Beverage Alcohol Core Drivers Series: *The Fourth Category*

Q1 2024

NIQ Beverage Alcohol Vertical
Thought Leadership

April 2024

Guess who just crashed the beverage party?

The Fourth Category

Ready to Drinks!

***Utilizing the ALC Ready To Drink* characteristic to include:** Hard Seltzer, Flavored Malt Beverages (including hard tea, hard coffee, hard kombucha, hard soda), Spirits-based Ready-to-Drink Cocktails, Spirits Seltzers, Shooters, Frozen Novelties, Pods, All wine (except sake, dessert, vermouth) in 355 ML size or smaller (includes cocktails, table, sparkling) for any container type, All wine (except sake, dessert, vermouth) in non-glass size 375 ML, and Wine cocktails in 500 ML tetra pak.

Why do we think RTD is a unique 4th Mega Category?

There is not a universally agreed upon ranking 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:** Compared to traditional categories like Beer, Wine, and Spirits, RTDs are experiencing explosive growth. This is due to factors like convenience, variety, and portability, while targeting specific consumer need states and occasions.
- **Innovation:** The RTD market is constantly innovating with new flavor combinations, formats (seltzers, cocktails, canned wine, FMBs), and alcohol type functional beverages (hard kombucha). This keeps the category exciting for consumers.
- **Demographics:** RTDs appeal to a broad demographic, including younger drinkers seeking new experiences and those looking for convenient options. They can also be attractive to moderation minded consumers, due to the perception of lower calorie content in some offerings. We have 8 key demographic components in the pages that follow for you to consider.

"Everything in life is about ***attitude and timing."***

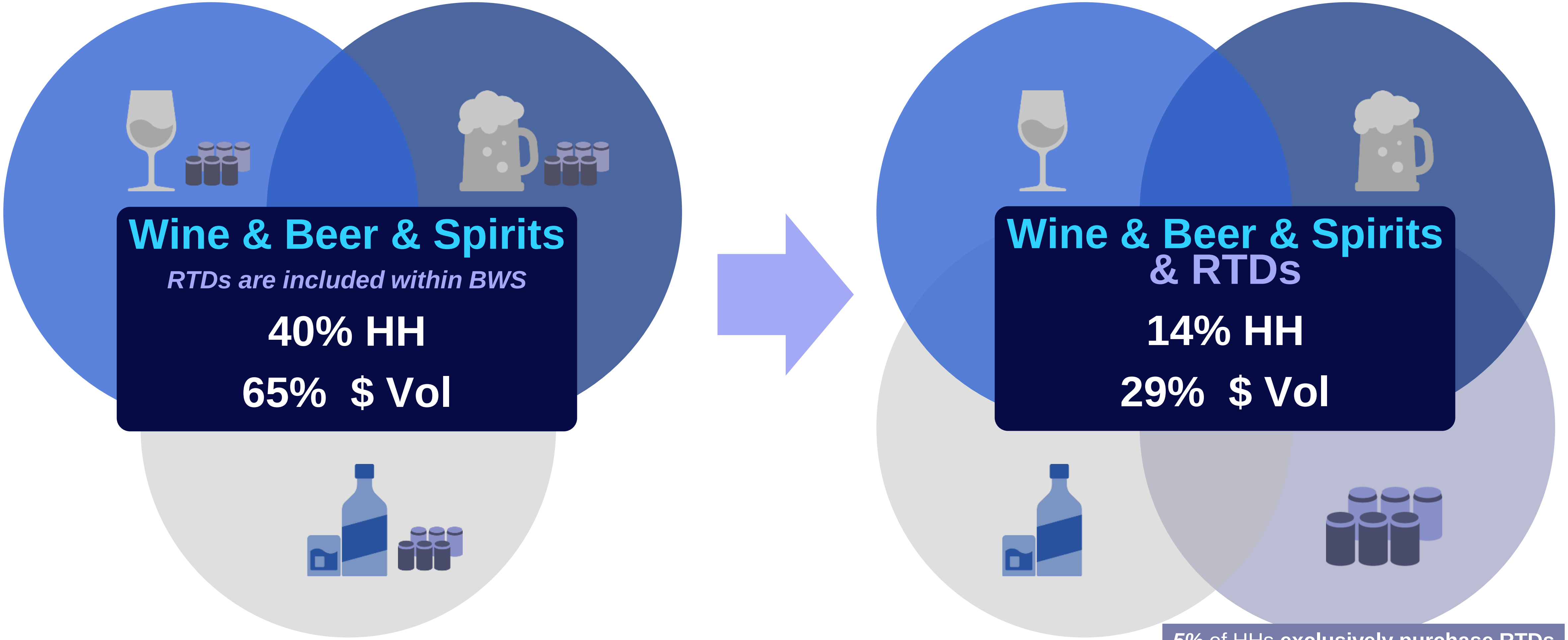
Ready to Drink seems to have captured the consumer with **perfect timing and in the right mindset**

