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European Alcohol Policy Alliance

Alcohol trends – markets and innovations

Analyses and forecasts, compiled from Business Insights
2008/9 reports

Anders Ulstein
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Eurocare Secretariat:
Rue des Confédéré 96-98,
1000 Brussels, Belgium
Tel +32 2 736 05 72
[*info@eurocare.org*](mailto:info@eurocare.org)

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Asia leads the way – W-Europe decline – E-Europe strong growth – innovations in *health* and *size*.

While consumers in emerging markets tend to drink like Europeans, Western Europe itself is of relative less importance to the producers compared to the opportunities in Eastern Europe, Russia and Asia and other emerging markets.

Market analysts predict solid global growth in the coming three year period in spite of financial crises. Innovations to watch are trends in packaging/size/labeling and in health.

Major market developments

Most big alcohol producers performed well over the last years. In **Western Europe** some company's continue to see stagnation and fall in sales, and equally some countries like **Germany, France** and **Spain** are expected to see a fall in volume consumption, in particular in beer and wine over the next years. Company strategies are therefore mainly to focus on emerging markets – in particular in Asia and Russia but also Eastern Europe – and not least on innovation and new products.

According to **Business Insights** the three key drivers of growth are 1) the expansion of the world's young adult population, 2) the emergence and growth of the middle class with disposable income, and, to a lesser extent, 3) consumers' desire to trade-up to more premium products.

In short, **Asia** and a few other developing economies see a huge increase in people with money to spend on alcohol and increasingly on more expensive alcohol. For example, there are an estimated 300 million young, upwardly-mobile consumers in India alone.

These young adults and the emerging middle class are increasingly taking over the patterns of consumption from Europe. Premiumisation is one of them as well as the ascendancy of more female drinkers and a tendency to switch from traditional spirits to wine and beer.

The shift from beer to wine will continue in countries like the **UK** and **Sweden** which will increasingly be established as high beer *and* high wine consumers together with some countries in **Eastern Europe**. Wine consumption will continue to grow at a steady pace in **Western Europe**, the worlds' biggest consumer of wine. Interestingly, the **Italian** wine market continues to grow both in value and volume terms while the decrease in **Spain** continues. In France there is a small value growth but volume fall.

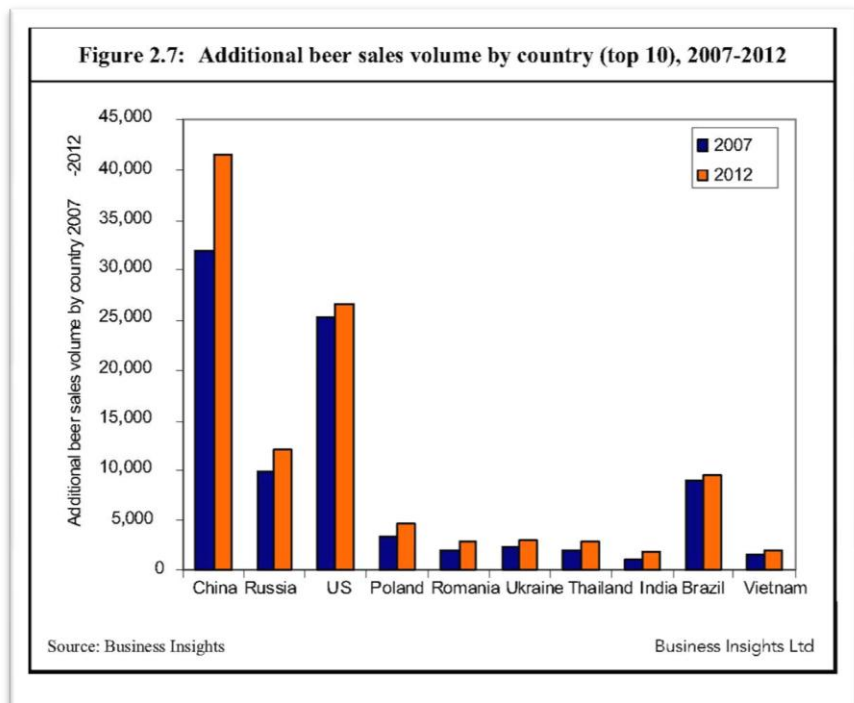
Asia-Pacific was the largest beer market in volume terms (with 62bn liters sold), followed by **Western Europe** (29bn litres) and **North America** (28bn). In 2012 compared to 2007 62% of the global increase of beer/cider/FABs will take place in **Asia-Pacific** and 29% will be in **Eastern Europe** while there will continue to be a decline in the Western European market.

