BEVERAGE ALCOHOL WHITE PAPER

Bump Williams Consulting & Upland

WHAT'S NEXT:

2024 REALITIES & 2025 OPPORTUNITIES IN ALCOHOL

The Beverage Alcohol industry is at a crossroads.

While alcohol has long been the go-to for socializing and unwinding, it is now facing a sobering reality: people are drinking less. As we will explain, this is due to trading up in price, the moderation trend driven by Gen Z and aging Baby Boomers, and other competitive alternatives emerging. With consumers focusing on health and watching their wallets, the once-reliable "cheers" moment is shifting.

So, where does alcohol fit in a world where 'low and no' drinks are stealing the show? The future is all about innovation. Whether it is crafting new experiences, tapping into wellness trends, or redefining what "grabbing a drink" means, alcohol brands need to adapt to better meet today’s consumer needs. In this whitepaper, we will dive into key factors impacting consumer demand and provide insights to help industry leaders plan for 2025 and beyond.

This paper covers four key factors impacting beverage alcohol + what this all means in terms of opportunities for brands today...and going forward.

1. Consumption Moderation

2. Desire For Convenience

3. Market Realities

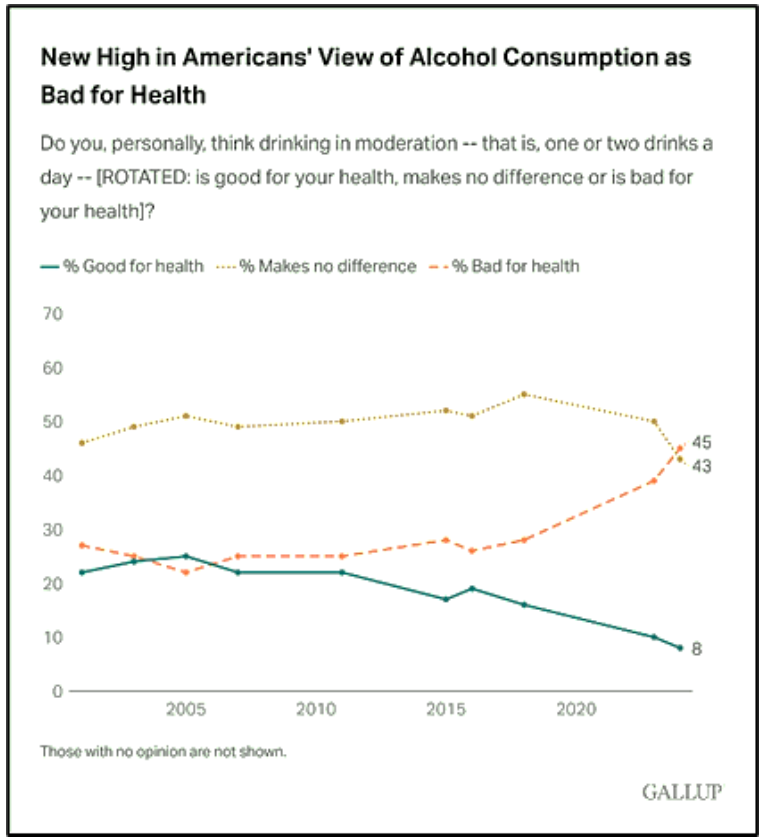
4. Taste Preference Shifts

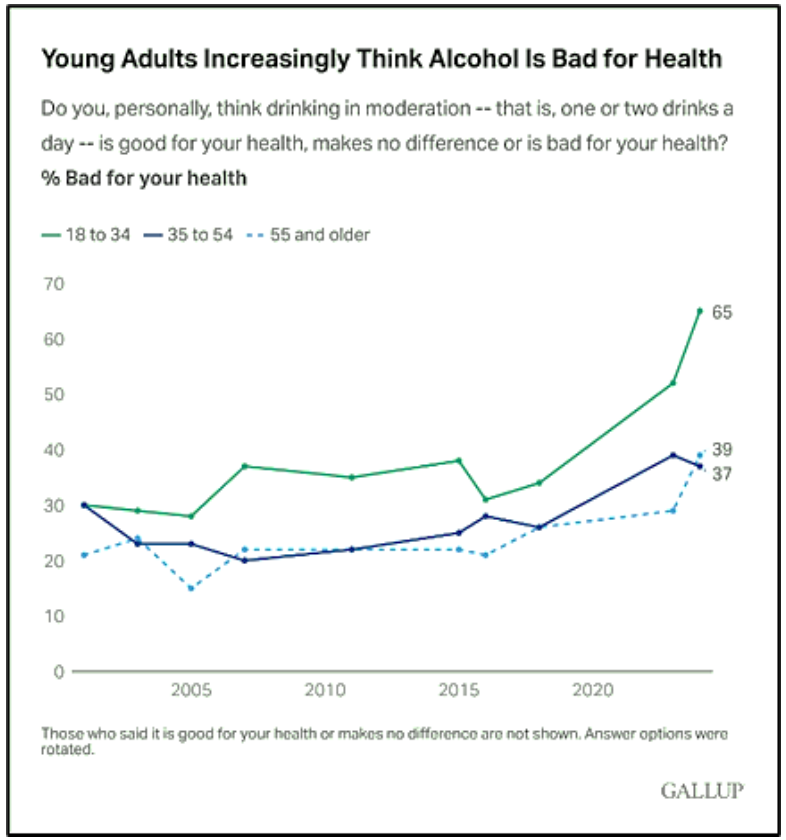
5. Implications & Next Steps

1. Consumption Moderation

1A. Putting The Glass Down: The Sobriety Shift

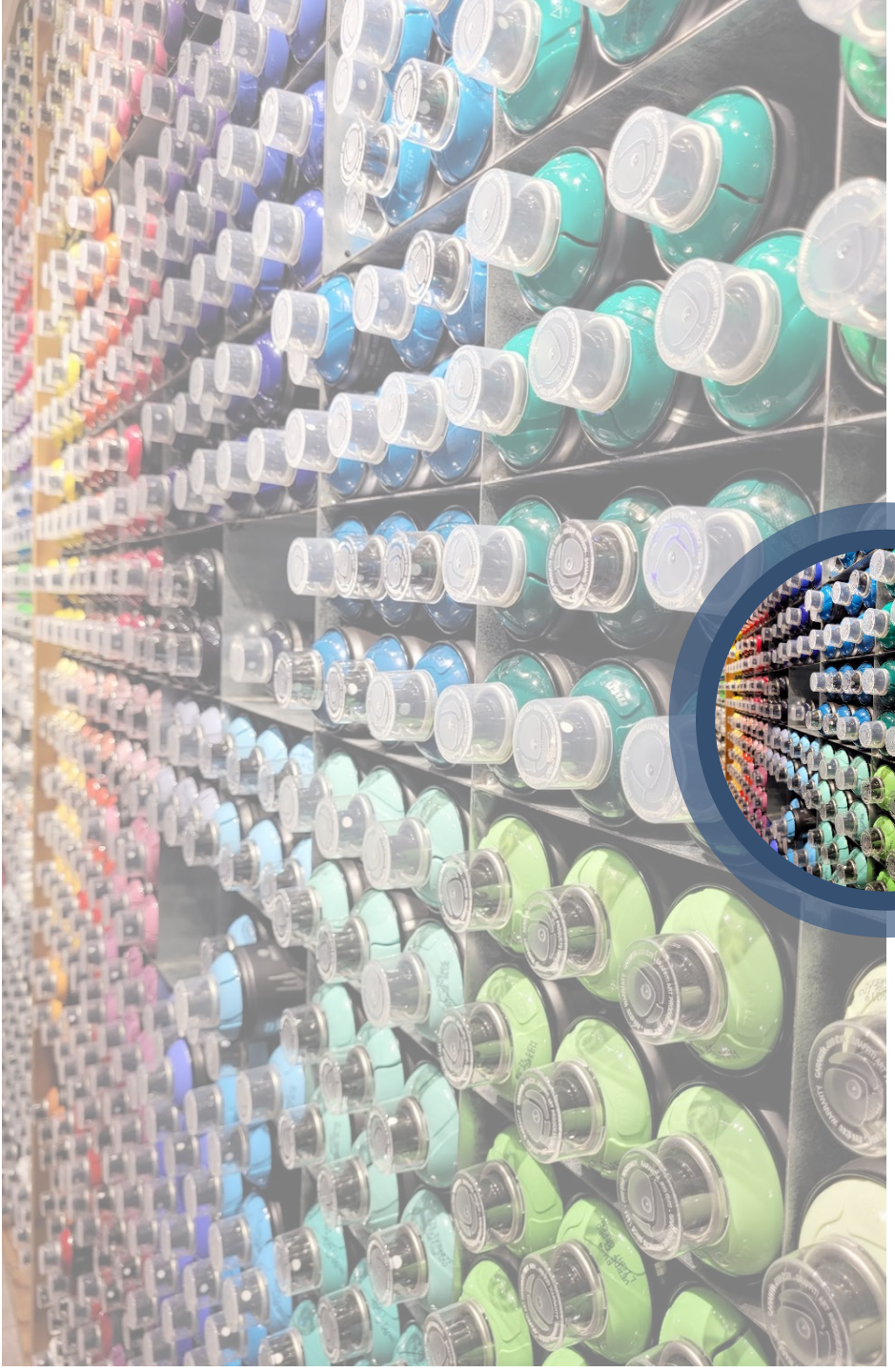
While overall alcohol consumption remains stable across demographic groups, growing consumer **concerns around health and wellness** are leading to significant changes in their behavior. A recent Gallup poll revealed a notable change, where almost 9 in 10 US adults say alcohol use is “very” (33%) or “somewhat” (53%) harmful to those who drink it, even in moderation. This perspective has always skewed higher among younger adults vs. those aged 35+, but recent years have shown that all age demographics are starting to share this opinion. Whereas 65% of US adults ages 18-34 say alcohol consumption negatively affects one’s health, 37% of those aged 35-54 and 39% of those aged 55 and older agree. [Source: Gallup]