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

RTD is fragmenting the at home consumer repertoire making loyalty harder to come by

Total BevAl Buyer and Sales Overlap
Off premise

Next two slides dive deeper into details!

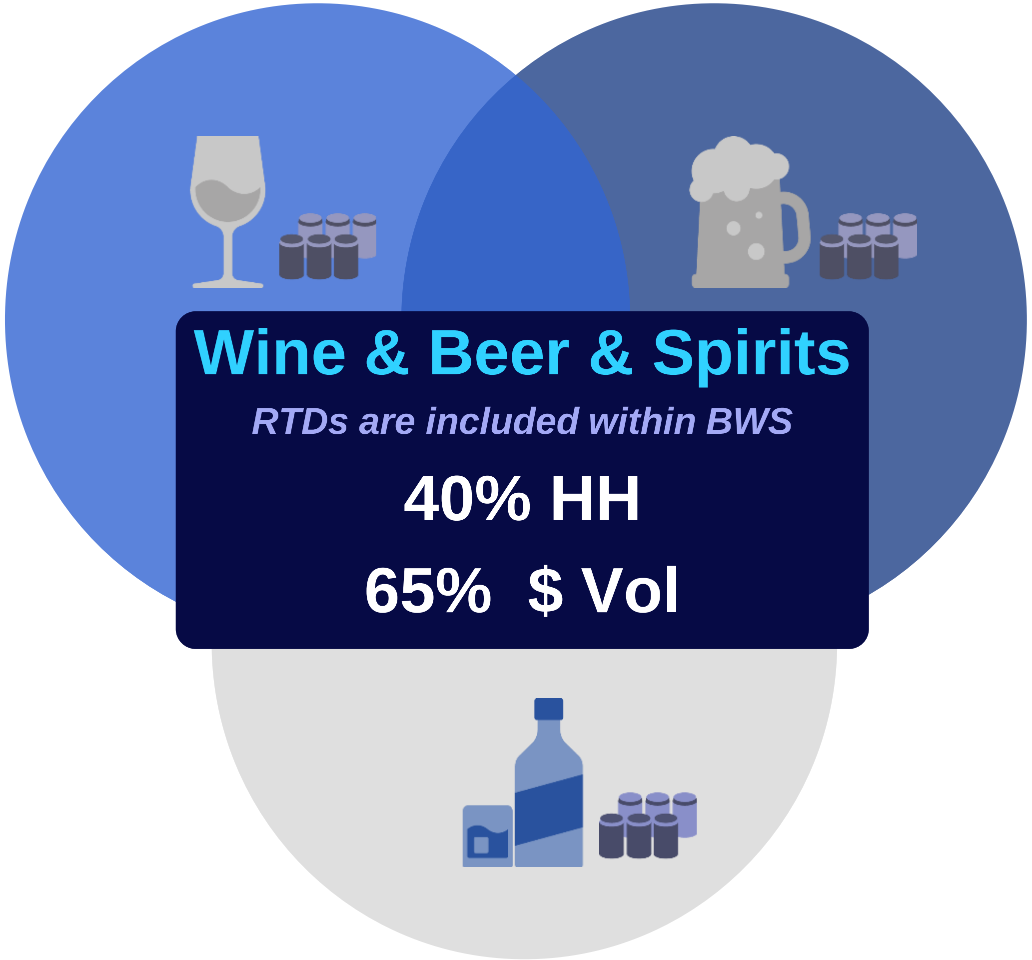


5% of HHs **exclusively purchase RTDs** accounting for ***1%*** of BevAl dollars

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

Historically: *Three* Distinct Categories

Total BevAl Buyer and Sales Overlap
Off premise



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

Historically, there has been an **overlap in buying households and spending** across Beer, Wine, and Spirits categories. However, with the introduction of Ready to Drink (RTD) products in each of these categories, product diversification has allowed smaller brands to flourish, resulting in more households experimenting with new offerings.