The global growth in beer market is largely caused by an increase in disposable income. Sales volumes in beer are expected to reach 210m hectolitres in 2011, with the **Middle East** and **Africa** contributing 6.0% of the total volume growth, **Central and South America** 19.5%, **Asia** 55.0% and **Eastern Europe** 19.5%.

The biggest increase in consumption per capita is expected to take place in **Eastern Europe**, Business Insights predicts, for both beer and wine. 40% of the worlds increase in wine consumption in the next three years will take place in **Eastern Europe**.

Poland will see a substantial growth in beer consumption in the coming three years, followed by **Romania** and **Ukraine**. In 2008 the Romanian beer market grew by around 10%, although Business Insights believes this rate of growth will not be sustained as the market reaches maturity over the next five years. By this time Romanian per head consumption is likely to be one of the highest in Europe.

The biggest overall business opportunity will be in **Russia**, says Business Insights, where beer is still benefiting from consumers switching from vodka.



And for the RTDs, they are still a very small part of the alcohol market, only about 1% of the total beer/cider/RTD sales globally. The category is still interesting in particular markets of Europe like in **Germany** where it is forecast to continue its strong growth. RTDs are interesting category in terms of its role in innovation and segmentation and because of the controversies surrounding drinking and young people.

Business Insights believes the key consumer drivers for RTDs are:

- The desire for healthier, less alcoholic products;
- The desire to socialize more without increasing one's alcohol consumption;
- The demand for more, particularly sweeter and fruitier, flavors;
- The growing consumption of alcoholic drinks by young adult women.

In plain words – it’s a party drink for young women, as it has been.

The world spirits market has slowed for several years largely because of the fall in vodka consumption in **Eastern Europe**. Spirits market is forecast to rise substantially over the period 2007-2012. Almost 70% of this increase will take place in **Asia-Pacific**, and almost a third (31%) will be in **India** alone.

In **Western Europe** and **North America** distillers are increasingly looking to the female market for growth. At the same time they are seeking to build on “the growing reputation of spirits as a healthier alternative to beer”, Business Insights predicts.

Good times for the biggest producers

Consolidation is expected to continue in the alcohol industry, as players seek to add new brands to their portfolio and enhance their market positions.

As of June 2007, the top five brewers accounted for 50.0% of the global beer market. This has led to globalization, with the top 20 brewers generating on an average 53.0% of sales from outside their traditional home markets as compared with 33.0% in 2001.

Beer mega-brands will emerge with near universal availability. They will also enable brewers to streamline marketing by creating different sub-brands that feature different product attributes or target particular consumer groups.

The emergence of three mega-brewers, **Anheuser-Busch InBev**, **SABMiller** and **Heineken**, has resulted in two of these companies being in the top three brewers of every region in the world. Heineken remains the top producer in Europe.

The strengths of multinational companies like **SABMiller and Diageo** is its geographic spread and the opportunities that lie in emerging markets. Typically, **SABMiller’s** acquisitions primarily focus on attaining a wide geographical spread with good exposure to emerging markets. In Africa, mainstream beer brands such as St. Louis, Kilimanjaro, Club, and 2M account for 80.0% of its total portfolio.

SABMiller’s has revamped the sales of these local brands by investing in packaging. For example, it relaunched St Louis in **Botswana** in a new package, repackaged its Kilimanjaro brand in a new 500ml long-neck bottle in **Tanzania**, and recaptured the **Ghana** lager market by aggressively advertising the local Club brand. **SABMiller** aims to expand its portfolio of affordable and premium brands in **Africa**, given the double digit growth in these segments due to an increase in consumption, Business Insights predicts.

Financial crises?

Business Insights believes the financial crises will have both negative and positive effects on the alcoholic drinks market. On balance it is likely to help volume growth but slow value growth. Consumers are more likely to consume alcohol at home and they will be less likely to premiumize their consumption, meaning they will buy cheaper brands.