1B. Zero Proof, 100% Fun: The Rise of Alcohol-Free Cheers

In response, moderation has become a key theme in the industry. Consumers are seeking products that allow them to engage with the alcohol category while minimizing their intake. This trend is driving the rise of non-alcoholic (NA) alternatives, particularly in the Beer category, with forerunner brand Athletic Brewing receiving $347.5MM in funding and hitting shelves nationwide [Source: CB Insights]. We are seeing similar signs of NA emergence within Wine & Spirits as well with brands Noughty and Figlia piquing consumer interests. NA alternatives from mainstay brands and new entrants alike have proven to be a strong option to keep consumers engaged with Beverage Alcohol. As Evan Millman, Head of Brand Innovation at Upland recently wrote about here, the US NA beverages market was sized at $161.3B in 2023 and is projected to grow to $225.6B by 2030 [Source: Fortune Business Insights]. Consumers are still celebrating with beverages, it's just the **beverage & behavior that is evolving.**



2. Desire For Convenience

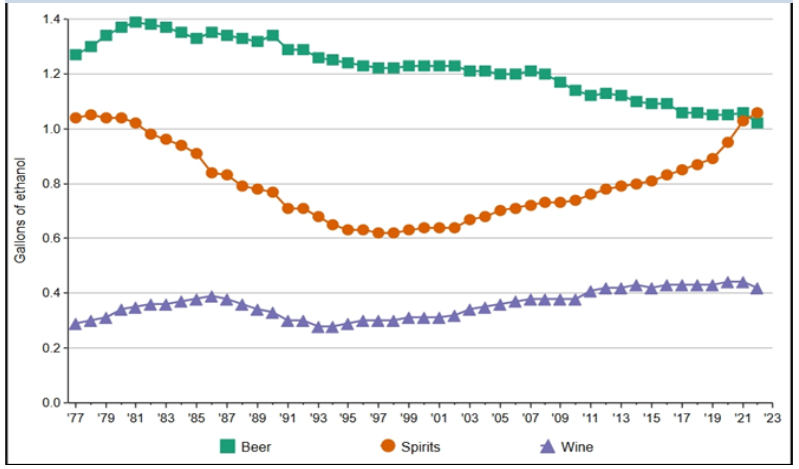
2A. Shaken Up the Category: Ready-To-Drink's Lead

While most packaged Alcoholic Beverages are technically considered "Ready-to-Drink" (RTD), the real essence of this term as it is used today has to do with the concept of creating a cocktail or cocktail-style product and packaging it in a convenient format designed for immediate consumption. RTD canned beverages are most popular with consumers 25-34 (21.5%), but following closely behind are consumers ages 35-44, 45-54, and 55-64 at 17.9%, 17.5%, and 16.3% respectively. Spirit sales to restaurants are staying strong, with a special interest towards regionality as 80% of consumers prefer distilled spirits made by a local producer [Source: National Restaurant Association].

Consumer demand for these products was particularly emphasized during the rapid rise of malt-based Hard Seltzers such as White Claw and Truly and has been further perpetuated by the emergence of Spirits & Wine-based products like High Noon and Beatbox. Through 2024 so far, RTD Spirits have achieved an ~8% share of Total Spirits and Wine-Based Cocktails now account for ~4% of Total Wine $ sales. [Sourced: NIQ]

While these RTD products have existed on the shelf in some form or fashion for decades, this shift in consumer demand brought the category back into focus & elevated it to a **new level of relevance through a wave of innovation, premiumization, and eye-catching packaging.**

Per capita ethanol consumption by beverage type, US, 1977-2022



Evolving From Design (Smirnoff Ice Original)

THE EVOLUTION OF READY-TO-DRINK

Evolving To Design (Beatbox Party Punch)

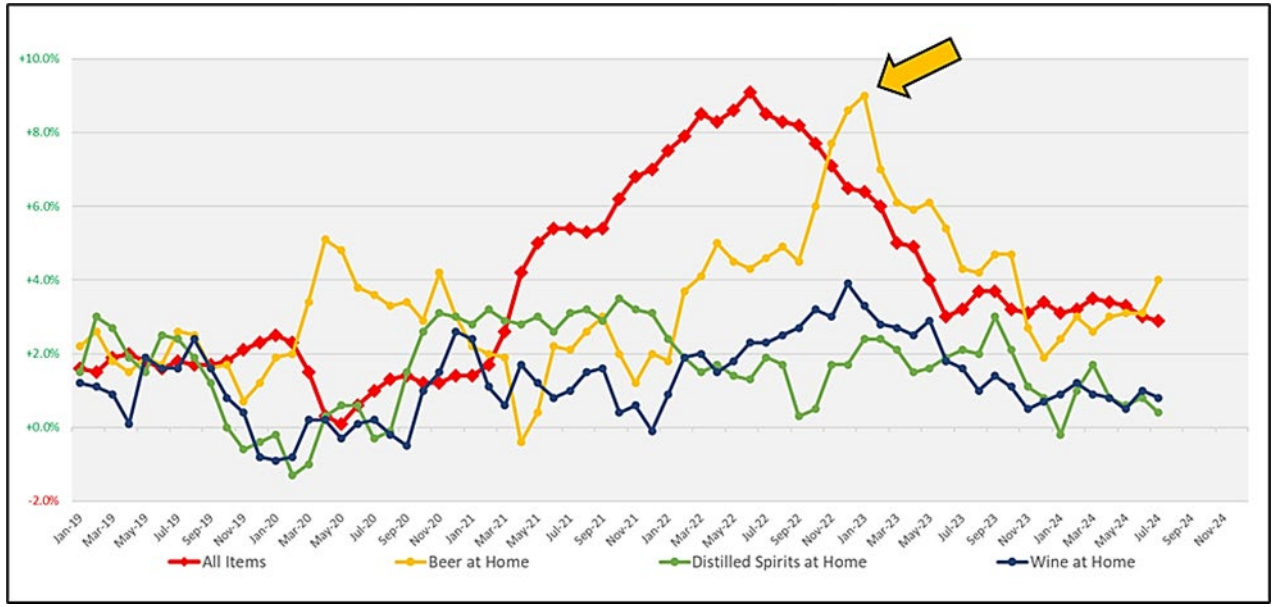
2B. Why Just One? Convenient Options for Multiple Flavors

