The Fourth Alcohol Category: *Friend or Foe?*

Breakout Session

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Breakout Session

Top Objectives

- Identify seismic shifts happening across mega categories
- Assess the potential for expansion in Ready to Drinks
- Analyze the merge of Ready to Drink products with current consumer preferences

Priority Discussion Points

- Ready to Drink impact on growth rates of mega categories
- Ready to Drink trial influence in the On Premise
- Category expansion with the inclusion of Ready to Drinks

Key Takeaways

- Driven by consumer changes, Ready to Drink is creating its own 4th mega category
- The key to Ready to Drink expansion lies in new and differentiated usage occasions
- Ready to Drinks are changing consumer repertoires

Guess who just crashed the beverage party?

The Fourth Category
Ready to Drinks!

Agenda

1. The changing ***Beverage Alcohol consumer***
2. Fourth category impact to ***dollars and volume***
3. Impacts by ***category***: Beer, Wine, and Spirits
4. Panel discussion with ***Dunnia Lopez, Anton Skobelev, and Dan Wandel***

The changing *Beverage Alcohol consumer*

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Consumer Seismic Shifts

The changing BevAl consumer is clearly driving consumption patterns

1


Demographic Changes

2


Economic Changes

3

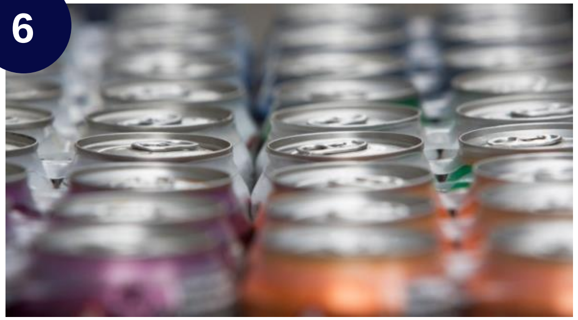

Friction Free Retail

4


Mindful Drinking

5

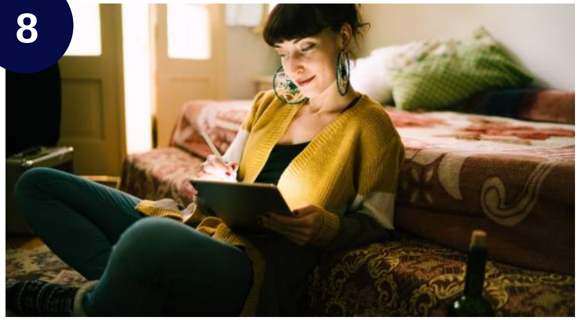

Diverse Influences

6


Portability

7


Flavor Forward

8


Social Media Influence

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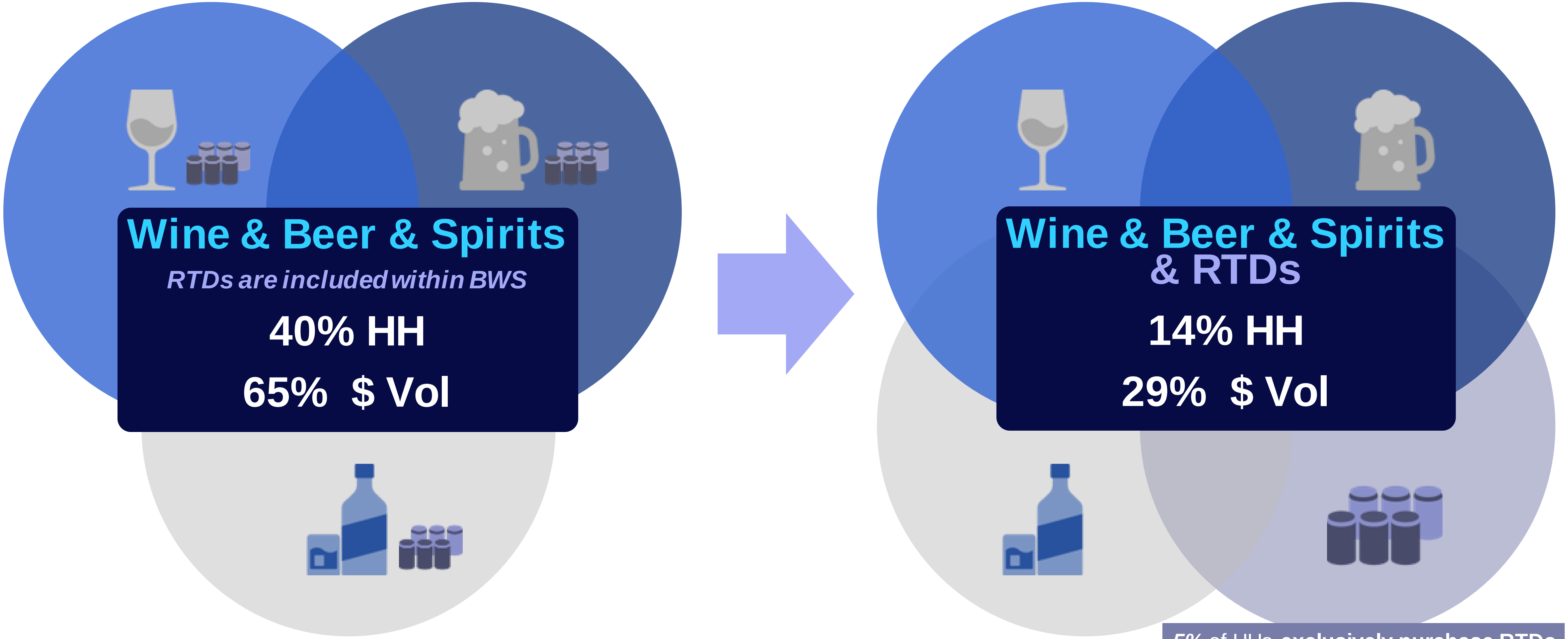
Ready to Drinks are driving significant overlap across Beer, Wine, and Spirits

