABV spirits, is projecting a 10% CAGR over the next 10 years. This is being driven by consumers who enjoy the taste and social aspect of drinking while simultaneously maintaining their values around health. Further, more than 70 new non-alcoholic drink SKUs were introduced to the U.S. market, with many more on pace to release this year. More product offerings within brands and more non-alcoholic lines are projected to be released in the future, and we expect this trend to maintain and grow over the coming years.

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2 CONCENTRATION IN BRAND COLLABORATION

From movie stars to athletes to social media influencers, celebrities have been the face of marketing for well over 50 brands of alcohol and sports drinks for years. Some are still getting into the game: take Logan Paul's and KSI's Prime for example, who we highlighted in last year's report. The brand launched in 2022 and is already set to pass $1.2 billion in sales this year alone. On the flip side, many other celebrities have been exiting the game: Conor McGregor selling Proper No. Twelve, Ryan Reynolds selling Aviation Gin, and George Clooney and partners selling Casamigos, to name a few.

All of the celebrities mentioned above had their brands for less than four years before selling. This timing is no coincidence; many large corporations would rather buy the brand at a premium early instead of partnering with a celebrity because of the associated risk of tying the brand to the image and/or press of a high-profile individual. For example, the Travis Scott CACTI Seltzer brand lasted less than a year because of the controversy surrounding the Astroworld Festival tragedy.

This risk has driven beverage industry leaders to look for stable partnerships with those who both understand the industry and what it takes for products to succeed in the modern market. For example, the Brown-Forman Coca-Cola partnership that spawned the Ready-To-Drink (RTD) Jack Daniel's and Coca-Cola has been a massive success. In the 2023 fiscal year, that partnership fueled double-digit net sales growth of 11% for Brown-Forman. Another massive success has been the Coca-Cola and Molson Coors partnership that created Topo Chico Hard Seltzer and Simply Spiked Lemonade. More mega-collaborations are in the works as well: a Sprite & Absolut canned RTD cocktail is set to debut in several European countries in early 2024.

In all of these collaborations, there has to be a clear win-win for both parties. Across many recent partnerships and influencer-led brand expansions, we see a concentration on those with the greatest economic profit potential as well as a focus between partners on true value-driven partnerships.

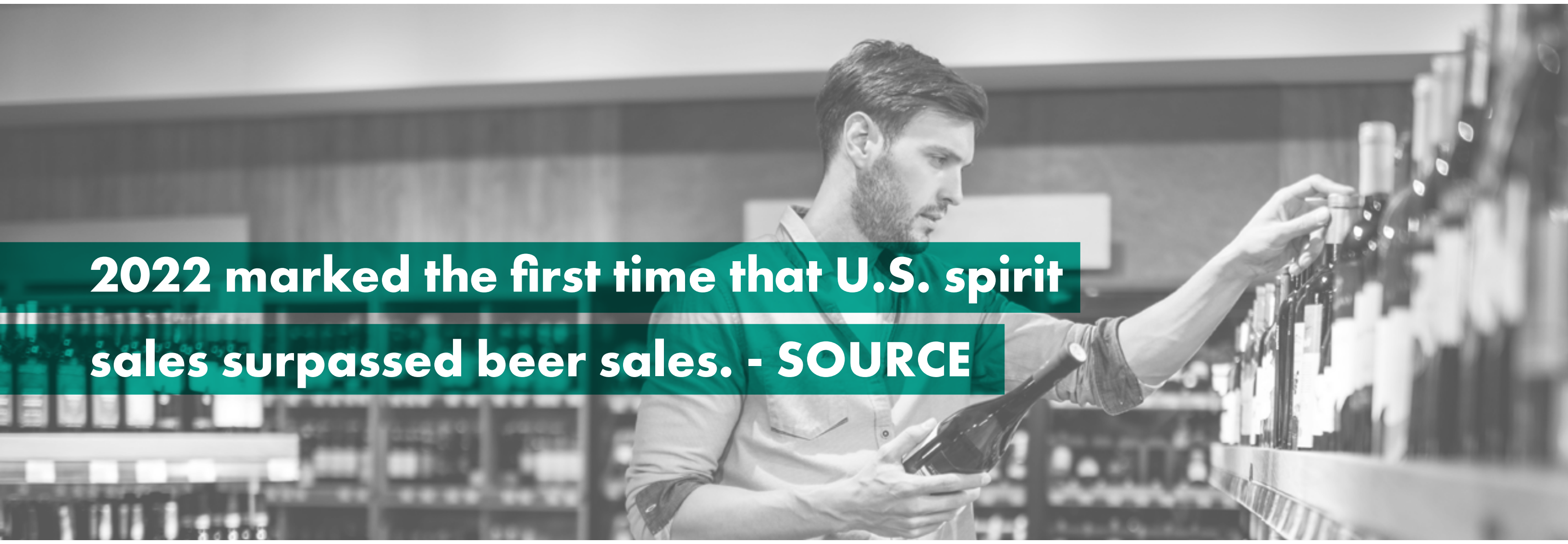
3 PREMIUM ACQUISITIONS DRIVING MARKET GROWTH & DIVERSIFICATION AND TECH STANDARDIZATION