Interestingly, many **consumers are less concerned about the alcohol base of RTDs** and are instead drawn to their flavors, cocktail varieties, and the convenience of consumption they offer.

As a result, there's **now extensive overlap in households purchasing all three categories**. To better understand the impact of RTDs, the following slides dive into an analysis where RTDs are separated from their respective categories and treating them as a distinct **fourth category**.

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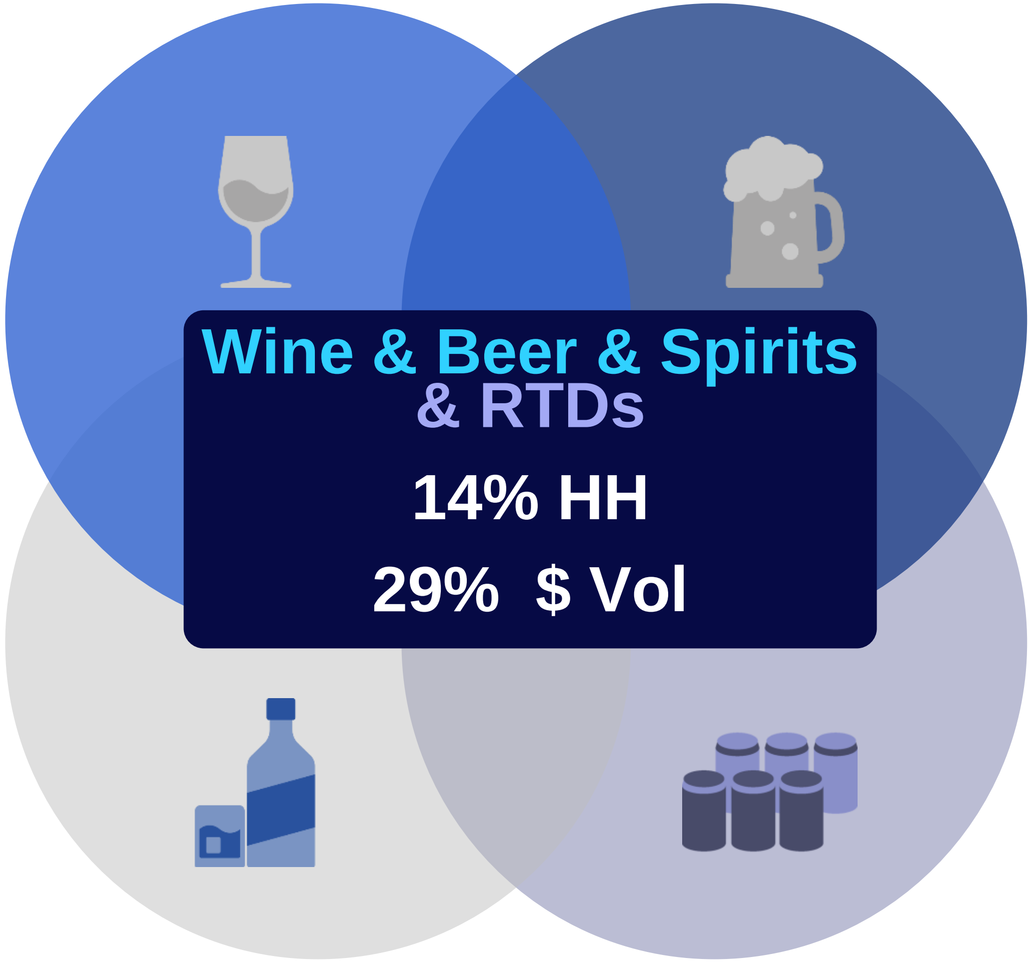
Future: *Four* Distinct Categories

Total BevAl Buyer and Sales Overlap
Off premise



With RTD as its own category, the effects of a fragmented consumer repertoire are visible. **Trial is heavy in RTD and the overlap of all four categories is 14%** of households.

