

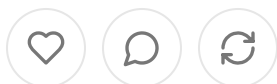
Bigger Than Alcohol, Part III

Today's consumer wants more. Give the people what they want.



IAN DOMINGUEZ AND ADAM DAWSON

MAR 30, 2024 · PAID



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TL;DR: The consumer is moving away from alcohol. This trend is fundamentally reshaping the beverage industry and creating enormous opportunities for functional beverages, *especially drinks with cannabinoids*. This trend has surprised multi-billion market cap management teams and is changing the economics of bars, restaurants, musical acts ¹, and even pro sports stadiums ². This trend is observed across all age groups, but younger legal drinking ages are driving an outsized impact.

Hemp and cannabis beverages are *both* replacing alcohol occasions *and* creating incremental drinking occasions. Hemp beverages' explosive growth won't look like the seltzers, RTDs, IPAs, light beers, or wine coolers that preceded them because THC beverages aren't subject to alcohol's three-tier system and instead are leapfrogging to new and more efficient business models.

The fat, lumpy tail of alcohol consumption

The size of any consumer category is a function of (1) its consumption per active consumer and (2) that category's penetration of the total population.

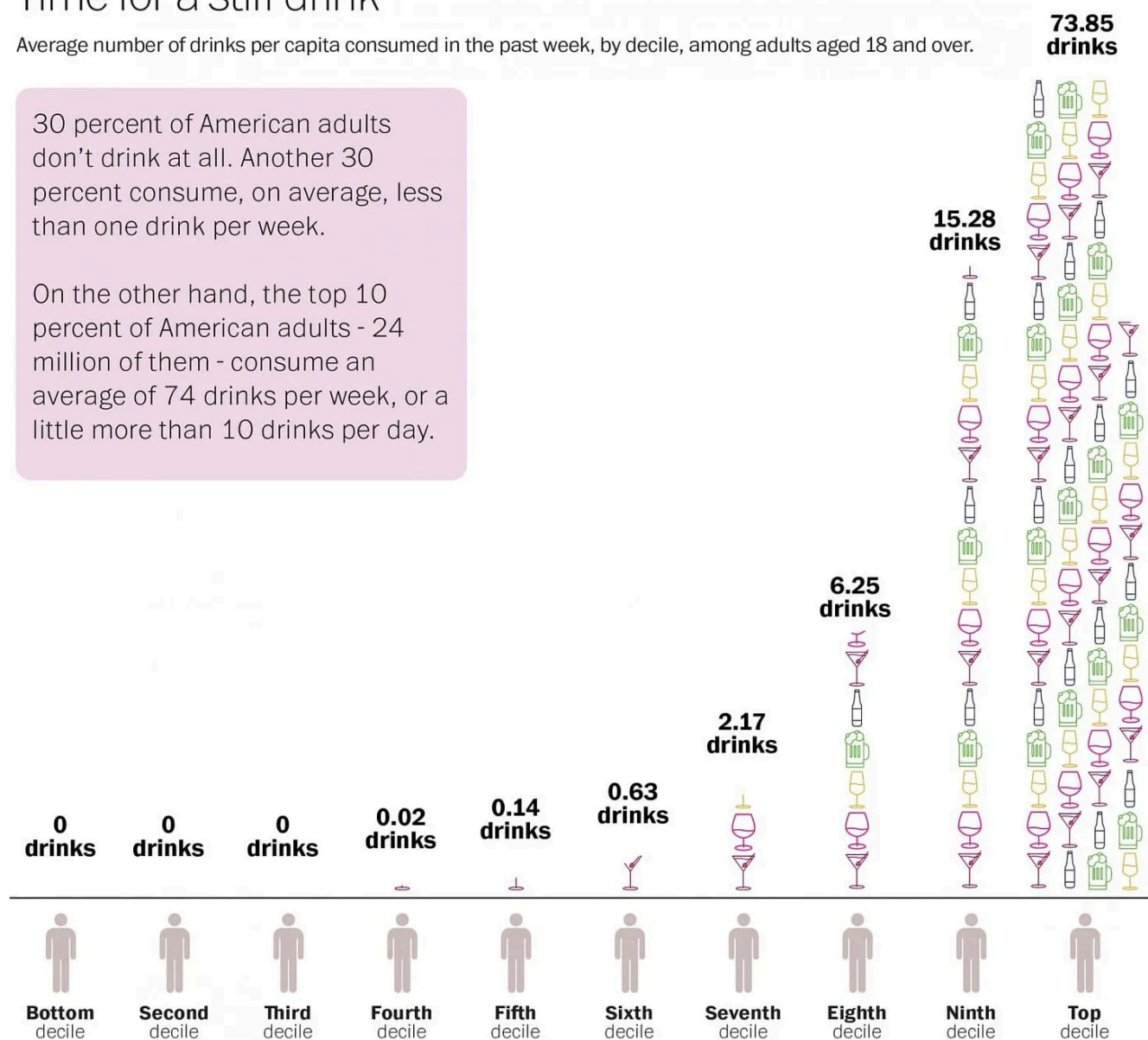
There's a dirty, if obvious secret to alcohol: **most of the alcohol industry's gross profits are driven by those who overindulge: alcoholics, heavy drinkers, and young people.** It follows that changes in alcohol consumption among those heavy-drinking groups would be felt *especially hard* by industry participants.