Total BevAl Buyer and Sales Overlap
Off premise



5% **of HHs exclusively purchase RTDs** accounting for ***1%*** of BevAl dollars

Source: NielsenIQ Omnishopper, US ALC – Integrated (21+ Only) Database; L52 WE 12/30/23, Total Outlets, Total US

NIQ

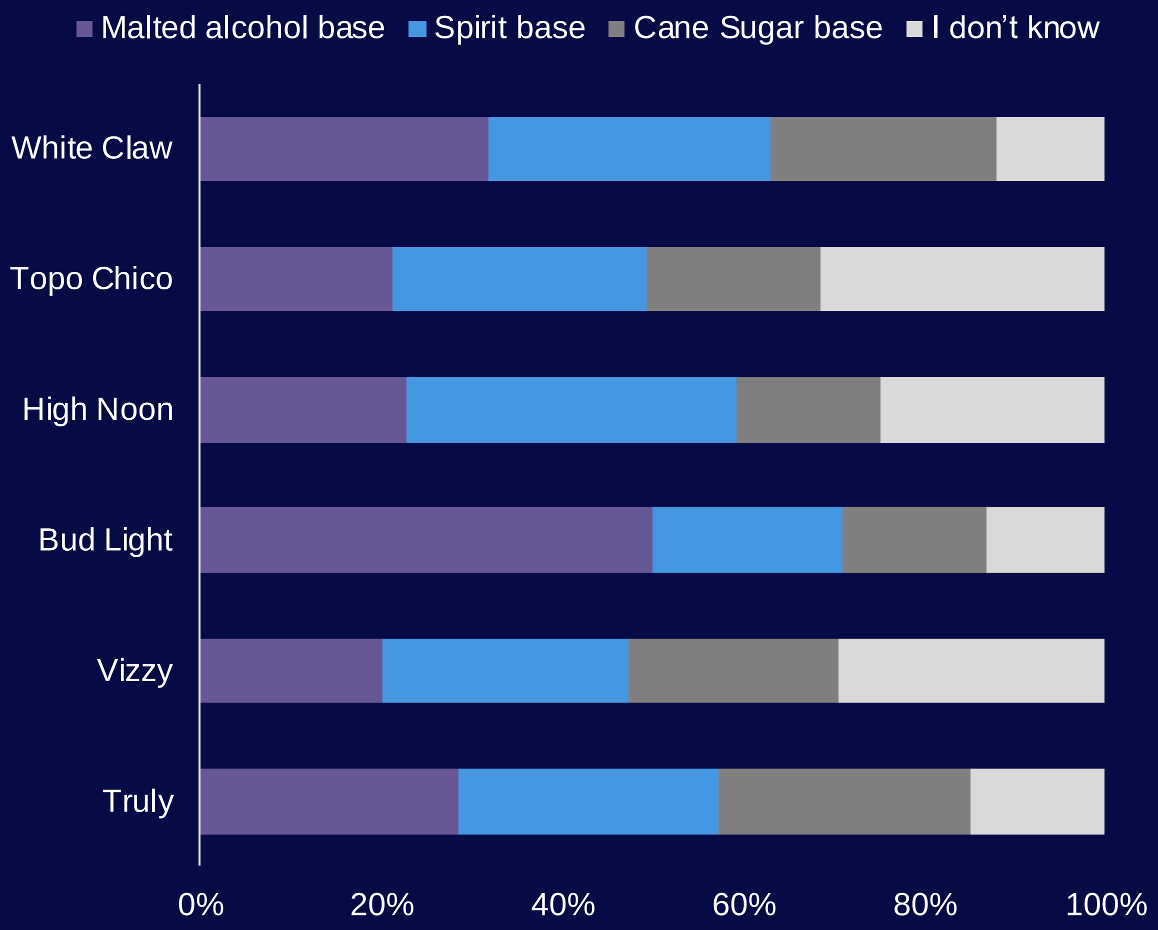
Consumers say they care about alcohol base