The overlapping households are responsible for **29% of overall BevAl volume.** These overlapping households are typically open to new product concepts, have heavy BevAl purchasing metrics, and welcome additions to their lifestyles.

Look for the future state of RTDs to continue to **fragment the industry.** Extended loyalty may be harder to come by as shoppers seek out products that match their usage occasions and taste preferences.

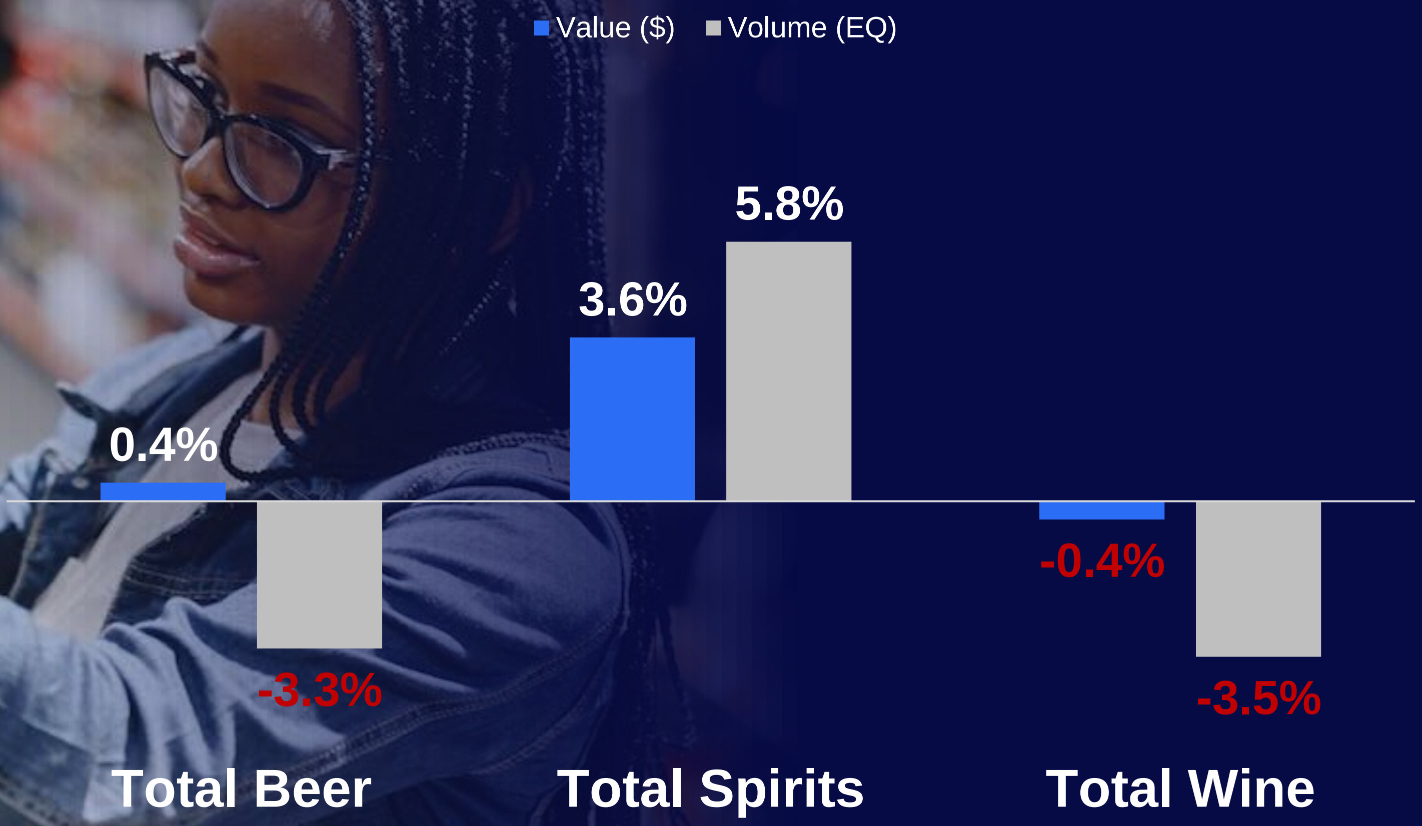
Source: NielsenIQ Omnishopper, US ALC – Integrated (21+ Only) Database; L52 WE 12/30/23, Total Outlets, Total US