Time for a stiff drink

Average number of drinks per capita consumed in the past week, by decile, among adults aged 18 and over.

30 percent of American adults don't drink at all. Another 30 percent consume, on average, less than one drink per week.

On the other hand, the top 10 percent of American adults - 24 million of them - consume an average of 74 drinks per week, or a little more than 10 drinks per day.



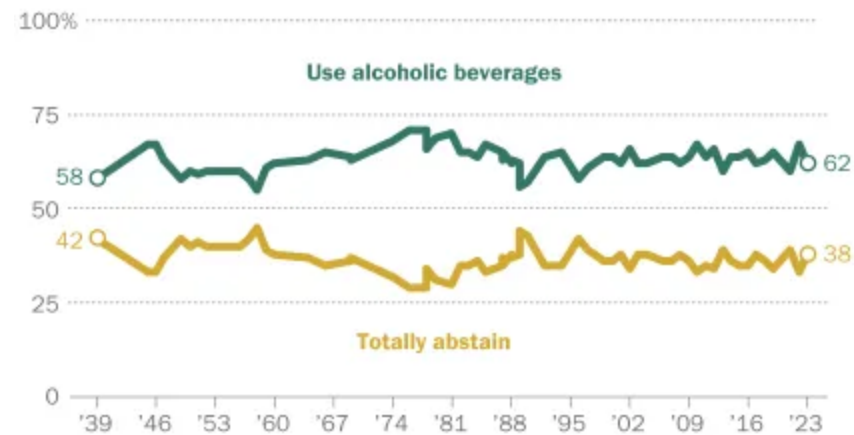
WASHINGTONPOST.COM/WONKBLOG

Source: "Paying the Tab," by Philip J. Cook

Let's start high level: 62% of U.S. adults report consuming alcohol in the last 12 months. This penetration rate has been pretty steady over the years, albeit declining of late. That's \$1,945 of consumer wallet spend *per drinker* in 2022.

A majority of U.S. adults say they drink alcohol

% who say they ...



Note: Full question wording is "Do you have occasion to use alcoholic beverages such as liquor, wine or beer, or are you a total abstainer?"

Source: Gallup survey conducted July 3-27, 2023.

