Dimensional INSIGHT®

5 Trends in the Beverage Alcohol Industry for 2021

WHITE PAPER

Introduction

Last year's pandemic caused massive shakeups for nearly every business sector, with wine and spirits being no exception. While these changes were, at first, wildly unpredictable, the dust has now settled enough for us to see them clearly, as well as the factors that led to them and how they might change next. In this article we will be examining some of the trends that have emerged going into 2021, and how these changes might continue to develop throughout the new year.

1. Consumers are drinking off-premise instead on on-premise

The biggest change for the wine and spirits industry brought on by the pandemic was the total shutdown of bars and restaurants in March. While a majority of these establishments have reopened to some extent since then, most in the U.S. are still unable to seat their full capacity, and still won't be back in full swing by the start of 2021.

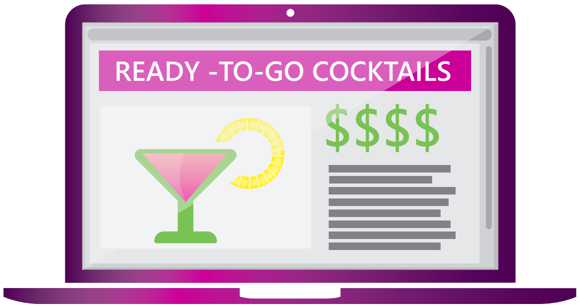
In many places that saw their COVID regulations lifted, the bump from customers returning to bars and restaurants was not as big as was initially predicted. Conversely, some areas saw a much larger return than anticipated, as people brazenly ignored CDC recommendations regarding indoor gatherings. What became clear during 2020 is that it is not necessarily state regulations that will decide when bars and restaurants get back on their feet, but customer confidence. While the recently developed vaccine may functionally wipe out the virus, it is still the customers who will decide when they feel safe enough to return to their favorite establishments in full force. For now, winter has shut down outdoor dining, severely limiting the on-premise capacity of most bars and restaurants. But if all goes well the vaccine could be in full deployment by early summer, giving customers two very good excuses to go back to all their old favorite places to order a drink. The vaccine and, perhaps more importantly, the customers will determine whether the decline of on-premise drinking will continue throughout 2021, or be completely reversed.

2. Consumers are buying their cocktails to-go or in cans

With the bars and restaurants struggling to get back on their feet, many of their former customers have been drinking at home instead. But while those customers can simply get the same beer or wine from a liquor store or delivery service (at a significantly lower price), they will have a much harder time replicating their favorite cocktail without the help of a skilled bartender and well-stocked bar. Many of them don't want the hassle of buying and maintaining a stock of several different ingredients, let alone putting all of those ingredients together every time they want to enjoy their favorite drink.

That's where ready to drink (or RTD) cocktails come in. Pre-mixed cocktails in a can were already picking up popularity pre-pandemic, but in the past year their numbers have risen dramatically as they quickly filled some of the space left by the absence of on-premise drinking. Flavors like margarita, piña colada, and daquiri are now available in canned form, with new flavors appearing frequently as more and more brands join the market. While this trend was largely spurred by COVID, it is not just a bubble that will be popped by the vaccine. Many of these new customers are sure to get used to the taste and convenience of RTD cocktails and become repeat-buyers.

But canned cocktails aren't the only way that people are enjoying cocktails at home. More and more restaurants and bars are offering their cocktails through to-go pickup. In most parts of the country, ordering drinks to consume off-premise would have been illegal a few short years ago. Although the legislature surrounding to-go cocktails was starting to loosen up prior to the pandemic, the year 2020 led to those laws changing a lot more quickly in order to help struggling establishments to survive. It is unclear at this point how many of these states that recently allowed to-go cocktails will outlaw them again once the pandemic is over. But for now, they appear to account for a significant portion of on-premise liquor sales. Data seems to support the idea that batching of cocktails- mixing large quantities of well cocktails at once to be quickly sold in individual portions- is playing a big role. This trend is particularly evident in tequila sales, which seem to have received a sizable boost from bars and restaurants making large batches of to-go margaritas.



3. Consumers are turning to eCommerce for their purchases

No sector of the wine and spirits industry is rising as meteorically as online orders. Home delivery is starting to outpace brick and mortar stores in nearly every sector, including beverage alcohol. With customers striving to limit their trips outside of the house, the option of shopping from home has become much more appealing. Popular delivery apps like Drizzly are gaining more ground and offering service to more and more cities across America, even as supply chain issues cause complications. While traditional liquor stores are also seeing an increase in business, a significant portion of their business is now supplying the drivers of these delivery services with the orders that they are bringing to customers. Even the bars and restaurants that are able to serve to-go cocktails may be able to have those drinks sold directly to customers at home through the use of a delivery service.

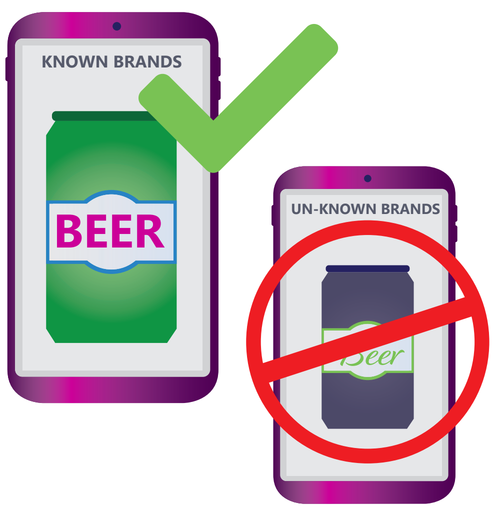
Like the RTD cocktails trend, the sudden spike of eCommerce is closely tied to the pandemic, but that does not necessarily mean that it will fall out of popularity as the coronavirus subsides. People tend to repeat purchases of products and services that they've used before, and plenty of alcohol eCommerce patrons will enjoy the simplicity of ordering online enough to continue utilizing those services regularly in the future.

