

Cheers!

Insights
Report

INNOVATION IS DRIVING
A BUBBLY ALCOHOLIC
BEVERAGE
MARKET



Today's consumers want to know a lot more about the alcoholic beverages they are sipping than previous generations. They want to know where their beverages were made, which ingredients were used and even where they were sourced. In the West, users want less sugar and are getting savvy to sweetening alternatives such as stevia.

In emerging markets like Singapore and China, premium vodka, tequila and bourbon are tempting taste buds. Age demographics are also driving U.S. tastes and sales trends. Older consumers have more disposable income and are willing to shell out more for craft labels, while young adults are looking for lower alcohol levels in their beverages.^{1,2}

Global growth going strong

The global alcoholic beverages market hit \$1324 billion in 2017, and is expected to reach \$1864.2 billion by 2026. Clearly, there is opportunity for growth here—which is not always evident in such mature markets. The market is segmented into three categories: beer, wine, and spirits (whiskey, vodka, rum, gin, etc.), with beer topping the list of the most-consumed alcoholic beverage worldwide. While Europe and the United States are the most mature markets in this space, Asia Pacific offers the most market growth potential, due to population growth and demand for high-end products.³

There are emerging trends on the horizon that deserve attention. Among them are demand for options with less alcohol and sugar, hybrid products and a rapidly shifting craft beer market. One thing is certain: consumers abound in this robust global category that offers a welcoming market for manufacturers with an eye toward innovation.

U.S. alcoholic beverages (in billions)

ALCOHOLIC DRINKS \$224.9

BEER \$103.4

SPIRITS \$70.3

WINE \$44

RTDS/HIGH-STRENGTH PREMIXES \$5.7

CIDER/PERRY \$1.5



Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources for U.S. Alcoholic Beverage Market for 2018.

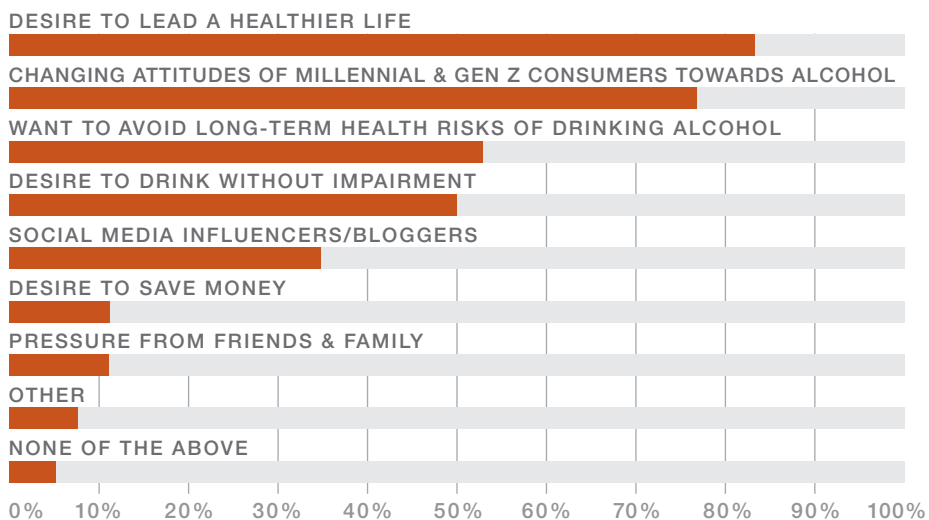
When less is more



A trend in the alcohol category that may sound counter-intuitive—but is quickly gaining momentum—is no- and low-alcohol (or NOLO) beverages. In their quest for balanced and healthier lives, Millennials and Gen Z'ers want NOLO options that provide the social experience of imbibing, but without the long-term health risks associated with drinking alcohol.³ Companies are rising to the occasion with sophisticated no- and low- alcohol wines, beers, spirits and ready-to-drink (RTD) options that offer premium quality, complex flavors and textures.²

Beverage culture site VinePair cited “low and no-proof cocktail lists” as one of eight drink trends to watch in 2019. They forecasted that “In 2019, bartenders nationwide will put just as much effort into low- and no-proof cocktails as their full-strength equivalents.”⁴

Deciphering the rise of low and non-alcoholic adult beverages



Source: Euromonitor International. Innovation and Disruption in Alcoholic Drinks: Raising a Glass to the New Consumer, 2018.