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62% is a nice datapoint, but it only tells part of the story:

- **38% of American adults don't drink at all**
- Another 30% consume, on average, less than one drink per week
- **The top 10% - 24 million Americans - consume 74 drinks per week**

It's not just that the top tenth percentile of drinkers have *over ten drinks per day*. Age is a key part of the story:

Decline in Regular Drinking Among Younger Adults

Percentage who drank any kind of alcoholic beverage in the past seven days



Source: [Gallup](#)

None of this would matter if the drinking behaviors of heavy drinkers remained static, or if the population of “any-drinkers” were growing. **But what if neither of those conditions were true?**

Notable Decline in Young Adults' Excess Drinking

% Sometimes drink more alcoholic beverages than think you should

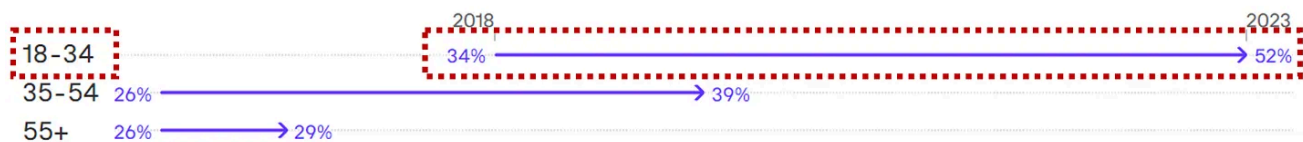


Source: [Gallup](#)