Now we are going to show you a list of hard seltzer and RTD brands, we would like you to match the brand to the correct alcoholic base.
Source: CGA by NIQ OPUS US (Spring 2023) sample size: 1502 - 1522

NIQ

… but a consumer knowledge gap is evident

Awareness of Hard Seltzer bases



Fourth category impact to *dollars and volume*

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Ready to Drinks: Top Brands by Alcohol Base

Top 5 RTD Brands | *Top 5 Share of Respective Alcohol Base*

Malt-based Seltzers | 91%

FMBs | 66%

Spirits-based RTDs | 59%

375ml

Wine-based RTDs | 64%

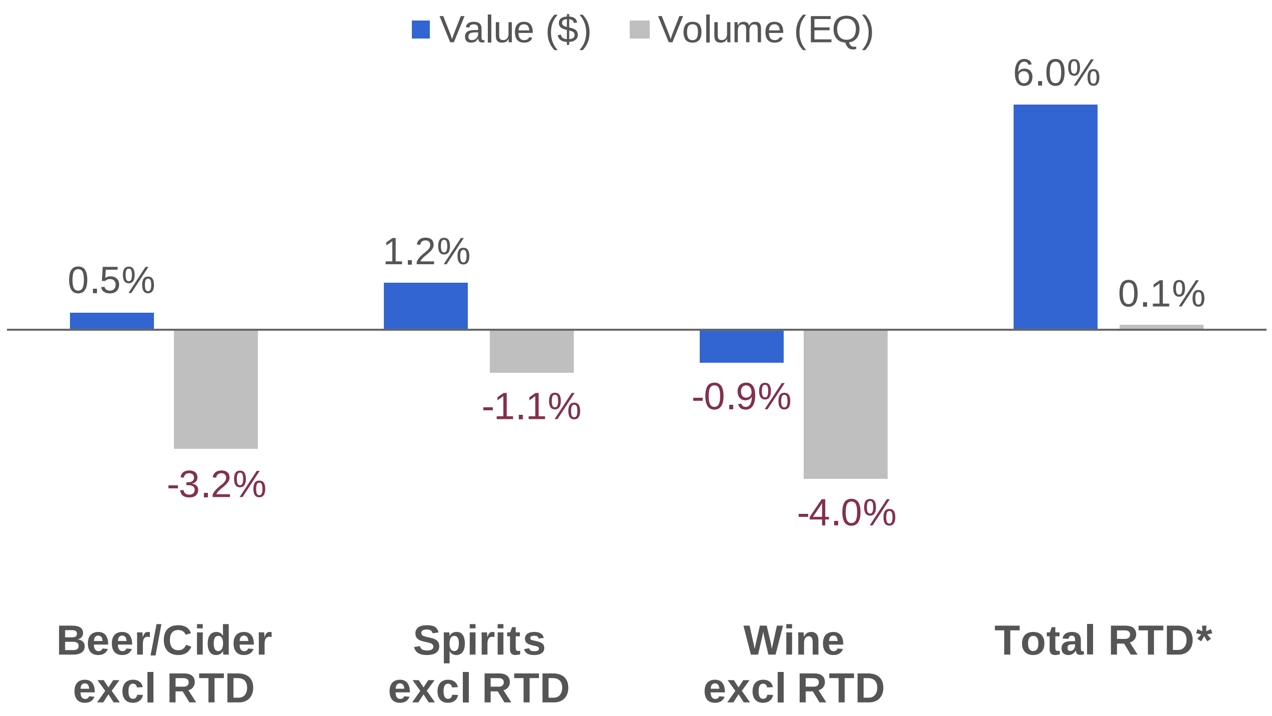
187ml

187ml

Source: NIQ Scan Off Premise Channels; Discover Integrated Beer, Wine, & Spirits database; Latest 52 weeks ending 3/30/2024 vs. year ago

RTDs are disrupting value and volume trends in the Off Premise

Beverage Alcohol by Category (excl RTDs) – Value and Volume Change
NIQ off-premise channels