Fourth category impact to *dollars and volume*

BevAl is defined by value and volume disparity

Beverage Alcohol by Category – Value and Volume Change

NIQ off-premise channels



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

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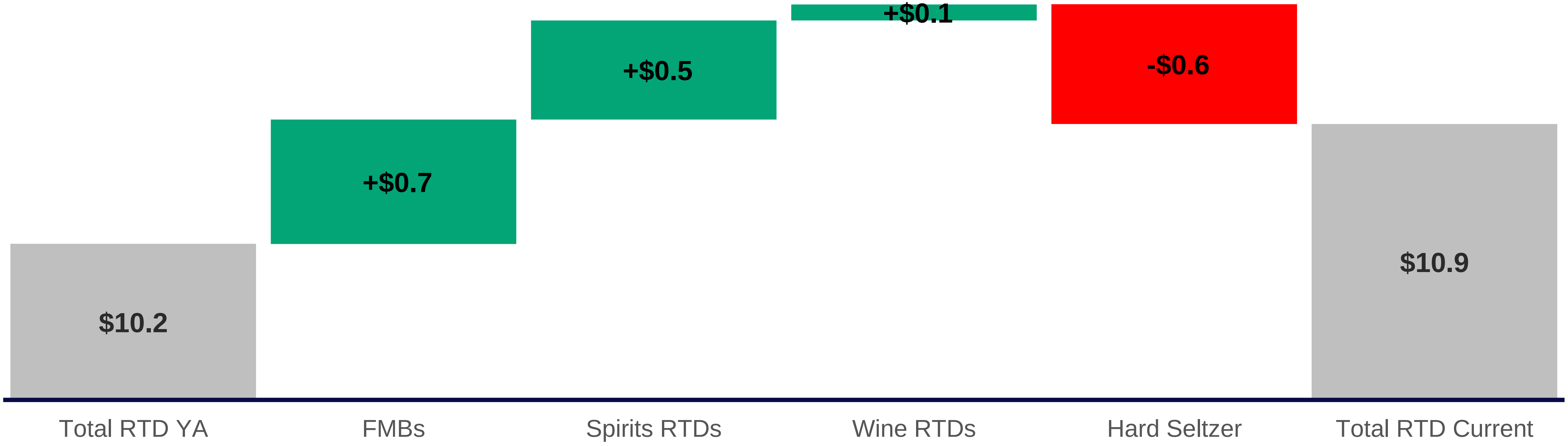
Total Ready to Drinks – A tale of two directions

With the total RTD category it’s important to realize that Hard Seltzers is a large but declining element while FMBs and Spirits RTDs are assuming more shelf space and increasing consumer takeaway

RTD Segments – Contribution to dollar sales (in billions)
NIQ off-premise channels



