



Beyond beer

How low-and no-alcohol beverages are transforming the industry



The changing alcohol consumption habits of consumers around the globe are causing many alcohol producers, retailers, and bartenders to wonder **“what’s next?”** as they see the sales of new beverages skyrocket while traditional alcohol products decline.

In the U.S., alcohol consumption fell by 1.6 percent in 2018,¹ but the retail value of beverage alcohol is expected to increase by 7 percent by 2023. Consumers are migrating from beer to higher-priced spirits and a growing array of healthier alcohol options. Low-no alcohol beverages like premium mixers, hard-seltzers, and malt-based beverages are rapidly growing categories. While the low- and no-proof (Lo-No) to beverage market is small, it’s expanding. From 2018–2023, zero-alcohol cocktails are expected to grow by 8.6 percent, no-alcohol beer by 8.8 percent, and no-alcohol still wine by 13.5 percent.

The forces behind the shift

Since 2010, global alcohol consumption has remained flat or declined across much of Europe² and consumption has declined by more than 10 percent in Australia and Canada. Millennials are adopting a wellness approach to not drink as the “sober curious” movement gains popularity.

The decline in alcohol sales is reflective of a shift in consumer preferences across the beverage industry as healthier and higher-quality products continue to gain popularity. Beyond seeking healthier options, consumers are also looking for brands that offer sustainable sourcing, organic certification, and social responsibility. Many new entrants to the market are disrupting the traditional brands as they create drinks that align with these consumer preferences.

Premiumization continues to drive growth

While premium spirits continues to grow, so too are premium mixers and cocktails. In 2018, category dollars outpaced volume share in the overall distilled spirits³ industry, reflecting consumers’ preference for quality over quantity in the United States. With the amount spent on spirits annually continuing to increase year over year, it’s becoming clear that consumers are willing to pay more for the beverages they consume.

Spirits continue to outpace the sales of wine and beer in the United States for the ninth straight year.⁴ In particular, high-end premium and super-premium products saw volume growth of 8 and 7.5 percent in 2018. It’s predicted that premium-plus spirits will grow over the next five years³ internationally.

Beverage companies are seeking to align their product portfolios to this shift. Diageo’s divestiture of 19 non-premium brands⁵ portfolio strategy in 2018 reflects their desire to better align with consumer demand. Similarly, Pernot Ricard is considering the divestiture of their low- and mid-price wine portfolio.⁶

Ab InBev has also entered into the spirits market with its first acquisition of a spirits company in Cutwater Spirits, which produces various spirits including seven premium mixers. This strategic acquisition is part of AB InBev’s focus on moving “beyond beer.”

¹ CNBC Web site, [Fewer Americans are drinking alcohol—so bars and brewers are adapting](#) (June 1, 2019).

² Forbes, [Where Global Alcohol Consumption Is Rising & Falling \[Infographic\]](#), Niall McCarthy (May 9, 2019).

³ Distilled Spirits Council of the United States, [Distilled Spirits Council Reports Ninth Straight Year of Record Spirits Sales, Market Share Gains](#) (February 12, 2019).

⁴ The Spirits Business, [Premium spirits to boost global consumption](#), Amy Hopkins (March 14, 2019).

⁵ Fooddive, [Diageo sells 19 lower-end brands for \\$550M](#), Lillianna Byington (November 12, 2018).

⁶ Bloomberg, [Pernod Weighs Sale of Jacob’s Creek, Campo Viejo Wines](#), Ruth David and Thomas Buckley (March 13, 2019).



Premium mixers gain popularity

The demand for healthy beverages has fueled the growth of functional drinks like waters infused with probiotics, herbs, and adaptogen ingredients. This is also fueling the growing popularity of premium mixers, with the emergence of brands such as Q Mixers, Fevertree, and Owls Brew which are becoming essential elements in high-end mixology.