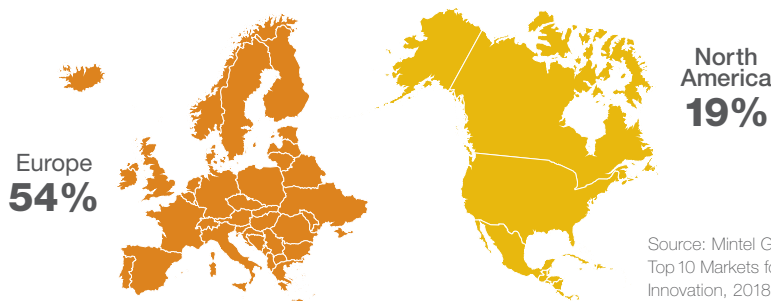
The art of craft beer



If beer is the number-one consumed alcoholic beverage around the globe, then craft beer is the category's biggest trend. Traditionally defined as beer produced through traditional methods in smaller batches at independent breweries, the art of craft beer embodies many current trends in one: transparent production, ingredients and artisans. The U.S. has been the hub for the craft beer movement, and currently has more than 6,000 breweries.⁵ In addition to being made in small breweries, craft brews distinguish themselves with unique flavor profiles such as sour, sweet, extra hoppy, malty or fruity.

As the craft beer market matures in the U.S., less growth is forecasted. However, the typical craft beer consumer—skewing toward young males with disposable income—is not waning, and sales are expected to remain steady.

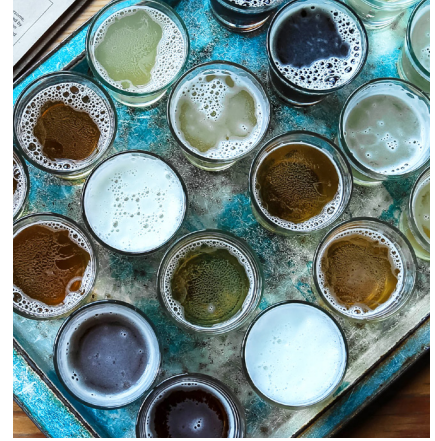
Craft beer launches



Source: Mintel Group, Ltd., Top 10 Markets for Craft Beer Innovation, 2018⁶

Across the pond is where craft beer is having its heyday. Europe now outpaces the U.S. in product launches, with consumers thirsty for new twists on this centuries-old bar staple. Currently, Europe accounts for 54% of craft beer launches, and North America, just 19%—numbers that were flopped five years ago, according to Mintel Group, Ltd.⁶ This means that the European market is ripe for new products showcasing novel flavors and ingredients.

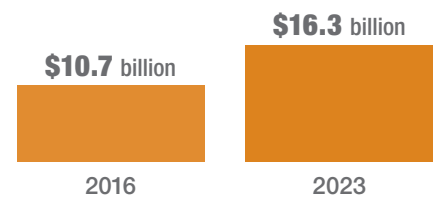
European craft drinkers aren't as interested as their North American counterparts in whether their "craft" beer was made by multinational brewers or small brewpubs down the street.⁶ Manufacturers should take note, however, that as the European market takes hold, savvy consumers will likely begin to ask questions and trade associations will respond with certifications, similar to the U.S. Brewers Association Certified Independent Craft label, adopted in 2017.