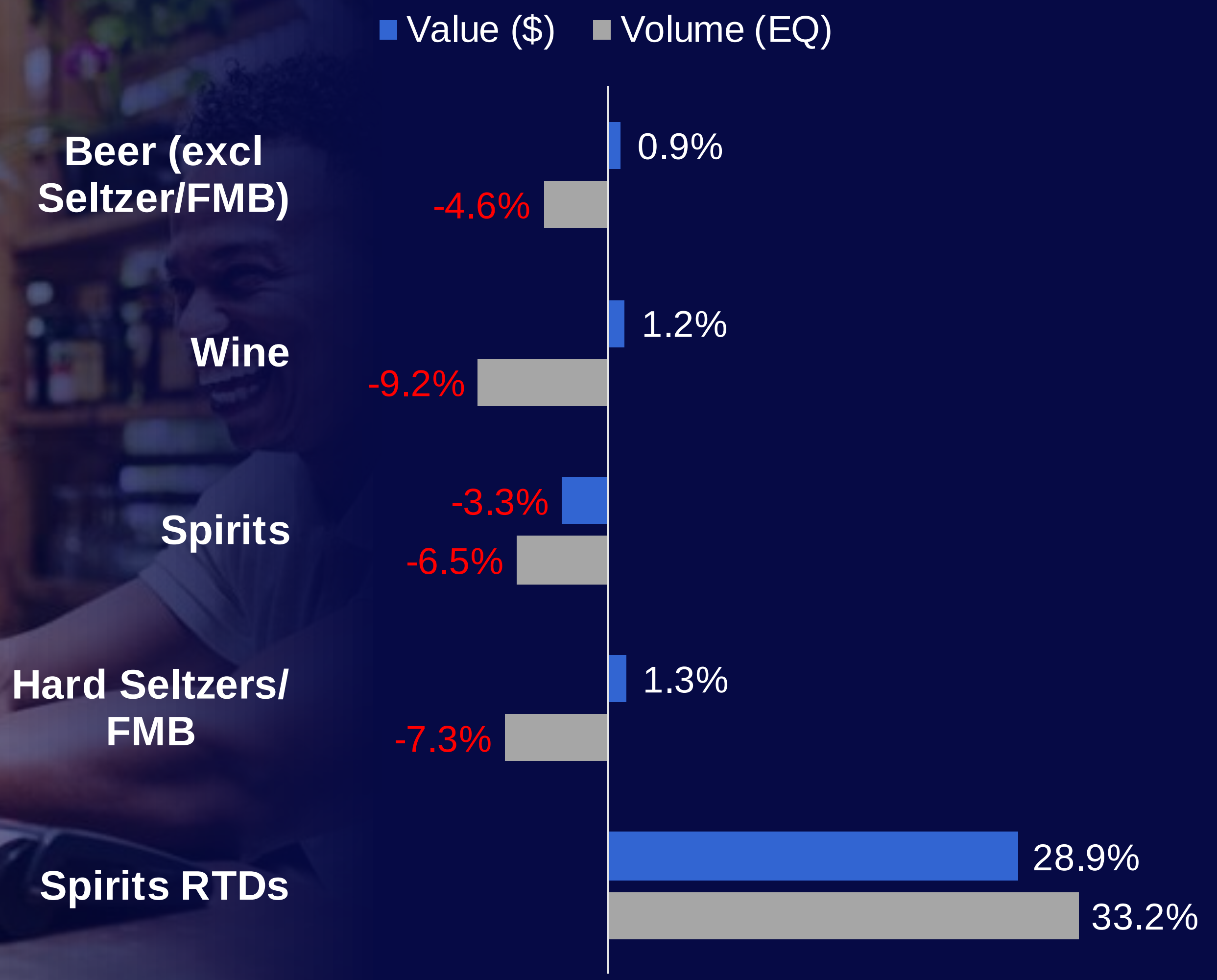


12%
RTDs share of Alcohol

* Total RTD = Seltzers / FMBs / Spirits RTDs / Wine RTDs

Source: NIQ Scan Off Premise Channels; Discover Integrated Beer, Wine, & Spirits database; Latest 52 weeks ending 3/30/24 vs. year ago

Though still in *On Premise infancy*, Spirits RTDs generated big growth in 2023



CGA by NIQ OPM Data – mega category, value, $, rolling 52 w/e 12/30/2023 vs YA
*Volume % chg is measured in 288oz for Beer/Hard Seltzers and 9L EQ for RTD/Spirits/Wine

RTD buyers and drinkers have extensive repertoires consuming across many other categories