Seedlip,⁷ the world's first nonalcoholic spirit brand, sells calorie-free, cocktail mixers made with unique, natural ingredients including peels, barks, spices, and herbs. As a premium mixer, retailing for \$40 for a 23 ounce bottle, it's served in over 250 Michelin star restaurants in 20 countries globally and has received funding from Distill Ventures, Diageo's venture capital arm. Seedlip launched a nonalcoholic aperitif, Aecorn Aperitifs, earlier this year. Similarly, Ceders,⁸ a nonalcoholic gin, blends classic gin and South African botanicals for a premium beverage. Pernod Richard is distributing the brand in the United Kingdom. On a similar front, The Duchess,⁹ known as the world's first nonalcoholic gin and tonic beverage, is also gaining popularity.

Premium mixers give consumers the opportunity to have the experience of drinking alcohol without consuming alcohol. They also give consumers a premium beverage option to replace drinks options like soda. This trend is further amplified as Millennials share their food and beverages experiences via Instagram, wechat, and Facebook, leading to more rapid adoption of these new products.



Alcoholic soft drinks and malt-based beverages are a rapidly growing sector

Chu-Hi, Coke's alco-pop, was launched last year in Japan and gives the brand another opportunity to diversify its portfolio by crossing into the alcohol sector. The beverage's low alcohol content and fruity flavors put Coke in direct competition with hard seltzer. Large alcohol brands have recognized that hard seltzer and other malt-based beverages directly align to consumers' preferences for beverages that are lower in calories, alcohol, and sugar.

In the past year, sales of hard seltzer increased by 193 percent, malt-based cocktails increased by 574 percent,¹⁰ and premixed cocktails in cans increased by 105 percent in the United States. Portfolio diversification is occurring as brands add malt-based beverages to their portfolio. Large alcohol producers are also investing in this space. AB InBev acquired Bon & Viv Spiked Seltzer while Boston Beer and Mark Anthony developed their own spiked seltzers, Truly and Whiteclaw, respectively. Polar and Harpoon Brewery¹¹ are collaborating on the development of a hard seltzer, Artic Summer, reflecting the changing dynamics across the beverage industry as alcohol and nonalcoholic sectors

converge, and traditional beer brands recognize that they must expand beyond beer if they want to remain relevant. Even craft brewers like Braxton Brewing Co and Oskar Blues are developing their own hard seltzers as they look beyond beer to grow their portfolio.

The beverage industry is transforming. The rise of high-quality, healthier alcohol options including low- and no-alcohol beverages reflect a shift away from more traditional drinks. For beverage companies moving into this market, this category offers an opportunity for incremental growth.



Lo-No alcohol activity expected to increase

Incumbent alcohol companies are aggressively pursuing mergers and acquisitions (M&A) and corporate venturing to fill gaps in their nonalcoholic portfolios and align their product mix with shifting consumer demand. Notably AB InBev plans to increase its Lo-No alcohol beverage portfolio to 20 percent of global beer volumes¹² by the end of 2025 and both Heineken¹³ and Molson Coors are increasing their offering of low- and no-alcohol products¹⁴ as well. As consumers continue to gravitate towards new products, different products will be created, new ventures will be formed, and consolidation will continue. Premium brands in healthy beverage categories such as cold brew coffee, herbal tea, kombucha, botanicals, and other plant-based products have already begun to play an important role in the evolution of more mindful drinking choices across the beverage alcohol sector and they will play an important role in reshaping the beverage industry in the future.



Key takeaways

- The beverage sector is undergoing disruption as low- and no-alcohol beverages gain popularity.
- Consumers are seeking out higher-quality, healthy beverage options and they're willing to pay for more for these products.
- Millennials, in particular, are quickly adopting more mindful habits in their purchase and consumption of alcohol and this will have a long-term impact across traditional beer, wine, and spirits categories.
- The sales of malt-based beverages, low-alcohol premium spirits, and premium mixers are expected to continue to grow. This will further blur the lines between existing beverage categories as incumbents and new entrants develop new offerings.
- As the pace of convergence between alcoholic and nonalcoholic brands is accelerating, brand owners and distributors need to respond by allocating resources and capital to diversify their portfolios through M&A, licensing, or new product development.

⁷ Seedlipdrinks.

⁸ Ceder's, [Ceder's Distilled Non-Alcoholic](#).

⁹ [The Duchess](#).

¹⁰ Fooddive, [RTD alcoholic beverage sales heat up this summer](#), Cathy Siegner (May 29, 2019).