It's no secret that "health and wellness" is having a moment, and alcohol is not well positioned for the age of Dry January, [Stanley Tumblers](#), and fitness TikTok. It's especially meaningful when young folks, like college kids, reduce alcohol consumption because it paints a very different picture as we think about the next decade.

Share of U.S. adults who believe one or two drinks a day is detrimental to health, by age group

Surveys of at least 1,000 U.S. adults conducted July 1–11, 2018 and July 3–27, 2023



Data: Gallup; Graphic: Rahul Mukherjee / Axios

Source: [Axios](#)

Alcohol's leaky bucket problem

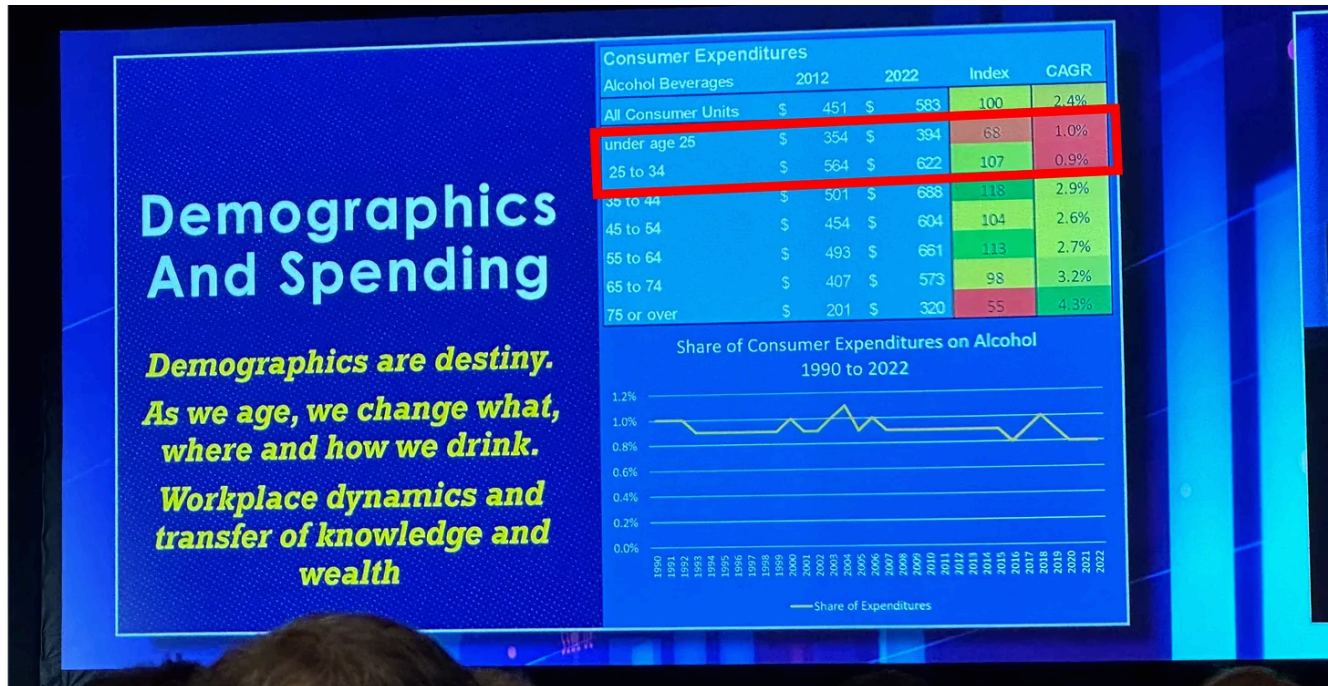
Like [tobacco volumes in the second half of the 20th century](#), alcohol has a [leaky bucket](#) problem; heavy consumers are reducing the volume and frequency of consumption *and* 'leaving the pool altogether,' while light-or-non consumers aren't converting fast enough, or drinking enough, to offset the losses.