The recent acquisition of Blue Run Spirits by Molson Coors is indicative of a greater shift within the beer industry. Companies like Molson Coors and Carlsberg still have room to grow their market share, so they're looking to expand into higher-growth sectors of the market, like spirits.

Last year was the first time that U.S. spirit sales surpassed beer sales, in part due to factors such as enhanced marketing efforts from spirits companies, an increase in relative affordability, and the general resurgence of cocktail culture. Additionally, the spirits market is expected to grow at a 5.02% CAGR over the next five years, compared to 2.8% for the beer industry. The attractiveness of tapping into a higher growth market is so enticing that Molson Coors has actually created a new division called Coors Spirits Co.

These acquisitions can present some interesting challenges for large companies as they grow their brand offerings, especially when they acquire multiple in a short time frame. Massive beverage industry leaders have complex value chains, so integrating new brands into existing systems and ways of working can be a big undertaking with several risks to impact operations.

To address these risks, companies like Diageo, a leader in the spirits market, recently partnered with SAP to revolutionize their IT environment. Other leaders, like Pernod Ricard and AB InBev, have also implemented company-spanning ERP solutions to standardize their operations. As more brands are acquired under the umbrella of the industry giants, we expect continued efforts to standardize cross-organizational tech stacks, maximizing the opportunity for growth through data analytics and streamlined operations.



4 RENEWED FOCUS ON TRANSPARENT SUSTAINABILITY

Brands focused on sustainable products have experienced significant growth over the last decade and are well-positioned for continued growth in any number of economic conditions. Recent surveys indicate that nearly 30% of industry decision-makers considered customer demand for sustainability as a top factor in organizational change.

Generally, beverage companies understand that the demand for sustainability touches all facets of their operations, from sourcing materials to distribution methods. Diageo has made a large effort in the past year to integrate sustainable practices within its operational strategy. From upstream activities like regenerative agriculture and using drones to decrease water usage, to downstream activities like creating a circular aluminum economy to reduce packaging waste, Diageo has made incredible progress in redefining the role that it plays in the world.

Other companies, like AB InBev, are responding to consumer demand by pledging to meet multiple UN sustainability goals. By leveraging standards set by a universal governing body, companies can shift their focus from ideating and developing goals to strategizing how to meet ones already set. This requires companies to implement processes of continuous sustainability improvement along their supply chain, manufacturing, and distribution networks.

As consumers push for higher levels of ESG standards and governments enact stricter sustainability laws, companies will have to continue to develop creative and innovative solutions to decrease the impact of their activities and improve the overall health of our planet.

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LOOKING AHEAD

In a world where consumers are becoming increasingly health-conscious, eco-aware, and discerning about their beverage choices, the beverage industry continues to transform to meet these evolving demands. The rise of 0% ABV beverages is a testament to the industry's adaptability, with non-alcoholic options gaining considerable traction and reshaping the competitive landscape. Mega collaborations have recently taken more a strategic approach, allowing beverage companies to navigate the industry's nuances while seeking stability in partnerships with those who understand the market.

Meanwhile, the premium acquisitions trend highlights a shift towards diversification, where industry giants are expanding their brand portfolios into higher growth sectors. However, it also underscores the challenge of integrating diverse brands into existing systems, which requires innovative solutions. The industry's commitment to transparent sustainability showcases a profound awareness of the need to address the environmental concerns of the modern consumer. As the beverage industry continues to adapt to higher levels of ESG standards and evolving sustainability laws, companies must strive for innovative solutions to reduce their environmental impact and enhance their global reputation.

The beverage industry's ongoing transformation is a testament to its resilience and ability to cater to changing consumer preferences, while also embracing a more sustainable and responsible future. These trends not only reflect the industry's adaptability but also its dedication to meeting the evolving needs of its customers and the planet.

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