This concept of “convenience” in Beverage Alcohol is also taking shape within the ongoing rise of single-serve containers (mostly cans) that allow consumers to try **different flavors during the same occasions**. Brands like Modelo Chelada, whose flavors include tomato and lime and strawberry and chile, and Spindrift Spiked, which uses fresh fruit like mango and pineapple for a lush profile, are leading this wave. Consumers appreciate the diversity of choice these containers offer (in addition to the price-per-trip flexibility) [Source: BWC Consumer Survey] and this is especially true for Generation Z, as in a recent study from Morning Consult, 45% report trying more than one new beverage in a month.

3. Market Realities

3A. Bifactor Interest in Top and Bottom Shelf: Inflation's Impact on Price Sensitivity

Unadjusted CPI by Detailed Expenditure Category



The ongoing effects of inflation have reshaped the alcohol market, creating a **divide between price-sensitive consumers and those willing to spend more for premium experiences**. On one end of the spectrum, inflationary pressure has heightened price sensitivity among a certain set of consumers, leading to shifts in purchasing patterns. This group is increasingly trading down, altering frequency, or changing volume per trip to manage costs. Inflation is also leading to a closer examination of alcohol content in beverages, with the middle range of ABV (4-8%) struggling in comparison to lower (<4%) and higher (>8%) ranges, reflecting consumer interest in receiving the most bang for their buck.

3B. And on Top, Premiumization is Staying Strong in Select Categories

However, premiumization remains a powerful force in the market. It is on the rise not just in ingredients, but also through formulations that pack a stronger punch with high ABV (8% and up). This category is performing well, especially Beer, as its Consumer Price Index (CPI) surged ahead of Wine and Spirits from 2022 through 2023, exceeding the overall inflation rate [Source: BLS], and Bourbon, where consumers are still paying top-dollar for their **favorite top-shelf options**.

Premiumization has driven Whiskey and Tequila in the past few years, both during and shortly after the Covid-19 pandemic, but it is worth noting that we have seen a slowdown in that arena this year [Source: NIQ]. Looking at Beverage Alcohol as a whole, premiumization has the strongest effects on consumers' purchasing decisions when the products offer a compelling story or superior experience.

NIQ: $ Sales & Share Trends, TUS All Off-Premise Outlets, CY 2023

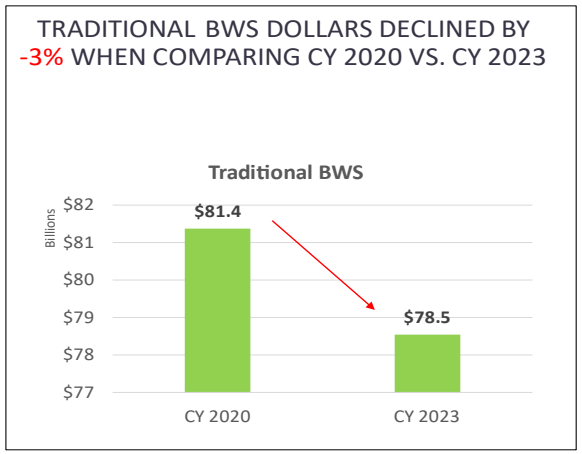
Spirits by Price Tier	Total US xAOC + Liquor Open State + Conv		
	$ % Chg YA	$ Shr - TTL SPIRITS	$ Shr Chg YA - TTL SPIRITS
TOTAL SPIRITS	**2.1**	**100.0**	**0.0**
WHISKEY	**-0.8**	**34.8**	**-1.0**
VALUE	-2.2	0.9	-0.0
MID	-1.8	5.2	-0.2
PREMIUM	-0.8	12.1	-0.4
SUPER PREM	-3.5	10.1	-0.6
ULTRA	4.4	6.6	0.1
TEQUILA	**8.3**	**15.2**	**0.9**
VALUE	4.4	0.2	0.0
MID	6.9	2.4	0.1
PREMIUM	15.6	4.6	0.5
SUPER PREM	1.1	4.1	-0.0
ULTRA	9.5	4.0	0.3