This problem is openly discussed in alcohol circles, like the National Beer Wholesalers Association. We attended [last year's conference](#) alongside 3,000 beer distributors and the key takeaways are below:

- **Decline in Young Consumers' Beer Penetration:** The 21-24 age group, traditionally heavy beer consumers, has shown a marked decline in beer consumption, with a 30% loss, or 2.2 million legal drinking age consumers, since 2018 (five years).
- **Shifting Occasions and Volumes:** The industry's challenge is encapsulated in key quotes from the general assembly: *"This new cohort of alcohol abstainers is alarming"* and *"this is an industry-wide five-alarm fire...We are fighting for occasions... It's about frequency and volumes."*
- **The Need for More Drinkers, Not More Drinking:** The conference emphasized the need for attracting more consumers, instead of increasing consumption by each

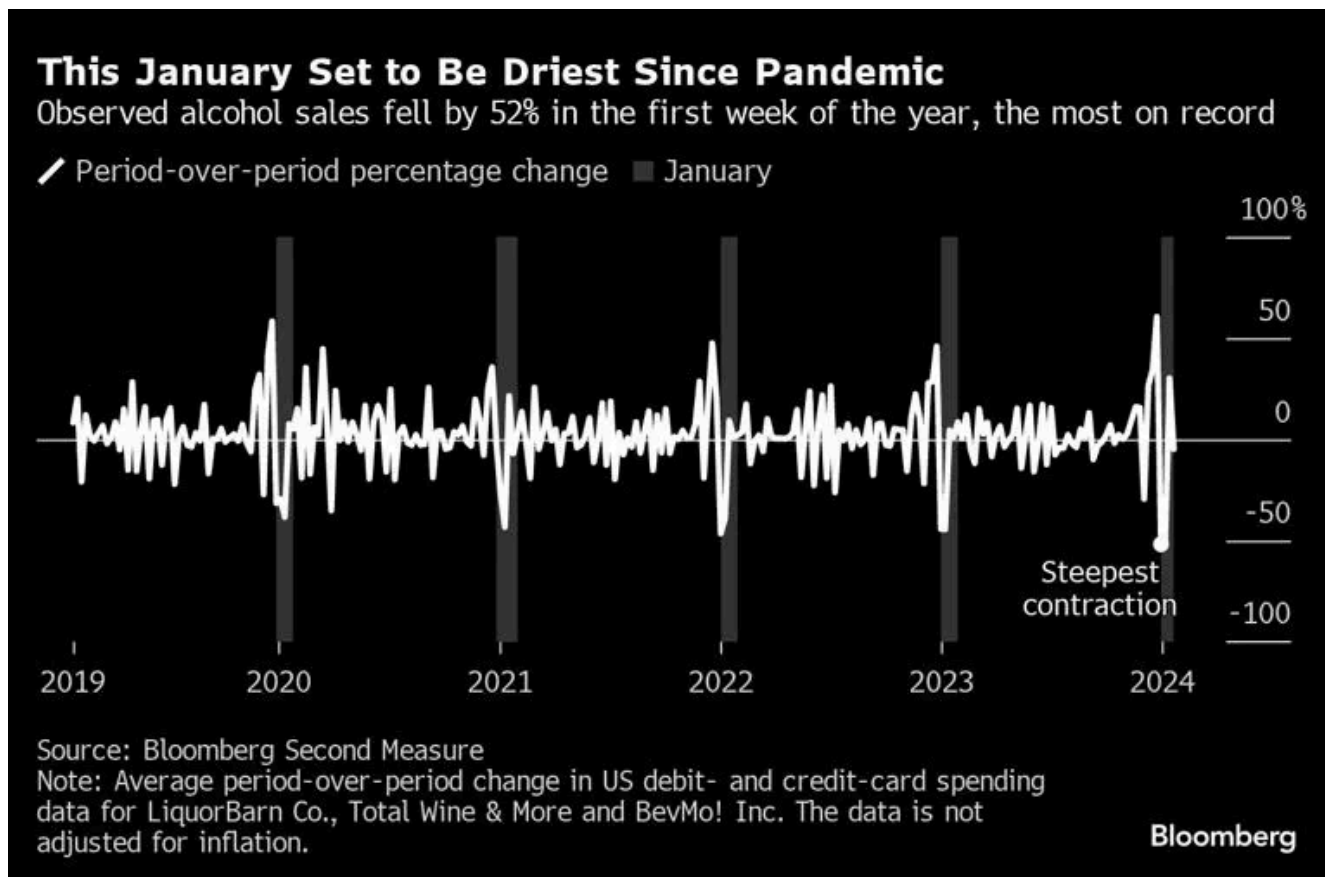
consumer: “*We don’t need people to drink more, **we need more people to drink.***”