4. Consumers are shifting toward premium & well-known brands

Before the pandemic hit, there had been a very steady trend of premiumization in the beverage alcohol industry, with customers gravitating towards more and more expensive and 'high quality' brands. This shift was noticeable in every category of spirit, although vodka was lagging behind the rest due to the availability of less expensive but still premium alternatives. But this trend quickly reversed in the early days of COVID-19. Premium beverages are most commonly ordered on-premise, where customers are willing to indulge in more expensive drinks than what they would usually get at home. On top of that, the unstable job market was causing consumers to tighten their belts and avoid unnecessary splurging. Even when bars and restaurants started to reopen, the trend of premiumization did not immediately resume.

Month later, premiumization appears to be showing signs of recovery, even if on-premise consumption hasn't fully returned to normal. While sales of premium products are not rising at the same rate that they were before the pandemic, the data suggests that they will be back on track by the end of 2021.

Concurrently with the trend toward premium spirits, a trend towards well-known and recognizable brand-names seems to be emerging as well. The trend is most noticeable in online orders, probably because people are more likely to buy a product that they trust and are familiar with when they can't see the new products in front of them. However, liquor stores have also been displaying their more famous brands prominently, so that customers see them right away when entering the store. It could also be that in times of uncertainty, people feel less inclined to take risks and try new things when they could go with a beverage that they know they won't be disappointed by.



5. The impact of taxes and tariffs for distillers and distributors

Although not pandemic related, one of the biggest dangers on the horizon for the wine and spirits industry in 2020 had been something that most consumers were completely unaware of. The U.S. tax reform bill that was implemented in 2017 included the Craft Beverage Modernization and Tax Reform Act, which has been a tremendous benefit to small breweries, distilleries, and vineyards. The provision dramatically cuts the federal excise tax on the first 100,000 gallons of beverage alcohol that a company produces every year. This may not mean much for the biggest producers of alcohol, but for smaller companies it may cover their entire annual production. This reduced rate has enabled several new craft beverage companies to emerge within the past few years. The bill was originally set to expire at the end of 2019, but within the last few weeks of the year it was renewed for another twelve months. That extension was almost up by the end of 2020, when the Senate and House of Representatives swooped in at the last minute and voted to make the CBMTA permanent. Now that it has been enacted, it will remain in place for the foreseeable future.

This is a tremendous relief to small beverage producers, who were already struggling to keep their doors open throughout the pandemic. If the bill had been allowed to expire, excise tax rates could have shot from $2.70 per proof gallon back up to the original rate of $13.50 per proof gallon. This 400% tax increase would likely put several small producers out of business while elevating the price of craft beverage products for consumers.

However, this isn't the only looming legislative threat that had the wine and spirits industry worried. Tariffs on exported products have been an ongoing concern during the Trump presidency, with many industry professionals claiming they are hurting business and costing American jobs. The tariffs have been especially severe for the whiskey industry, which has thrived on selling Kentucky bourbon to Europe and China. While the idea behind the tariffs is to increase tax revenue on foreign trade while encouraging Americans to buy locally made products, the results are not so straightforward. The tariffs disincentivize buyers from other countries by adding a hefty tax, and hurt American importers as well, by causing leaders of those countries to respond with retaliatory tariffs on their country's locally produced goods. Now, the European Union is planning a new wave of tariffs on imported spirits in response to our own high rates, which could put a strain on business for American distillers and distributors. As of now the tariffs are set to come into effect next year, but many groups such as the Distilled Spirits Council for the United States (DISCUS) are lobbying for these isolationist trade policies to be reversed, in the hopes that America's trade partners will follow suit.

Conclusion

The year 2020 was chaotic and uncertain, and 2021 is shaping up to be equally uncertain. Many of the trends listed above are heavily influenced by or dependent on the status of COVID-19, but that doesn't mean that those trends will simply revert to how they were before if the virus is eradicated. Consumer behavior has less to do with the actual state of the pandemic, and more to do with their level of confidence. On-premise sales didn't recover as quickly as expected because many people still weren't comfortable going out. This could once again be the case after the deployment of a vaccine, or people might eagerly swarm back to their favorite establishments as soon as they get the chance. It all depends on how safe those people feel.

Even if customers do start going out again right away, some of the trends that were formed in the absence of on-premise consumption, like RTD cocktails and eCommerce, are most likely here to stay. People have come to enjoy these things for their convenience, and even in a post-COVID world they will still be more convenient than ordering from bars or restaurants in-person.

Lastly, these trends will depend on changing laws. If the laws regarding craft breweries expire this year as planned, the results for those companies could be devastating. Likewise, it is still unknown whether states will revert to their old laws regarding to-go drinks, but if there is an influx of in-person customers after the pandemic, this is unlikely to be as impactful. With a new administration, new laws, and a 'new normal', anything could happen.

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