Trends in product development

“Upscale” was the most common product tag on beer and wine products launched worldwide in both 2005 and 2008. Environmental concerns have meant that recyclable packaging has moved up from being the #5 claim in 2005 to the #2 position in 2008. Ethical and health concerns both underpin the entry of organics into the top five – standing at #3 in 2008.

Traditional beer, niche products and craft beer will see a stronger growth the coming years.

The perhaps most pronounced trend in the market is the development of “healthy products”, or drinks with functional benefits (although there are now legal limitations in the EU on health claims). These are mixes of alcohol and health-related ingredients. Related to this is the continued search for new flavours and category blurring.

One of the perhaps most extreme example is the launch of **Asahi Vegesh in Japan** By Asahi, an RTD low-alcohol cocktail (right). This carbonated drink has a grapefruit taste as the base and is made with 21 types of vegetables including yellow carrots, spinach, asparagus, red bell peppers, and five types of fruit including grapefruit, lemon, and pineapple. Asahi Vegesh contains 4.0% alcohol.

SABMiller launched several new products and repackaged others. **Miller Chill Chelada Style** (below) beer was introduced in the **US** market in February 2007, with innovative formulation targeting the Hispanic market. It is a low-calorie beer flavored with lime and salt.

SABMiller’s Arany Aszok 7 (below) It was launched in the **Hungary** in February 2007. The product consists of a seven count carrier pack of half liter glass bottles of beer that are each labelled for one day of the week,

and with football images on the packaging.



Heineken announced the launch of **Red**, a new variety of Tequila flavored beer in **France** in April 2008. It’s a blend of Brazilian sugar cane brandy flavor and natural guarana extracts in addition to its tequila flavor.

In addition, in March 2008, it launched **Affligem Biere** in red fruit variety, targeting women consumers in **France**. This product contains raspberry and a hint of spice.

Germany has seen a number of RTD product launches in 2008 based on beer that builds on the health theme.

- Beer + apple juice (Veltins V+);
- Beer + fruit juice with ginger (Amrita Ingwer);
- Beer + soft drink with lime and mint (Beck's Ice);
- Wheat beer + cola (Karlsberg Mixery);
- Wheat beer + elderberry drink (Licher X2).



Wine producers are still far behind in terms of modern marketing, branding and company centralisation, but change may be underway - but hardly imminent. Wine is increasingly seen as less elitist as before, and this trend will continue. Some in wine trade attempts to create a simpler labelling system in order to not scare off new consumers. Such ideas may eventually travel to Europe.

A small chain of wine shops (Best Cellars) in the US has developed a **labelling** scheme of eight distinct groupings which company literature states is designed to ease consumer navigation (see below).

Together with branding and more colourful labelling this might be innovations that will force its way even in Europe at some point.



Another trend is **smaller bottles** of wine in order to attract younger consumers and to increase number of drinking occasions. Younger consumers are more used to new and smaller packaging formats. Personal size wine in smaller pack sizes, typically 187ml, is now the fastest-growing trend in the US wine market. Even wine enthusiasts like the idea since it enables them to try different types of wine during one meal.

This trend is not only seen in wine, but in liqueurs and RTDs too. Interestingly it is matched by the emergence of super size packs in particular in beer for home or outdoor consumption.



Branding and better labelling might together with smaller bottles be important opportunities in maturing markets like the UK in order to secure growth.

Rose wines are getting back in fashion as they are increasingly discovered by young women, it seems. They have less alcohol content than wine and are not very different from some of the RTDs. Business Insights believes rosé is a stepping stone between RTDs and onwards to wine. Women are

the driving force behind sales of rosé and in 2008 **Gallo** started selling a wine box shaped like a handbag (right). It's so far mostly a UK phenomenon, but like many other drinking trends, it might travel eastwards.

A number of spirits products have been launched that targets women, both in the US and in Europe, in particular liqueurs, tequila and vodka.

BI predicts strong growth of liqueurs in Germany and of premium Vodka in Poland. This may indicate that some consumers in the East are now switching back to vodka, some to cheap products and others to premium products.



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