Meet craft beer's cousin: hard cider

Mention cider to many people, and they might think of pressed apple cider, served warm with a cinnamon stick. However, for millennials—and many in the beverage industry paying attention—hard cider is a niche market worth noticing. The global hard cider market was valued at \$10.7 billion in 2016 and is projected to reach \$16.3 billion by 2023, growing at a compound annual growth rate (CAGR) of 6.1%.⁷ Cider has remained popular in Europe, which was responsible for half of 2016 sales.⁷ Currently, however, it's the U.S. that is projected to experience the highest growth in hard cider sales.

The global hard cider market growing at 6.1% CAGR



Source: Allied Market Research, Cider Market, Global Opportunity Analysis and Industry Forecast, 2018.⁷

Hard cider, sold in draught, cans and bottles, is increasingly branching out beyond apple. Craft ciders with unique ingredients, such as maple syrup, ginger, spices and mint, are piquing consumer interest. "Perry," also known as cider made from pears, is its own category these days. Artisanal-made ciders offer an opportunity to appeal to craft beer enthusiasts and shoppers looking for gluten-free beer options.

Spirits on the rise



In the U.S., the \$44 billion spirits market is expected to grow 6% per year through 2022, promising ample opportunities for a broad range of industry players. Today's discerning American consumer is looking for craft and premium distilled spirits made by small, independent distilleries using traditional manufacturing methods and bottling on-site . . . hallmarks of authenticity, quality and craftsmanship.⁸

An emerging segment to watch is distilled non-alcoholic spirits, which combine botanicals, grains and aromatics to offer an alternative to gin, vodka or whiskey in mixed drinks. One of the early entrants, Britain's non-alcoholic Seedlip, was introduced in 2015, sold out almost immediately and is now available worldwide. States founder Ben Branson, "If people choose not to drink for any reason, they deserve a great adult drink, regardless of alcohol content." He credits the fact that it has no sugar and zero calories as part of its appeal to a growing number who limit alcohol for health or "wellness" reasons.⁹

Hybrids blur the lines

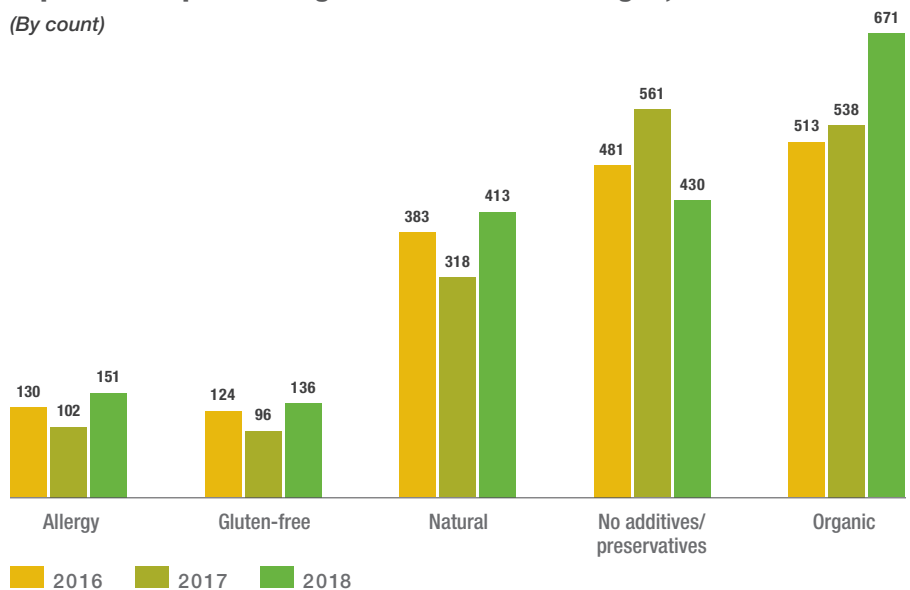
Cocktail enthusiasts and young consumers share an appetite for creativity and adventure that is driving a burgeoning hybrid alcohol market. From wine infused with cold-brew coffee, to gin and whiskey infused with tea, the lines are blurring between grocery and alcohol shelves. The same rules of transparency and artisanship apply

to these inventive creations of time-honored formulas.¹⁰

Alcohol married with non-beverage products is another growing hybrid category. It appeals to shoppers looking for a sophisticated spin on ice creams and candies, including options like Cake Batter Martini, Boozy Bananas Foster and alcohol-infused gummies.