Off Premise - % of RTD buyers purchasing

On Premise - % of RTD drinkers consuming other categories

86%

of Ready to Drink buyers are also purchasing **Beer excl RTDs**

66%

of Ready to Drink buyers are also purchasing **Spirits excl RTDs**

57%

of RTD drinkers are also drinking **Beer**

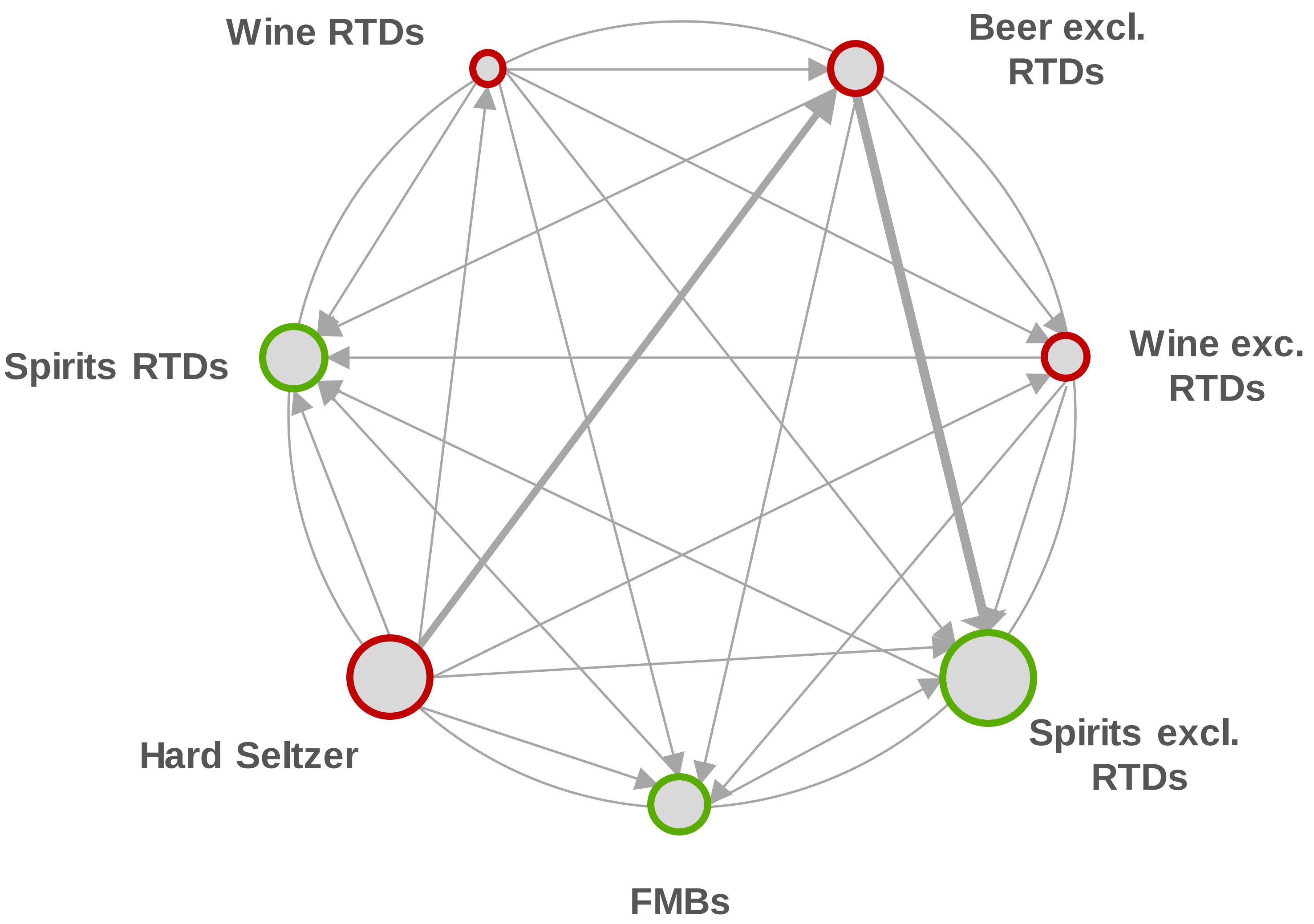
49%

of RTD drinkers are also drinking **Cocktails**

Source: NielsenIQ Omnishopper Cross Purchasing Analysis; Discover Integrated Alcohol 21+ Database; 52 weeks ending 1/27/24 vs YA
CGA by NIQ OPUS US (Fall 2023) – Sample size: 2976

Spirits & FMBs benefitting from dollar shifting

Traditional Wine and Beer products have negative net results from shifting



**Size and color of bubble represents size of dollar gains or losses from shifting*
***Weight of arrow represents magnitude of shifting dollars*

Source: NielsenIQ Omnishopper Shifting Analysis; Discover Integrated Alcohol 21+ Database; 52 weeks ending 1/27/24 vs YA

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Impacts by *category*: Beer, Wine, and Spirits