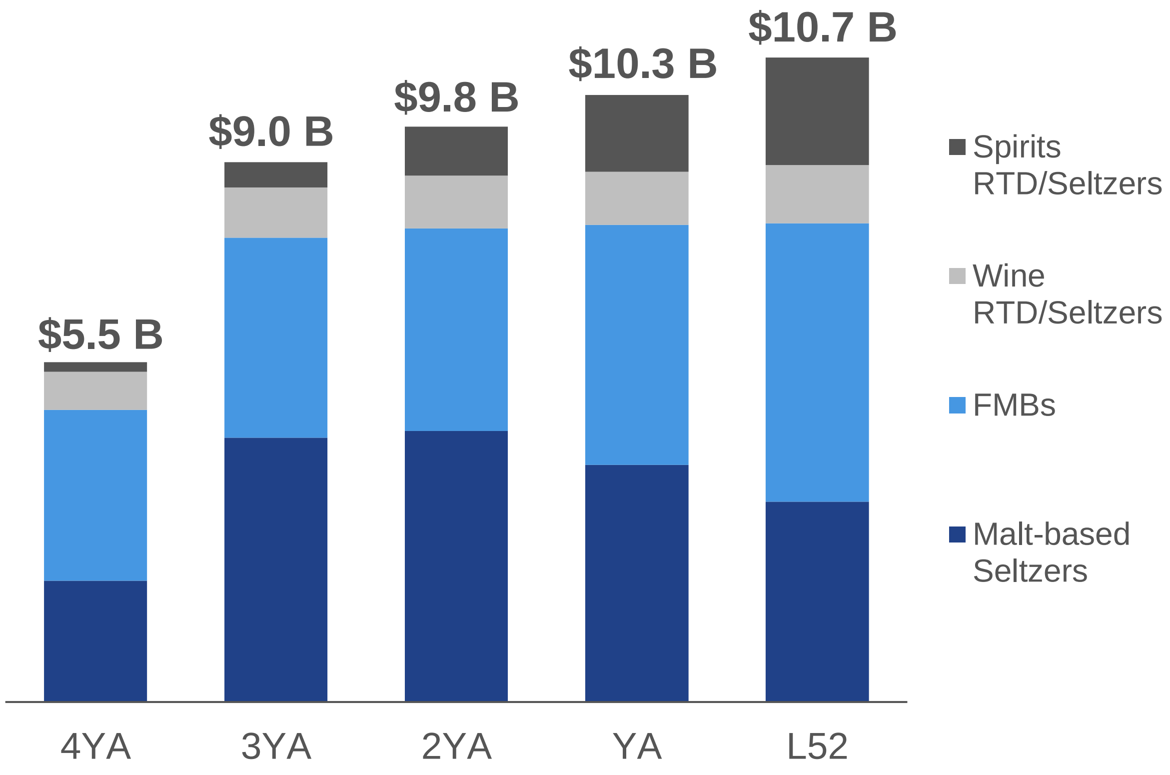
	FMBs	Spirits RTDs	Wine RTDs	Hard Seltzer
$ % change vs year ago	+16.0%	+40.0%	+9.2%	-15.6%
L52 $ Share of RTD	43.9	16.9	9.1	32.5

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

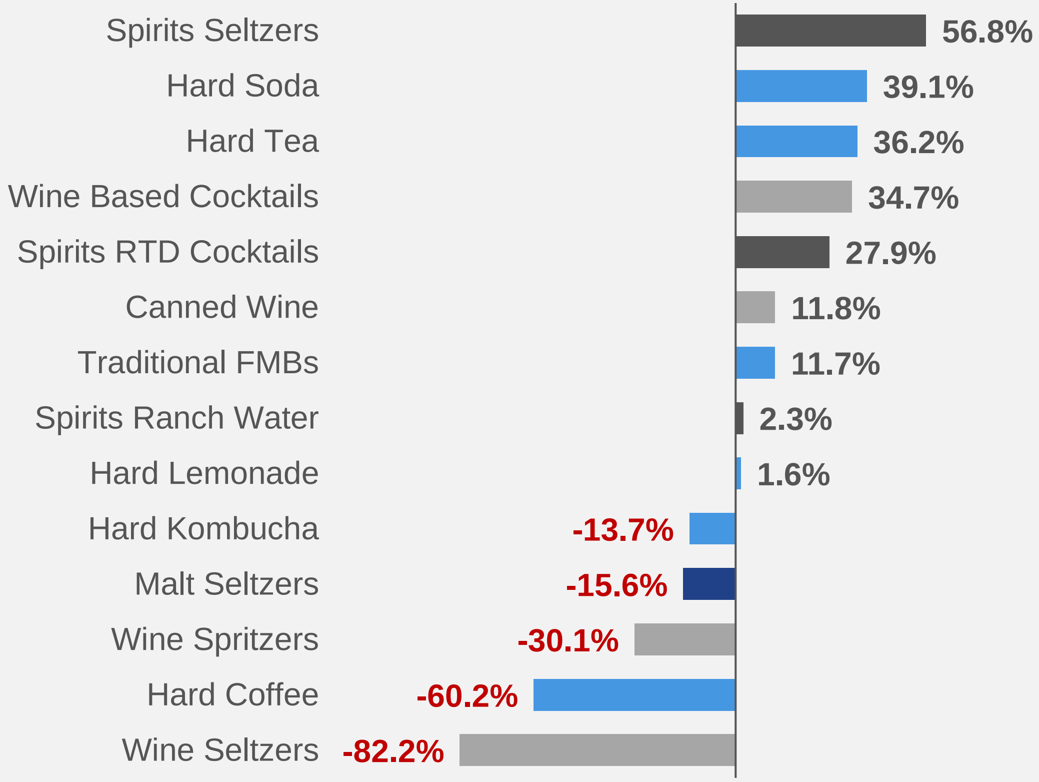
Spirits-based RTDs and FMB segments driving growth of RTDs

