

Libation Rotation: How Alcohol Consumption Trends Have Changed in a Quarantine Environment.

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Some notable trends have formed due to staying at home

The significant increase in the importance of home entertainment, we believe, is likely to endure even as people venture back out.

First, it is interesting to point out that based on a variety of surveys, it appears that Americans are drinking about the same amount of alcohol, and in some cases more, than when the pandemic hit. It would appear then, that they are simply changing where they drink—less in bars and restaurants, and more at home.

While “Zoom beers” or cocktails reflect both social distancing and digital communication, as we see in many sectors often the pandemic is simply accelerating social and economic trends already in place. For example, one major trend percolating for several years is the idea of “home-tainment”, it’s a shift in consumer behavior in which people are spending more time entertaining at home versus going out.

This shift in consumer behavior has led to significant growth in home cocktail brands, most recently exhibited in brands such as Malibu rum and Kahlua. There has also been a spike in coffee cocktails, with White Russians leading the charge (one industry participant suggested this has corresponded to binge-watching of *The Big Lebowski*—hard to see this as an enduring trend, but it is interesting nonetheless, particularly given the spread of “coffee culture”).

Some surprises regarding consumer behaviors

Many of the major beverage makers were anticipating some “downtrading” in terms of brand name purchases; the surprise to me so far during the pandemic is the amount of “uptrading” that is going on. In effect, people are saying if I can’t have a few drinks with my friends at the bar, I am going to take that money (and maybe more) and buy top-shelf liquor for my home. Cognac is a great example of an unexpected premium beneficiary of the lockdowns and changing consumption patterns, helping boost brands like Remy Martin.

The biggest beneficiaries of the home-tainment boom?

There are many brands that have clearly risen to the “top shelf.” Pernod Ricard, the maker of the aforementioned Malibu Rum and Kahlua as well as Jameson Irish Whiskey, Remy Cointreau, and Jose Cuervo are among those beverage makers whose brands are definitely having a good crisis.

For Jose Cuervo, it’s really about pandemic cocktails at home. According to the company, an overwhelming majority of their U.S. sales are essentially off-premise (occasions in which liquor is meant to be consumed off site). Tequila and ready-made margaritas are booming in the current stay-at-home environment – as a result, Cuervo’s multiple has shot up as a quarantine winner.

Are these trends likely to endure or fade as consumers start to venture out?

It’s recognized that plenty of the surge in certain products will prove temporary (for example, Malibu rum reflects a demand for “easy cocktails” with a beach/summertime feel—this may indeed prove temporary, or at least seasonal). But the significant increase in the importance of home entertainment, we believe, is likely to endure even as people venture back out.

Spirits producers such as Pernod Ricard are responding to this shift, intensifying their focus on consumer engagement and creating and strengthening moments of “conviviality.” They want their signature brands to be top of mind, whether people are trying to create this vibe at home or at a \$20,000 table they “rent”

for the night.

There are a lot of initiatives being developed to cater to this evolving social movement, but one thing seems clear: traditional forms of advertisement are going the way of the buggy whip. Product placement will no longer really be primarily about commercials. We recognize that most of the major consumer companies have cut advertising and promotion spending dramatically since the lockdowns (with the bigger the off-trade or out of home the bigger the cuts). But most of the companies also seem to be saying they are going to change dramatically how they spend this money as the economy rebounds, with digital the common refrain.

Other observations

A couple of other things stand out. There have been benefits to being a bigger brand during the lockdown. There was an early “comfort” element to this – old and trusted brands became the go-to with rising social anxiety. But there is another interesting element, it would appear that shopping visits are much fewer and far faster – in effect, big brands are benefiting from changing shopping patterns because a lot of people are just grabbing what they know and trust to minimize time spent in the stores.

Another element, worth noting, is that it appears retailers are also getting more risk-averse, another trend seeming to benefit large and well-known brands. It will be interesting to see if this continues. This could eventually impact the enormous valuations given to small celebrity-backed brands, most recently seen in sales of George Clooney’s Casamigos Tequila and Ryan Reynolds’ Aviation Gin to Diageo. This may continue for some time, however, as digital and social media make these small brands as popular as ever.

Finally, most companies appear to be saying that they see an enduring upturn in the consumer’s focus on health and wellness—this tends to be associated with food companies but we see it as well with the beverage makers. This focus existed before the pandemic, but is gathering pace and is likely to continue well into the future.

Brands like Carlsberg continue to talk about the rapid growth in Europe of alcohol-free beer (0.0%) – which seems to be picking up steam. One data point I found very interesting is that alcohol-free beers do not appear to be cannibalizing regular beers, rather they are taking share from the carbonated soft drinks market. This will be a very interesting segment to watch in the coming year, but it fits nicely, although at first blush counter-intuitively, with the health and wellness trend. Much of the buzz around no-alcohol beers seem to be associated with fitness events, not unlike Michelob Ultra in the States—however, the trend also seems to be catching on for business lunches.

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