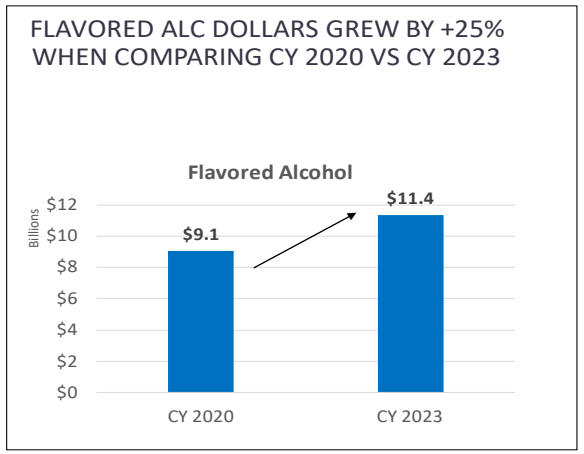
4. Taste Preference Shifts

4A. Flavor Innovation and the Changing Consumer Palate

Flavor innovation is another key driver of growth in the alcohol industry, accounting for most beverage alcohol innovation dollars for the last 5 years [Source: FlavorSum]. **Key drivers** behind the rise of Flavored Alcohol include convenient packaging, with single-serve options making up 37.2% of total sales year-to-date—an increase of 2.5% compared to last year. **Health-conscious** choices are playing a role too, with Better-For-You products accounting for 49% of total Flavored Alcohol sales. Altogether, the appeal of new flavors, wellness-focused options, and convenient packaging are fueling this category's growth.

Flavored Alcohol is Driving Total Beverage Alcohol Sales Growth





Source: The BWC Company and NIQ OFF-PREMISE DATA FOR CY 2020 &2023 – TOTAL US XAOC + CONV + LIQUOR

This trend is particularly strong among Generation Z, those of whom are of legal drinking age (21-27). This age group places an emphasis on travel, whether that be flying to popular travel destinations like Barcelona and Thailand or being exposed to global flavors at home through TikTok tutorials on trendy foods and beverages like homemade kimchi and lemon cold brew tonic. The global beverage flavors market was valued at $16 billion in 2023 and is expected to reach $22 billion by 2030 [Source: Maximize Market Research]. As a result, flavored alcohol products—including Hard Seltzers, Flavored Malt Beverages, and RTD Cocktails—have emerged as a distinct category within the industry. Flavored alcohol sales have grown from 11% of total beverage alcohol sales in 2020 to 15% in 2024 [Source: NIQ]. In addition, high-alcohol content products (8% or more) make up 30% of Total Flavored Alcohol Dollars YTD and variety packs make up 34.6% of Total Flavored Alcohol Dollars YTD. Both categories reflect consumers' desires for indulgence and choice.

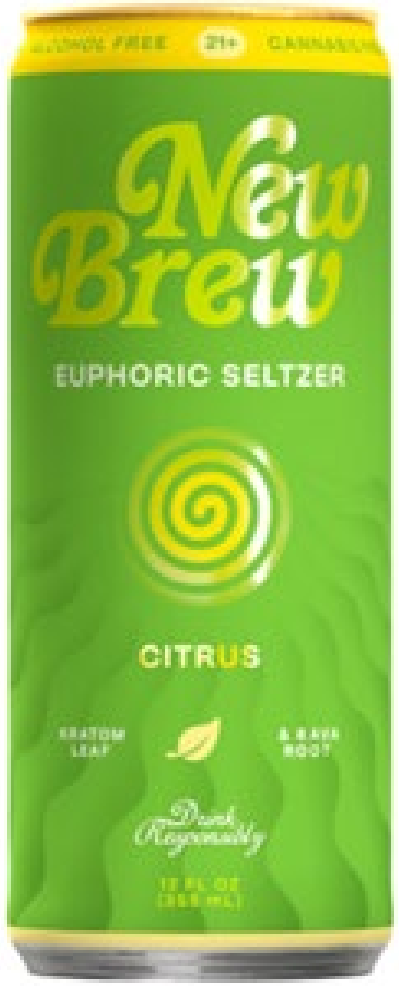
4A. Flavor Innovation and the Changing Consumer Palate (CONTINUED)

While there remains a large cohort of legal drinking age Sweet Tooth consumers who are driving the Flavored Malt Beverage segment's growth, we have also seen the rise of **subtle flavored products** driven by **health-conscious consumers.** This has led to malt and spirit-based Hard Seltzer offerings such as Crooks, which is organic and zero sugar. This movement reflects similar activity in non-alcoholic brands (i.e. Nixie zero-sugar sodas). Bitter and Savory flavors are on the rise as well, such as sumac chili and anise. Kin's NA "Picklesecco" with pickle, dill, and apple cider vinegar notes and Ghia's salt and lime and chili and sumac flavored NA "Le Spritz" offerings reflect these changes in consumer palates.

4B. Novel Pressure, From Cannabis to Ozempic to Climate

People who drink Beverage Alcohol are enjoying more "**beyond alcohol**" options than ever before. Cannabis is legal for recreational use in 24 states as of September 2024, and consumers interested in a different effect have stepped away from Beverage Alcohol and towards this product category instead. A recent consumer survey by BDSA cited that 18% of hemp consumers reported specifically purchasing hemp as a way to reduce alcohol consumption.