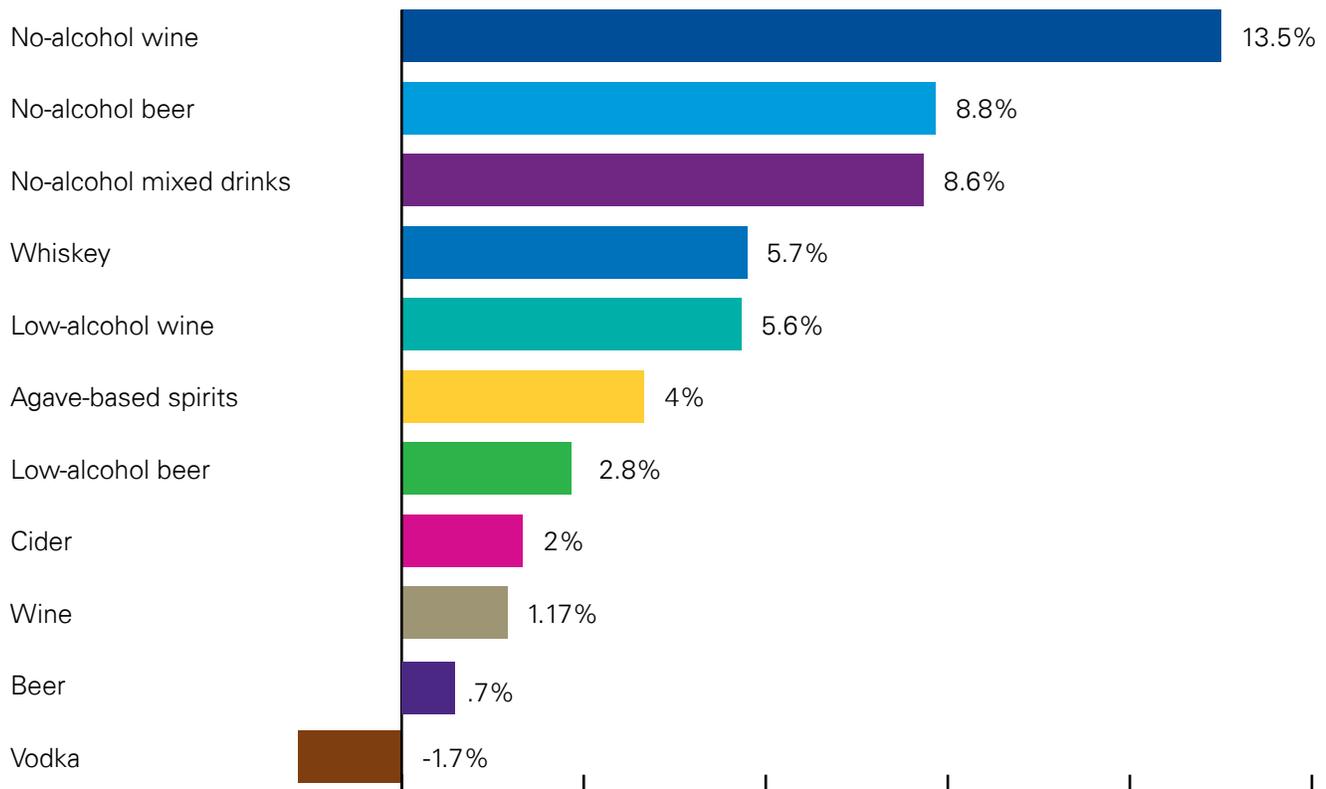
¹¹ The Washington Post, [The summer of hard seltzer is coming. Here's how 4 of the top brands stack up](#), Maura Judkis (March 12, 2019).

¹² Beveragedaily, [AB InBev: 8% of beer volumes now come from no and low alcohol](#), Rachel Arthur (March 4, 2019).

¹³ Marketing Week, [Heineken launches first cross-brand zero-alcohol campaign to help 'explode the category'](#), Molly Fleming (May 10, 2019).

¹⁴ MolsonCoors, [Growing the Low-Alcohol Category in Europe](#).

Expected increase in consumption from 2018–2023¹⁵



¹⁵The IWSI, [Worldwide Alcohol Consumption Declines - 1.6%](#), May 29, 2019.

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