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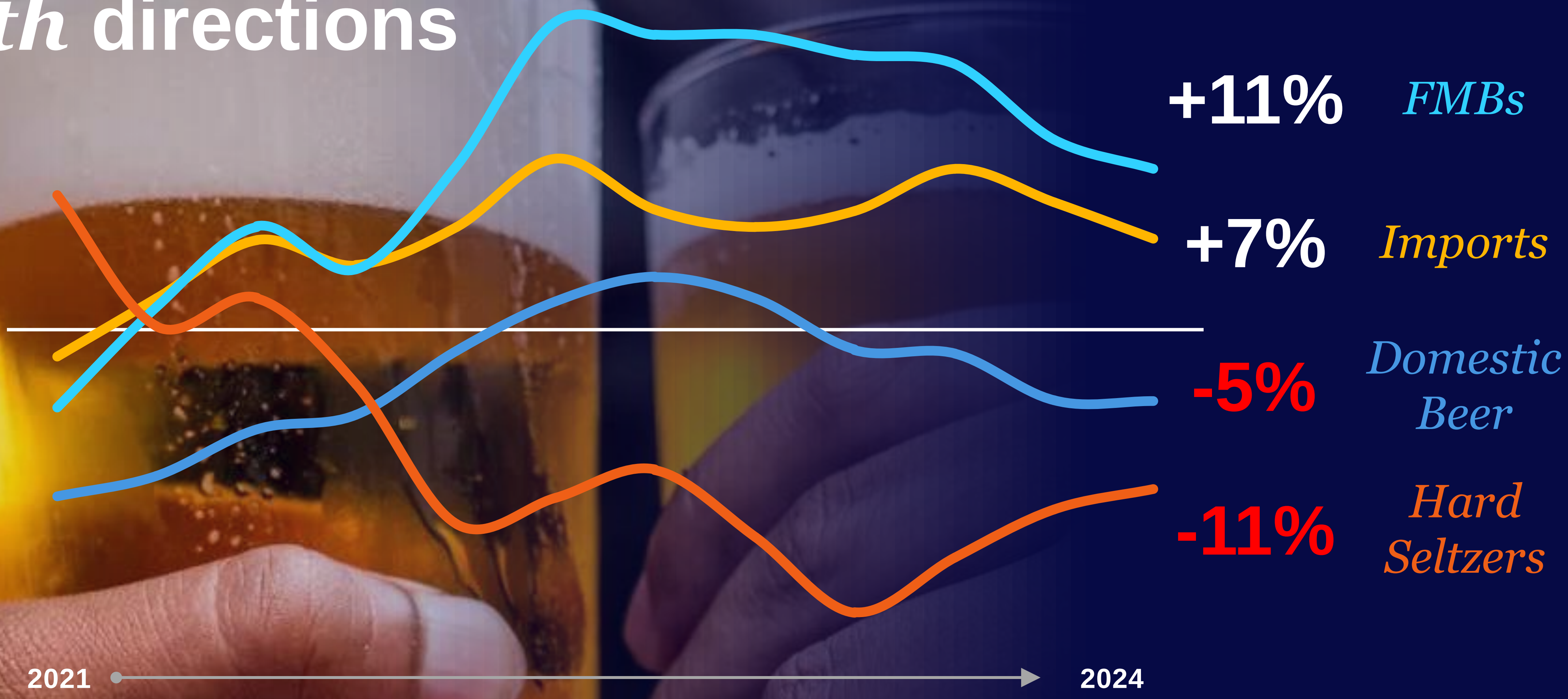
A tale of *two growth* directions

Quarterly Dollar Sales Trend vs Year Ago

Q2 2021 thru Q1 2024



Total US All Channels – Dollar Sales Change

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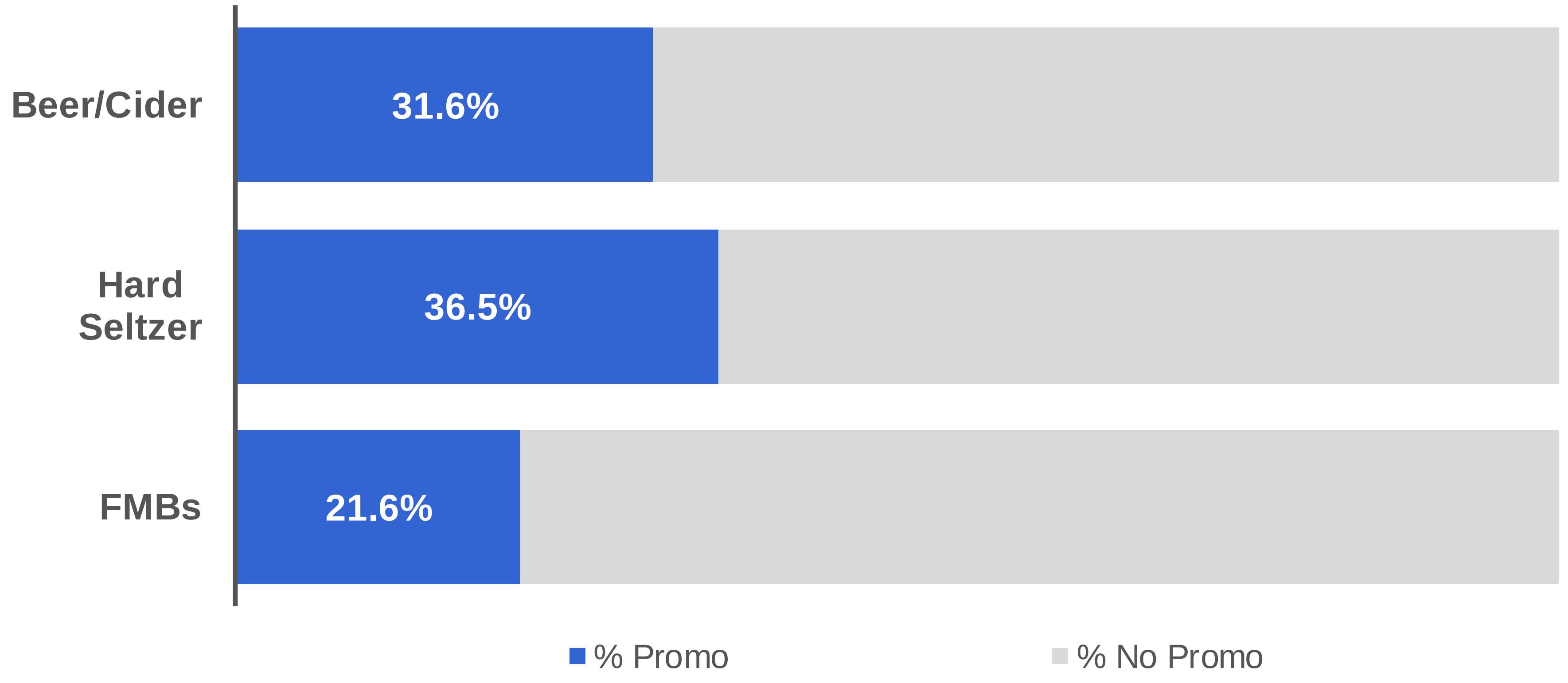
Promo dollars show high level of subsidization for Seltzers, while FMB is growing promo %