A major part of the cannabis industry's success is due to its marketing strategy to **target specific functional needs, moods, and micro-occasions.** By developing offerings that help with sleep, be an energy up lifter, assist with focusing, quick hits (i.e. Dog Walker joints) or calm consumers down – cannabis has slotted itself into a wide variety of regular, routine use cases that naturally fit consumer needs.



4B. Novel Pressure, From Cannabis to Ozempic to Climate (CONTINUED)

In addition to increased choice in alcohol alternatives, other drivers like the rising popularity of GLP-1 weight **loss drugs Ozempic and Wegovy** are factoring into lower alcohol consumption as well. For consumers who use these drugs, they may choose to avoid consumption habits that could detract from their progress, and for those who do not, the decision to minimize alcohol use is another way to work towards a similar goal.

In addition, explosive growth of **NA beverages** that move away from traditional Beverage Alcohol similarities and instead offer options across soda, hydration, energy, sparkling and still water, Ready-To-Drink tea and juices are competing for beverage occasions as well. From nationwide favorites like OLIPOP gut-healthy soda raising $42.50M in funding [Source: CBInsights], to Liquid IV's rehydration solutions (acquired by Unilever), there are a plethora of new beverage options for consumers to choose from.

Finally, the effects of **climate change** on the Beverage Alcohol industry should not be minimized, with extreme weather patterns such as droughts and fires impacting the growing and production process of certain categories. In 2020 alone, The Glass Fire in Napa Valley destroyed or deeply damaged 14 wineries and vineyards in California's famed wine corridor [Source: NYT].

5. Implications & Next Steps

In summary, with growing concerns about health, inflationary pressures, and the rise of convenience and flavor innovation, the Alcohol Beverage industry must adapt to stay relevant. Non-alcoholic alternatives, RTD formats, and premiumization present clear opportunities for growth, while the broader moderation trend and shifting consumer expectations will continue to shape the landscape. Success in this evolving market will require companies to strike a delicate balance: offering products that meet the needs of price-sensitive consumers while still capturing the loyalty of those willing to trade up for premium experiences. **But where there is change, there is opportunity. There are a wide array of innovation paths ripe for the taking, including:**

A. Address Moderation in Your Own Way

B. Borrow Brilliance: Learning from External Categories Successes

C. With One Purchase, Offer Many Ways to Play

D. Taste the World: Boost Your Portfolio with Bold Flavors

E. Innovate to Support Consumer's Wellness Goals

F. Personalize Your Portfolio: Offer Customization That Reflects Consumers

G. Beyond Beverages: Infuse Alcohol in Snacks

Highlights of each follow.

5A. Address Moderation in Your Own Way

Though there has been a notable uptick in moderation, like the behavior itself, everything is about finding the proper balance. **It is essential to ask: Is your portfolio structured to address the myriads of occasions that consumers are looking for?**

While Non-Alcoholic options are one solution, there is still significant opportunity to build behaviors in “Everyday Wins,” with 56% of millennials reporting they enjoy celebrating everyday victories with small indulgences, like a drink. Occasions such as finishing a project or making it to the weekend are ideal for micro-celebrations, which millennials are 2.5x more likely to share on social media as well. Innovations like end of the **workweek themed** beverages (i.e. Happy Thursday) and **smaller-sized RTDs** (i.e. Ready-to-Serve On the Rocks Cocktails, 12oz Ready-to-Drink Cutwater Margarita) address moderation in new, creative ways.

Happy Thursdays

On the Rocks

Cutwater

5B. Borrow Brilliance: Learning from External Categories Successes

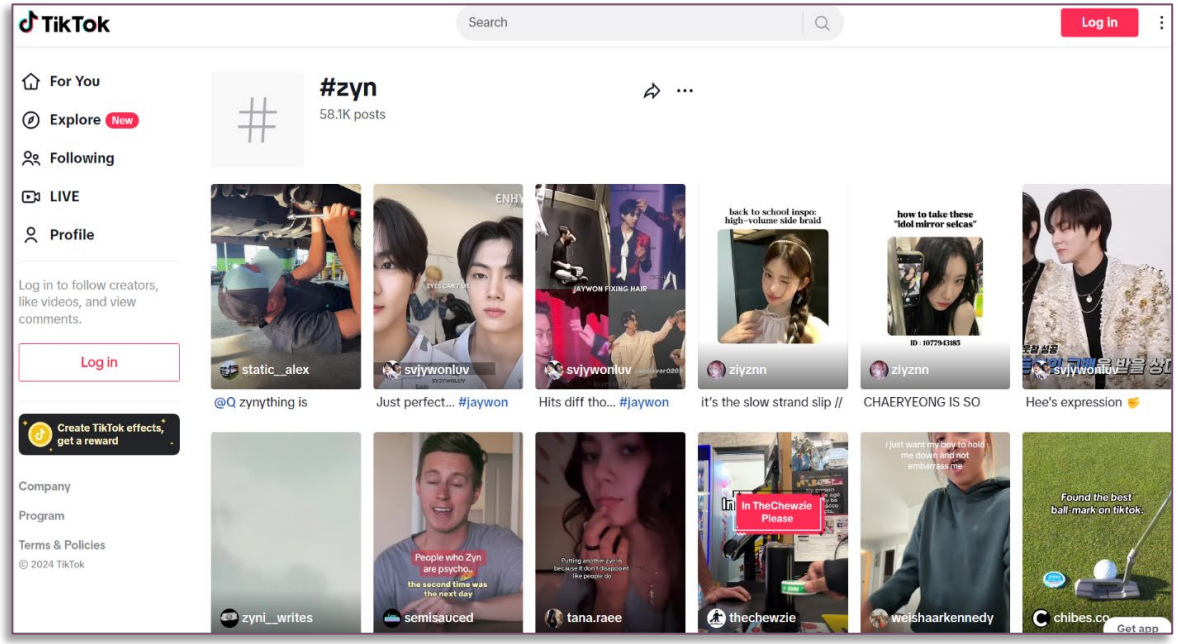
The Cannabis industry's overwhelming rise has many lessons to offer Beverage Alcohol. Perhaps the most important is the opportunity to market offerings as fitting **routine use cases and mini wins**. New alcoholic beverage innovations could include:

