Glass Half Full

The beverage alcohol industry recalibrates to meet the needs of a wary consumer.

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While the beverage alcohol industry is sometimes thought to be "recession-proof," its performance over the past year can more accurately be described as recession-*resistant.* Consumers tend to drink alcoholic beverages in both good and bad economic times, but what and where they drink changes with their confidence in their personal financial situations, and the economy in general.

In the past 18 months, consumers have reprioritized what they consider necessary and discretionary items. Food and drink budgets are tighter, and while the beverage alcohol category is still holding up relatively well in comparison with many other consumer goods, today's consumers are wary. Beverage alcohol manufacturers and retailers have had to adapt their strategies to compete for consumer dollars in today's tenuous economic climate. The following is a summary of the trends we've seen developing in the beverage alcohol market, and some thoughts on what retailers can do to capitalize on them.

The Renewed Focus on Value

Value is the new watchword for consumers of all income levels, and retail outlets focused on value, convenience and savings are faring better in the current economic climate. Value means more than just the lowest price, however. In today's competitive market, it's defined as having the right product at the right price and in the right place, as judged by the consumer.

Price is still a key component of value, however, and not surprisingly, the economic downturn has made today's consumers highly price-aware and price-sensitive. Nielsen data shows consumers across all income levels searching for deals in a quest for value. According to Nielsen's beverage alcohol research, 31 percent of consumers now make more price comparisons before buying, 24 percent wait more often for a sale before buying their favorite product, and 22 percent report purchasing less expensive products. These numbers tend to skew even higher for wine alone.

That price sensitivity has been a boon to domestic brands, which have seen sales increase and have more lower-price alternatives than their imported counterparts. For example, domestic gin and vodkas are priced 50 percent less on average than imported brands, with domestic beer 35 percent less and domestic wine priced 25 percent less than imports.

Trading Down, Stocking Up

While consumers are still drinking alcoholic beverages, they're generally trading down across all brands, opting for less expensive items. Some are choosing store brands, which tend to be less expensive than branded competitors. In addition, domestic wines selling below $6 per bottle and around the $10 price point have been selling well, while wine sales of bottles over $20 per bottle have been, at best, stagnant. The value and mid-priced spirits segments are outperforming the premium and ultra-premium segments. In beer, below-premium beers are growing, while the exception to the overall trading-down trend is the increasing popularity of craft beers, as consumers see them as an affordable luxury.

Price sensitivity and a desire for value have also driven consumers either to purchase larger package sizes for a lower cost per serving, or purchase smaller package sizes, if that is all they can afford. Thirty-five percent of consumers report buying larger package sizes for greater value. In the 26-week period ending in mid-August 2009, sales of 30-packs of beer were up 12.6 percent and four-packs were up 10.3 percent on a dollar basis, while other package sizes grew at a slower rate. The same holds true for wine and spirits, with larger and smaller sizes growing faster than other-sized packages.

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Changes in consumer buying behavior have put even more pressure on retailers to make the most of their floor space. In light of the changes in consumer purchasing behavior, retailers are offering fewer brands of flavored malt beverages, imported wine and cordials. In their place, they're spotlighting craft beers (which have been steadily growing in popularity), vodka (especially flavored vodkas) and mid-range domestic wines in the $9-to-$15 category.

Staying In is the New Night Out

One of the biggest changes in the last year is the move toward home dining and entertainment. Not long ago, U.S. consumers were increasingly going out to dine, celebrate and entertain. These days, more people — across all age and income groups — are dining and entertaining at home. While 55 percent of consumers tell Nielsen they are eating dinner at home more often, 68 percent are eating out less often at a fine-dining location, 57 percent are eating out less often at a casual-dining location and 59 percent report going out to a bar less often.

This trend makes it a difficult time to be in the restaurant business. In 2007, 20 of 32 fine-dining and casual-dining restaurant operators reported same-store gains with an overall average of gain of about 1 percent. In 2009, 33 of 34 operators reported same-store losses with an average loss of almost -9 percent. The shift represents a serious challenge for restaurants, but a significant opportunity for retailers, who are actively promoting products and beverages that can help enhance a great night at home.

In addition, the potential for higher alcohol sales for consumption at home has prompted the growth of off-premise channels offering beer, wine or spirits. In September 2009, the total number of off-premise locations selling alcoholic beverages grew by 2,369 stores, compared with 2008. At the same time, there was a reduction of nearly 3,000 in total store count. We're seeing signs of more stores across a number of channels starting to offer alcoholic beverages as part of their portfolio to attract more consumer traffic, and to boost their store margins and consumer shopping basket sizes. Even within the restaurant sector, more fast-casual and quick-service operators are adding limited wines and beers to their menus to lure customers.

The Return to Coupons

With the focus on price and value, and with more alcohol being purchased at a store instead of a restaurant, the use of coupons has come back into vogue — especially for beer. Beverage alcohol coupon redemptions were up 9 percent in the first half of 2009, led by beer and spirits, which saw redemption rates rise 46 percent, according to Inmar CMS Promotions Service. Coupons delivered via the Internet represent the highest growth and now represent 2 percent of all coupons redeemed.

Coupon users can be found in all income groups, but affluent consumers are more likely to be heavy coupon users. Considerable opportunities exist for retailers to expand meal deals to appeal to high-income consumers, including craft beer or wine in higher value deals.

Case in point: In preparation for the holiday season, Bacardi ran full-page advertisements with coupons, in which it positioned its spirits as all consumers needed for a holiday party at a great value. We expect to see more producers with broad enough portfolios run similar ads in the future.

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Back to Basics

Clearly, the current economic climate has forced consumers to recalibrate their purchasing decisions and get back to basics. To succeed in the current competitive environment, manufacturers and retailers are getting back to basics as well.

Know your customers. Retailers successfully riding out the economic downturn are focused on making their best customers feel special. They need to know their customers extremely well and constantly strive to find new and innovative ways to delight and surprise them with the right product assortment, special promotions and pricing strategies.

Look for ways to communicate value that matters to your core customers.

While value is king in today's market, there are definitely premium brands that have been able to successfully communicate their value proposition to consumers. The brands and retailers that emerge on top will be the ones that identify their value and communicate it succinctly and meaningfully to their most important customers. n

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