Top 5 health positionings for alcoholic beverages, 2016–2018¹¹

(By count)



Source: Innova Market Insights, Clean Label Alcoholic Beverages, March 2019



Get ready for ready-to-drink

Ready-to-drink alcohol, premixed or crafted and ready to be consumed in bottles, cans and even single-serve pouches, will be the next alcoholic beverage category to go craft and premium, experts predict. Indeed, it is already happening with spiked, flavored seltzer waters, espresso and fruit-flavored martinis, vodka lemonades and updated wine spritzers. The market is predicted to experience a CAGR of 3.14% over the forecast period of 2018–2026.¹²

Hard seltzers sparkle

The relatively new hard seltzer category attained a 2-point share in the U.S. beer category in 2018, outpacing cider, which had 1.8 share points over the same period, according to Information Resources Inc. (IRI). Observed Patrick Livingston, IRI director of client insights for beer, wine and spirits: “Hard seltzers are bringing flavor into the better-for-you space, which is an important cross-section we are finding today. Consumers are

demanding products that are better for them, fewer calories, fewer carbs, better ingredients, and they’re also looking for flavor.”¹³

Trending: Clean label cocktails

More consumers are scrutinizing food and beverage labels these days, and alcohol is no exception. Innova Market Insights tracks over 10,000 alcoholic beverages with a “clean label” claim, including “natural,” “organic,” “no additives/preservatives” and “GMO-free.” Alcoholic drinks featuring some type of health claim grew 11.6% from 2016 to 2018, from 1,264 to 1,410.¹¹

Successful beverage producers will work with ingredient suppliers that offer label-friendly options, while maintaining the quality and taste that consumers demand.

Alcohol with less sugar

In response to global recommendations to limit calories from added sugars, 2018 research from the International Food Information Council Foundation (IFIC) shows that 77% of respondents were trying to limit or avoid sugars in general.¹⁴ Wellness influencers regularly remind followers not to overlook alcohol when tallying their daily calorie intake. And with a 5-ounce glass of sweet wine containing the equivalent of up to four teaspoons of sugar, those sweet sips can add up.

Sugar calories per glass of wine¹⁵



Source: Wine Folly, March 2019



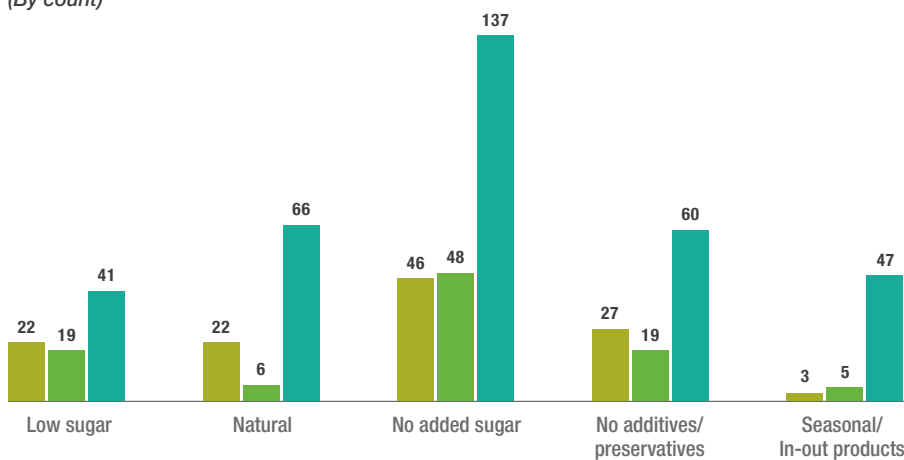
Stevia—A sweet alternative to sugar

Derived from the South American plant that is almost 250 times sweeter than sugar, stevia is a sweet example. A small amount of stevia adds a lot of sweetness, but zero calories. The sweet linger associated with the plant also helps to cover the “burn” common in some alcoholic beverages. Stevia has a positive consumer perception and is extremely heat-, light- and pH- stable, all good news for manufacturers.