- Ready-To-Drink beverages with half the typical percentage of alcohol, a la "half-caffeine"
- Tequila marketed as a mood lifter
- Drinks meant to pair with certain dishes, i.e. Beer for Burgers

Zyn, the fast-rising oral nicotine pouches is a second industry to take notes from. The hashtag #ZYN has more than 700MM views on TikTok alone, and their core benefits include:

- Discrete to use
- Pocket-sized to transport
- Available in multiple strengths to fit different use cases
- Come in refreshing flavors that improve breath scent
- Does not stain teeth

There is an opportunity for alcohol innovations that hit on some of these notes, especially flavors that offer breath improvements and formulations that don't leave stains if spilled.



5C. With One Purchase, Offer Many Ways to Play

With the rise of so many choices within Beverage Alcohol, it can be almost paralyzing when it comes time for a consumer to make their decision. It can make a major difference to ensure Beverage Alcohol's portfolio has a solution for every occasion. This can include offering the **flexibility** of Single-Serve formats without a significant out-of-pocket investment through Variety Packs with a mix of no, low, traditional, and high levels of alcohol to offer multiple formats for group occasions.

5D. Taste the World: Boost Your Portfolio with Bold Flavors

Consumer flavor proliferation is expected to continue and ensuring that the innovation roadmap reflects relevant profiles, alcohol levels and occasions is critical to remain industry leaders. **Flavor expansion inspiration** can come from abroad – by tapping new flavor profiles from top American travel destinations like London, Paris, Tokyo, and Rome to give consumers a way to pay homage to their trips once they're back home – or from local avenues, through storylines that educate consumers on how their beverages are manufactured, such as Long Island's locally sourced Deko Cocktails.

5E. Innovate to Support Consumer's Wellness Goals

Within the world of wellness, there are ample opportunities for the Beverage Alcohol industry to tie into consumer's desired benefits. One area of emerging focus we've identified is a potential upcoming wave of need to track glucose levels. In summer 2024, Abbott (one of the US's largest manufacturers of C.G.M.s or continuous glucose monitors) launched Lingo, a consumer bio wearable geared at consumers without diabetes who are looking to improve their overall health and wellness. Beverage Alcohol has an opportunity to develop a new drink that is **easier on glucose levels** in the body – similar to what the Natural Healthy Beverage industry has been starting to do with low sugar options (i.e. Nuun tablets, Nixie organic zero-sugar sodas). This would allow consumers to indulge with less concerns about the impact on glucose, as well as corresponding concerns around harming sleep levels, gaining weight, and hangovers.