Hard Soda and Hard Tea driving continued growth alongside Traditional FMBs

Total RTD – $ by Alcohol Base
NIQ Off Premise Channels



Total RTD - $ growth by Segment
NIQ Off Premise Channels



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

Impacts by category:
Beer, Wine, and Spirits

Beer Category and RTDs

The case for RTD as a stand alone megacategory

Sales Trends – Malt based RTDs are trending in very unique directions compared to traditional beer segments. Seltzers declining and FMBs growing.

Loyalty – RTDs are quickly building loyalty with shoppers and the BevAl consumer has been in heavy trial with these products.

Promotion – Retailers have been using RTDs in promotional rotation giving big brands continued visibility via subsidization.

Pricing – RTDs have moved at a unique pace for front line price increases with distinctive thresholds and gaps to other beer products.

Purchase Cycle – RTDs have a distinct directional difference compared to overall beer products with a decreasing purchase cycle in concert with brand loyalty.

Consumer Shifting – Consumers see RTD as its own category and have been fueling the shift between Seltzer and FMB creating a unique flavor driven repertoire of personal consumption.

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Wine Category and RTD

The case for RTD as a stand alone megacategory

Sales Trends – Wine needs to revive the Still Wine business, but recruitment is based in the heavy flavor driven RTD. A "bridge" for these consumers is a must

Loyalty – Wine based RTDs will want to replicate the success that FMBs have had and some progress is happening among Wine-based Cocktails brands. Still Wine and Sparkling Wine can benefit by testing a closer association to RTD especially in alternative packaging

Promotion – Retailers know that Wine can be a traffic driver with the right level of subsidization. Loyalty may indeed take more consistent promotion but not necessarily deeper discounts

Pricing – The $20 threshold is very real. Consumers sense a premium experience at that price point, and they should be educated on working their way to ultra price tiers from there

Purchase Cycle – Is increasing and the consumer repertoire has more than likely moved into RTD. Wine must take on an approachable stance with consumers or risk losing generations to other categories

Consumer Shifting – Still wine continues to experience churn, but the consumer that moves into RTD may be signaling a need for value

Spirits Category and RTD

The case for RTD as a stand alone megacategory

Sales Trends – Taking RTD out of the Spirits sales rates shows flat to declining trends at this point in the year. Q4 is always pivotal, but 2024 could bring some extreme focus and volume creation activities as we approach the end of the year.

Loyalty – Tequila and Whiskey are holding onto some strength with consumer loyalty, while RTD is building on a small but vibrant base.

Promotion – Promotion activity and shopper subsidization is the highest for RTDs, as retailers look to drive traffic and volume.

Pricing – Rate of increase is varied by segment, but key thresholds have been eclipsed in several areas. Now, many suppliers are looking to promote back down across those points.

Purchase Cycle – The days between purchase are shortening for RTD and increasing for all other Spirits. This could become much more problematic as we go through the middle of the year.

Consumer Shifting – Traditional Spirits are struggling with losing out to all RTDs and many segments will need to rethink their brand communications.

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