- **Need for Broadening Appeal:** Beer distributors are pressing their brand suppliers to lead efforts (read: \$) in “*making beer more appealing to a broader customer base*” to address a “*category-wide issue that transcends individual brands.*”



Source: NBWA Conference

This pressure is materializing in both on-premise and off-premise alcohol retail channels. On-premise (20% of the industry) is declining -HSD% according to UBS. And if the most recent Dry January is any indication, off-premise is equally *not okay*:



Source: [Bloomberg](#)

To wit, in their latest round of earnings reports, **Diageo, Brown Forman, and Pernod Ricard cautioned on U.S. weakness** and cut guidance, citing it could take another 6-12 months for the industry to return back to mid-single-digit growth.

Non-alc beer and seltzer is the leading indicator

Hemp beverages weren't first to the non-alc party. People love to fit in, and holding a glass of water can feel awkward if you're surrounded by folks who are drinking alcohol. **Plus, there's no marketing team behind a glass of water.** Large, entrenched beverage companies would prefer if you drank *literally anything other than* tap water, **because that's what gets them paid.**

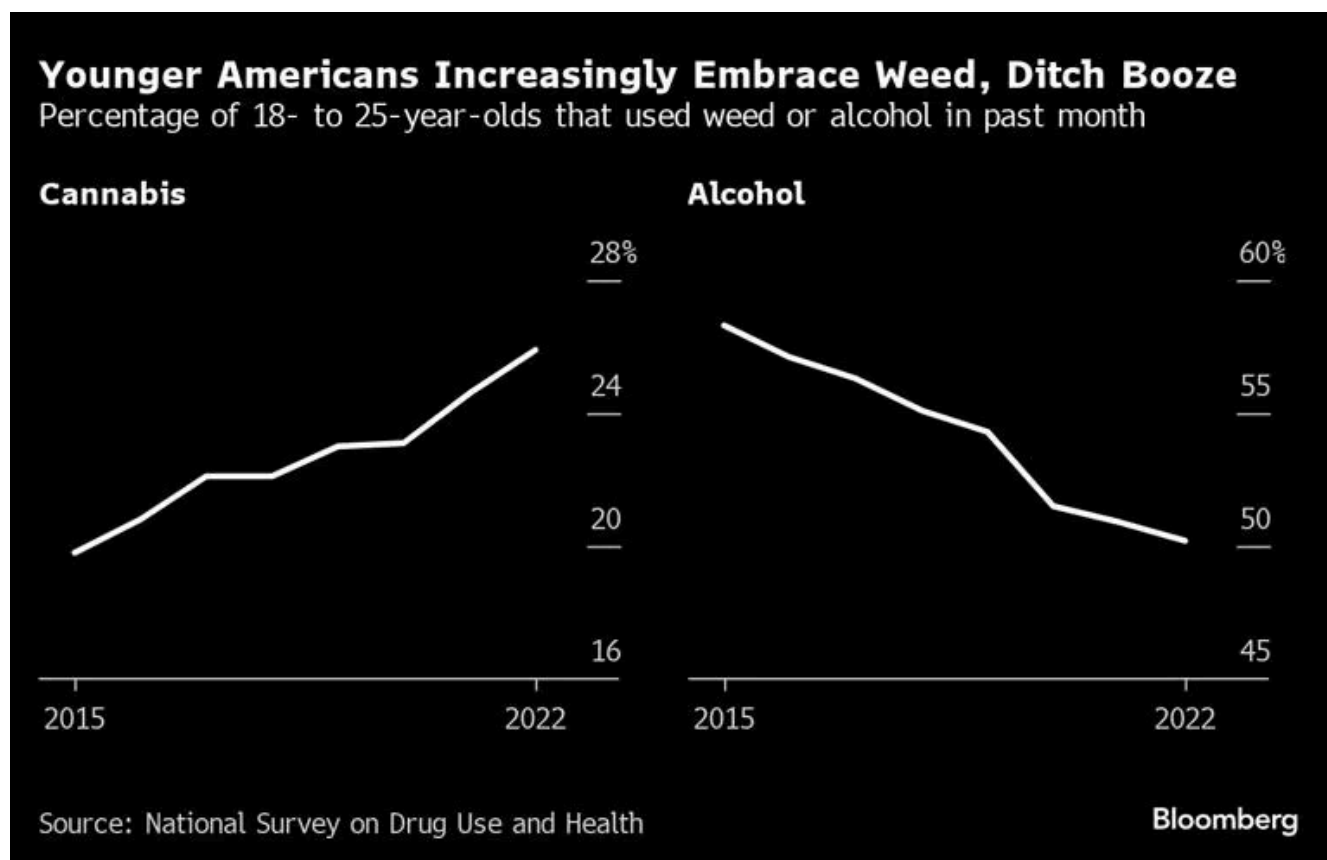
Non-alc beverages are growing fast. The industry has grown from \$7.8 billion in 2018 to \$11 billion in 2022³. And non-alc sales grew +20.6% from August 2021 to August 2022, according to NielsenIQ data.

Beverage alcohol is a game of scale, and partially as a result of surplus capacity in the market, we're seeing the largest brands on earth jump on the non-alc train:

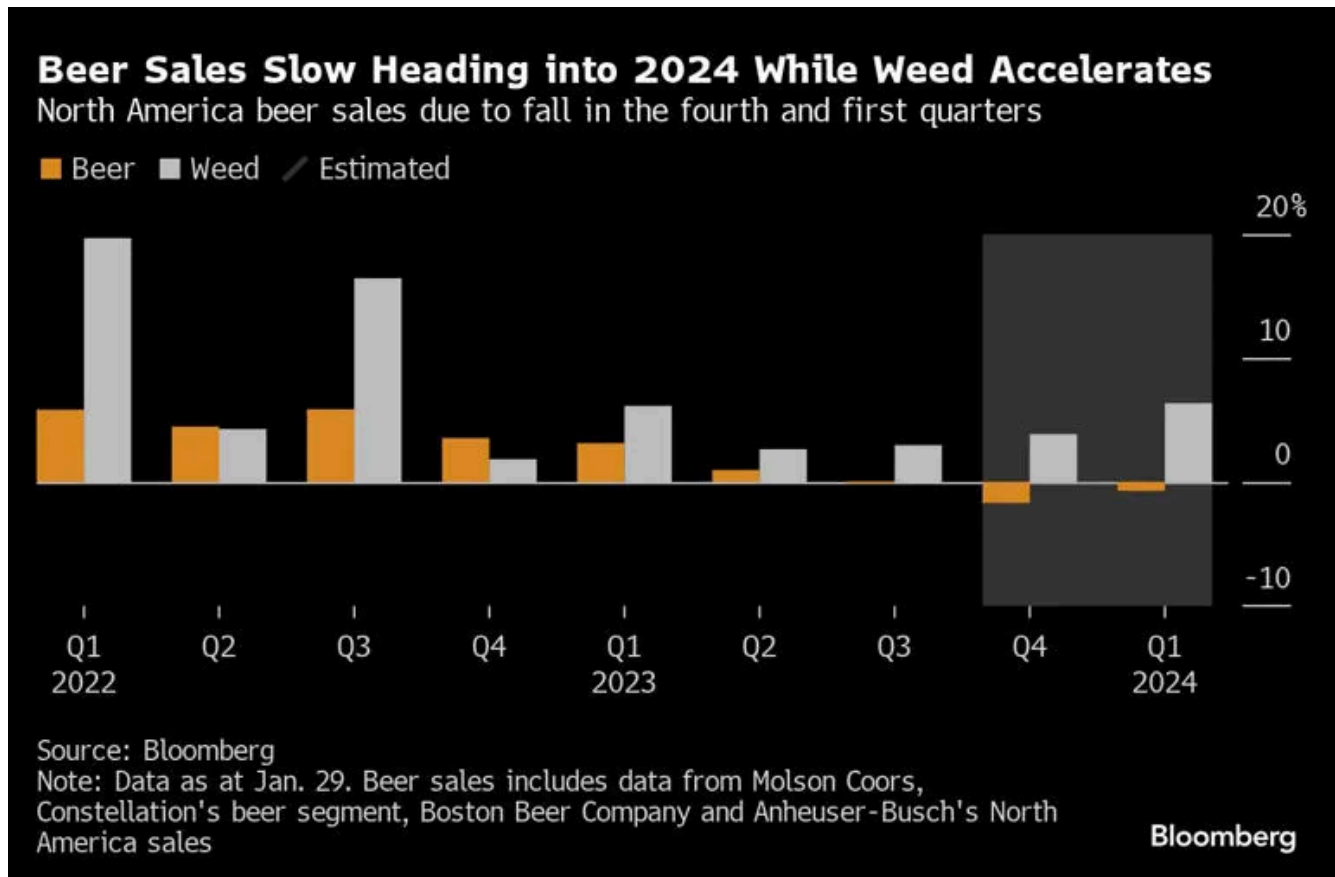
- **Athletic Brewing** (19% share) and **Heineken 0.0** and are the market leaders
- Corona "Cero" is the first beer brand ever to **sponsor the Olympics**
- Liquid Death, founded in 2017, was recently **valued at \$1.4bn**
- Even **hard seltzers** are jumping on the bandwagon ⁴

The Great Handoff is nigh, and the hemp beverage train is leaving the station

In the next Dispatch we'll share evidence that the "hemp beverage handoff" trend is already happening all around us. For now, we leave you with a few nuggets to chew on:



Source: [Bloomberg](#)



Source: Bloomberg



Kirko Chainz 🤩

Training in a brand ambassador at a tasting at Total Wine and my contact said that THC Bev category has now outsold all wine this year besides cabernet



1 Music venues are feeling the pinch.

- 2 We present the [latest addition](#) to the Florida Panthers NHL Stadium concession stands.
- 3 Source: Nielsen IQ, via [MSN](#)
- 4 Where Ian's from, non-alcoholic seltzer is called a *coke* or a *soda* (but under no circumstances, a [soda pop](#)).

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