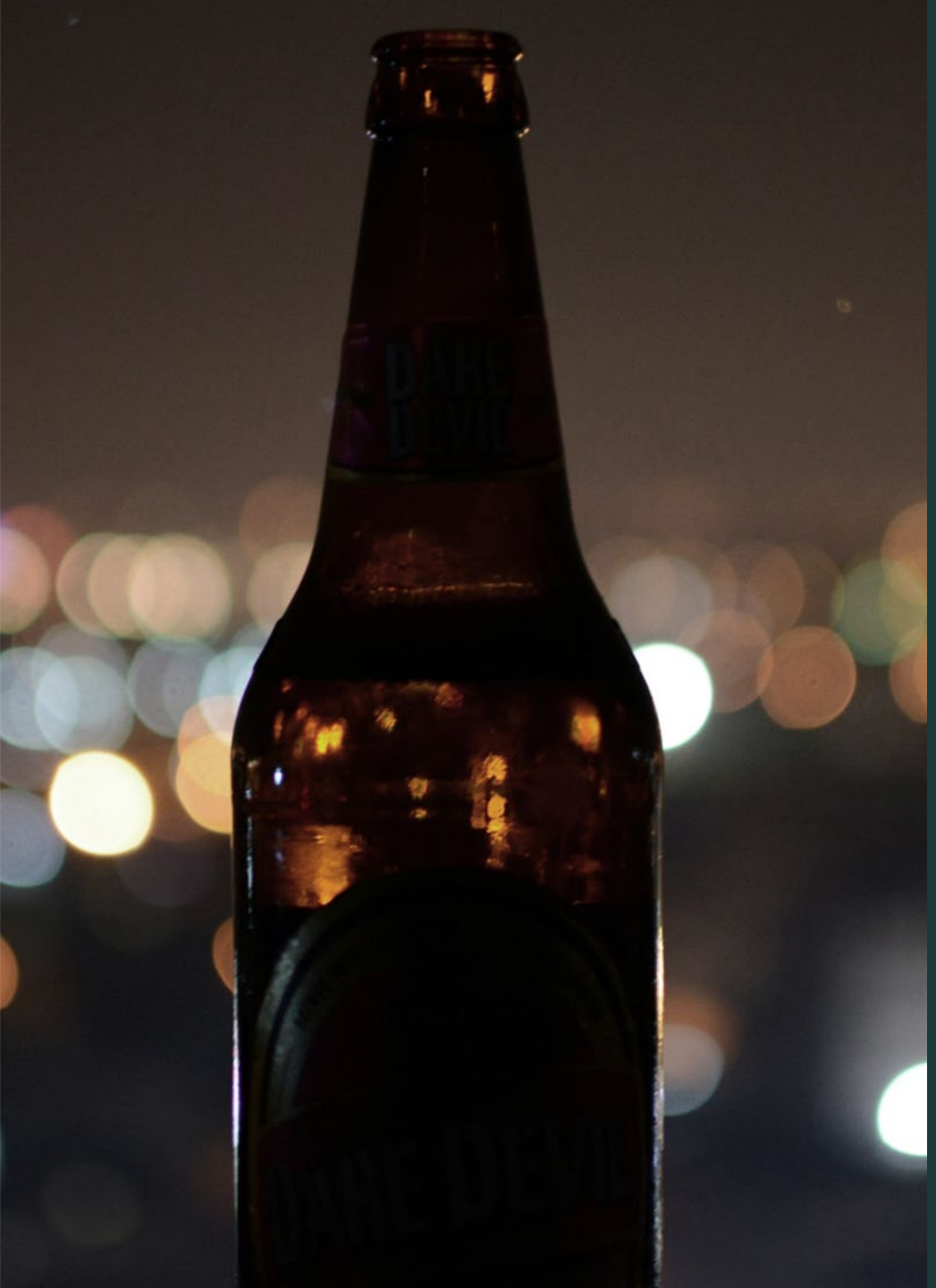
Speaking of hangovers, the day after drinking too much can be painful no matter a consumer's alcohol tolerance. Consumers take advantage of certain methods on their own to combat this, such as drinking hydration-fueled options like Liquid IV and Pocari Sweat at the end of a big night out. There is a wide-open opportunity for the Beverage Alcohol industry to develop a new, **hydrating beverage** that's designed to be a benefits-boosting nightcap. This way, the last drink of the night can protect consumers from a difficult morning.

5F. Personalize Your Portfolio: Offer Customization That Reflects Consumers

The fastest growing area of luxury goods is the **personalization** market, where consumers pay a premium to select custom materials, colors, and monograms. There is an opportunity for Beverage Alcohol to develop customized messaging on the bottle and flavor inside, similar to custom M&Ms and Coca Colas for celebrations like weddings, bachelor/bachelorette parties, and graduations. In addition, Beverage Alcohol can lean into its long-standing ability to transport users into a different reality. Going into an election year and with the recent economy swings, many Americans are seeking out escapism. Alcohol is a strong tool for this and the rise of flavors from faraway places (i.e. tropical flavors like mango and passionfruit) unlock a world of opportunity for a beverage to help **take people out of their day-to-day doldrums**.

5G. Beyond Beverages: Infuse Alcohol in Snacks

Another avenue for Beverage Alcohol is to incorporate itself as an ingredient or flavor enhancer. As an ingredient, spirits can be used in items like pasta sauces, cake mixes, ice creams, popcorn, gummies, and chocolates. For example, this past July oat-milk company Oatly partnered with white rum-based spirit Malibu to launch the Pina Oatlada – a 1.5% ABV vegan, pina colada-flavored soft serve ice cream. By combining alcohol with snack items, Beverage Alcohol can create interest and growth through novel and creative applications.



What do these major movements mean for the future of alcohol?

The Beverage Alcohol industry stands at a pivotal juncture, and adapting to evolving consumer preferences will determine future success. The key to staying relevant lies in innovation designed to generate Incremental Purchase Occasions and avoid falling into the cycle of simply pushing more uninspiring items to on-premise or retail shelves. Brands that embrace new experiences, tap into wellness trends, and rethink the social drinking landscape will be better positioned to grow and to thrive.

There is no shortage of emerging opportunities to explore in Beverage Alcohol. To bring foresight into your process and go below surface insights to identify key pockets of growth for your organization, contact us directly. We can provide clear guidance on how to pursue opportunities and win in the space.

BEVERAGE ALCOHOL WHITE PAPER

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