With growing sugar scrutiny, it’s no surprise that brand managers and manufacturers are feeling pressure to reduce the sweet stuff in beverages. From 2016 to 2018, alcoholic beverages with “no added sugar” claims tripled in number, and “low sugar” claims nearly doubled. Vodkas, wine and flavored alcoholic beverages showed the greatest incremental growth, with sugar claims in ciders also rising and beers remaining steady.¹⁶ Savvy brands are taking advantage of the latest sugar alternatives available, many of which allow for a label-friendly ingredient panel.

Top 5 positionings for low-sugar alcoholic beverages, 2016–2018¹⁶

(By count)

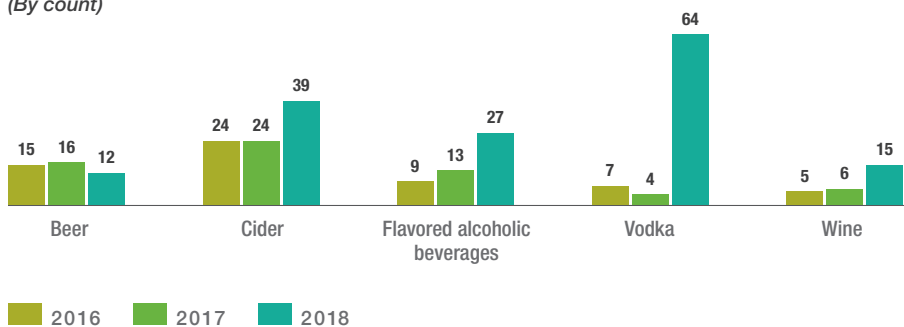


Erythritol adds sweet synergy

The sugar alcohol erythritol is also being used successfully in alcoholic beverages. Erythritol is a natural* zero-calorie bulk sweetener with a clean, sweet taste and the highest digestive tolerance of all sugar alcohols. Erythritol provides a synergistic sweetness that supports stevia, rounding out the sweetness profile.

Category growth in low-sugar alcoholic beverages¹⁶

(By count)



Source: Innova Market Insights, Low-Sugar Alcoholic Beverages, March 2019

Tips to succeed in today's alcoholic beverage market



Mirroring trends in the food market, today's alcoholic beverage consumers want recognizable ingredients, reduced sugar, transparency and products they can feel good about.

While the global market for alcoholic beverages is evolving in new directions, opportunities for innovation make for a robust and diverse landscape. Success can be distilled from a blend of insight into consumer trends and the ability to meet their needs in unique ways. Consider the following:

- **Demand for alcoholic beverages with less sugar continues to grow.** The use of zero-calorie sugar substitutes like stevia and erythritol may help meet this demand.
- **Consumer perception around the ready-to-drink (RTD) segment is quickly evolving.** With premium SKUs hitting the market, shoppers seem to be more open than ever to giving these convenient drinks a try. The innovation possible in this space offers an open playing field.
- **Flavor extensions in the hard cider category may find favor** with consumers looking for options beyond craft beers. With the stage already set in the craft beer market, getting playful here isn't a big risk. Authenticity and story-telling go hand-in-hand with cider.
- **Younger millennials are looking for reduced-alcohol beverages.** Whether it's beer, cider or RTD, the market here may be wide open for keen manufacturers.
- **Don't be afraid to break the rules** with new flavor combinations, cask materials and novel hybrids—creativity is crucial to stay on top of today's alcohol game.

*FDA has not defined natural. Contact Cargill for source and processing information.

Cargill offers broad insights, ingredients and expertise for alcoholic beverage formulation. To learn more, visit cargill.com/beverages or call 1-877-SOLUTNS (765-8867).

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