% of dollars sold on any promotion in xAOC Only



-2.4% Promo $ vs YA

-30.9% Promo $ vs YA

+15.4% Promo $ vs YA

Source: NIQ Scan Off Premise xAOC; Discover Integrated Beer, Wine, & Spirits database; Latest 52 weeks ending 3/30/24 vs. year ago

NIQ

Spirits RTDs have an ever-increasing positive trend driven by ***retail distribution***

Source: NIQ Discover Integrated Database; Scan Off Premise Channels; Rolling 52 Week Data

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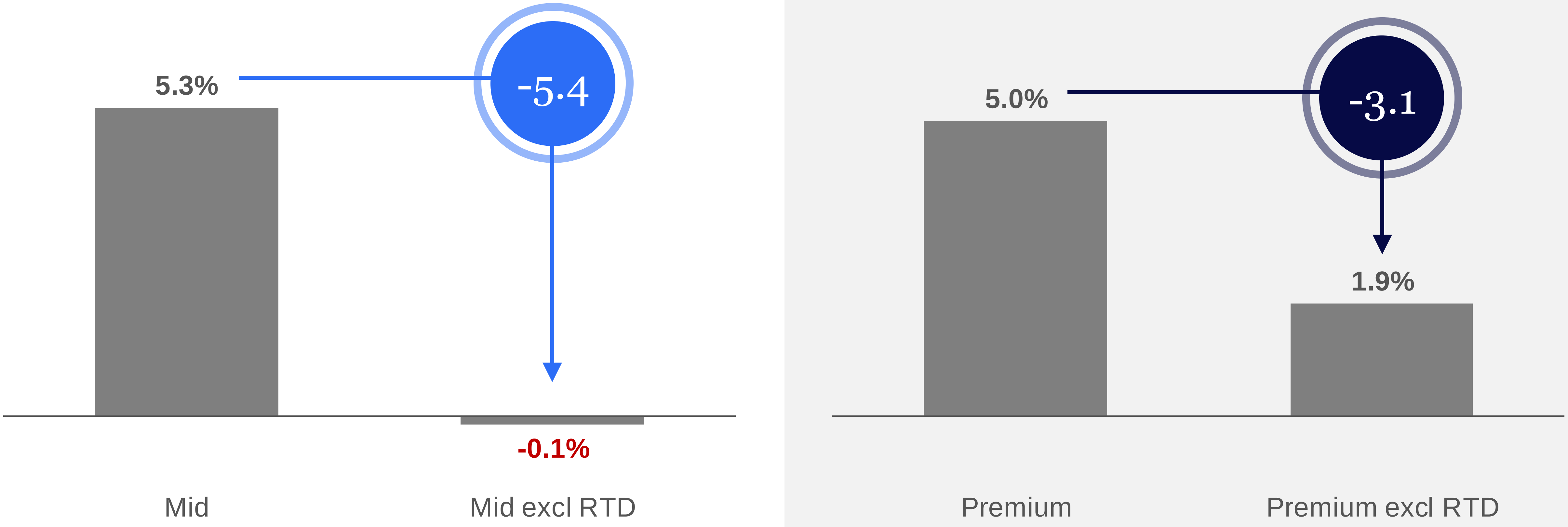
RTDs are shaking up Mid and Premium price tiers, making them formidable competitors for Spirits brands in those segments

Spirits by price tier change vs year ago

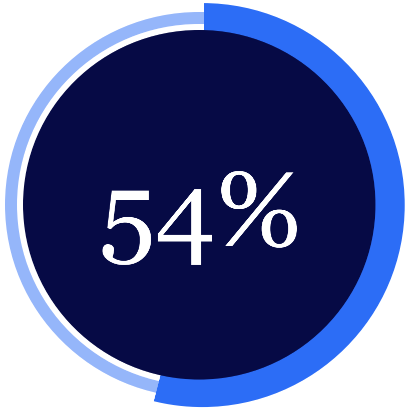


Source: NIQ Scan Off Premise Channels; Discover Integrated Beer, Wine, & Spirits database; Latest 52 weeks ending 3/30/24 vs. year ago

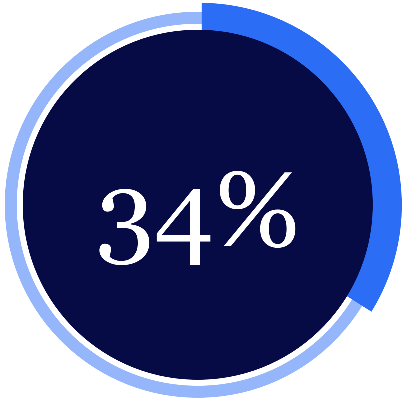
Cross Purchasing

Spirits RTDs & Cocktails vs Core Spirits

Vodka RTD
Buyers Purchasing
Vodka

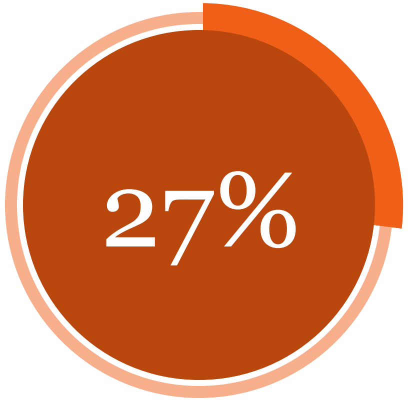


Tequila RTD
Buyers Purchasing
Tequila



Off Premise

Margarita
Consumers Drinking
Tequila



On Premise

Source: NielsenIQ Omnishopper Cross Purchasing Analysis; Discover Integrated Alcohol 21+ Database; 52 weeks ending 1/27/24

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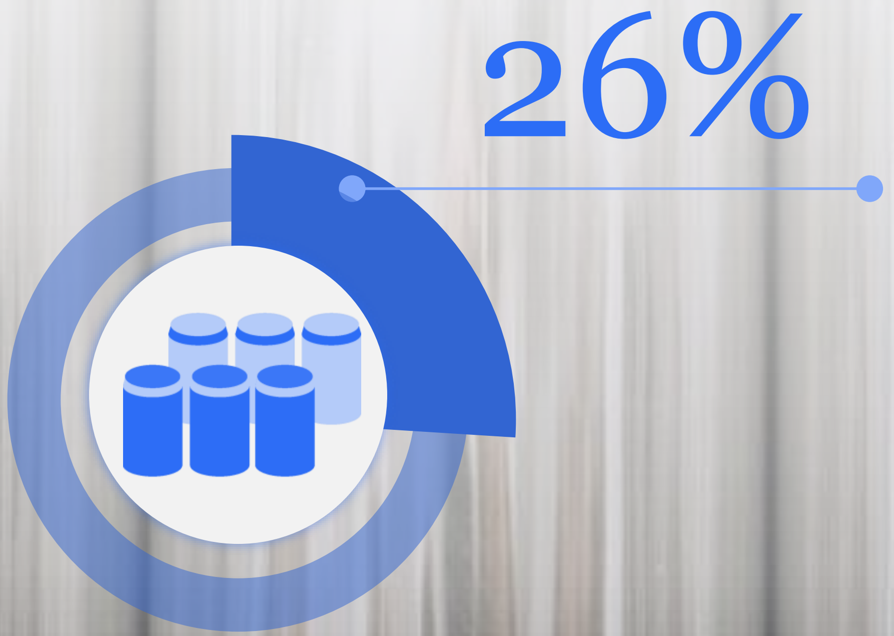
Ready to Drinks accounting for more than their fair share of innovation dollars

RTD % of Total Alcohol ***innovation items***



RTD % of Total Alcohol ***innovation dollars***

Source: NIQ Innovation Measurement (IM) – Innovation Profiler Scorecard; Latest 52 weeks ending 12/02/2024

Bartenders at premium venues recognize the RTD value proposition

35%

Of bartenders, that work in an outlet that stock RTDs, have seen an **increase** in serving RTDs vs YA

CGA by NIQ Bartender Report – Sample Size: 82 - 164
CGA by NIQ Bartender Report – Sample Size: 76

NIQ

However, RTDs are not a substitute for hand-made cocktail menu

*Top reasons for **not** selling RTDs in an On Premise outlet*

- I take pride in our house made cocktail list
- Hand-made drinks better taste/quality
- Lack of customer demand

Friend or Foe? *You decide!*

- **Emerging Fourth Category:** There is not a universally agreed upon system for "mega categories" within alcoholic beverages, but there are strong arguments for why Ready to Drink (RTD) is a strong contender for the fourth spot… and perhaps moving up!
- **Rapid Growth:** Ready to Drinks are experiencing explosive growth due to factors like convenience, variety, and portability, while targeting specific consumer need states and occasions
- **Innovation:** The Ready to Drink market is constantly innovating with new flavors, formats, and alcohol type functional beverages (hard kombucha)
- **Demographics:** Ready to Drinks have a broad demographic appeal including to younger LDA drinkers, those seeking convenience, and moderation-minded consumers
- **On Premise:** Ready to Drinks are poised for growth in traditional and non-traditional On Premise channels. Key factors for growth include flavor assortment and perceived quality of Spirits-based Ready to Drinks. Collaboration is needed between suppliers and operators to close knowledge gaps and create incremental occasions.

Thank you!

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