



The Changing British Drinking Habits

by Nicole Baro

- Covid and cost of living crisis
- Economic behaviour and spending habits
- UK total alcohol and spirits market forecast





The Changing British Drinking Habits

The Covid pandemic has led to the emergence of two distinct trends in the way UK consumers consume alcohol which continue to persist post-covid and exacerbated by the cost of living crisis

Macroeconomic Outlook: A double whammy to UK households

There is one truth for all Brits: Inflation has meant spending less across every essential and discretionary category despite inflation easing to 6.3% in August of 2023.

This means going out less, and buying less or waiting for the price to drop (Mintel, 2023). These behaviours, and the crises the UK faces have had a massive impact in the alcohol industry and in all the channels consumers interact with and purchase their drinks.

Alcohol is inelastic in nature as people habitually consume the beverage. This means that despite price increases or real wage declines, they will continue to purchase alcohol. However, consumers are not perfectly insensitive to price changes and will adjust spending habits accordingly. The IWSR (International Wine & Spirit Research) has found that consumers prefer to wait for drinks to go on promo rather than not purchasing anything at all.

The 5-year forecast is positive for the global alcohol market

Overall, the IWSR forecasts that the global beverage alcohol market value will grow 2% YoY despite volume growth slowing to 1% YoY from 2022-2027.

This confirms spending less due to inflationary pressure as volume declines. This means that the aggregate rate of sales of consumers on alcohol has fallen.

However, this forecast also suggests another thing in terms of value: a portion of consumers are trading up their alcohol purchases driven mostly by the premium spirits category.



Figure 1: Change in price per unit across alcohol categories in the UK from 2014 to 2027 (forecasted)

As seen in Figure 1, the product-price mix adheres to the forecast. Spirits are forecasted to increase in price much steeper than the rest of the category. Part of this increase can also be attributed to the recent duty increase for spirits further pushing up price.

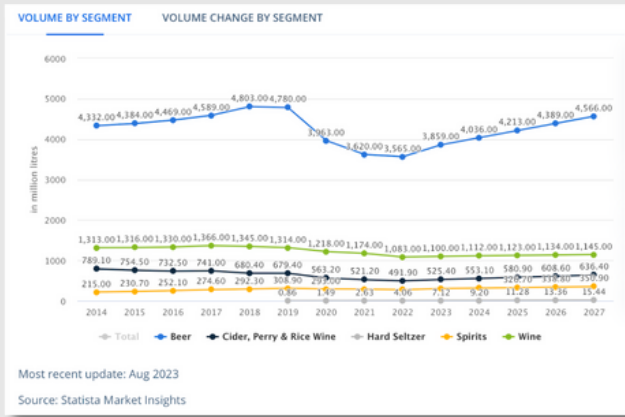


Figure 1: Change in volume across alcohol categories in the UK from 2014 to 2027 (forecasted)

On the other hand, beer will drive the volume growth for the market. Economically, this makes sense as beer is priced cheaper and will penetrate the market more for cost-savers with a forecasted <1% price increase in the next 4 years.

Suppliers have started adapting this forecast into their portfolio strategy where Brown-Forman, the parent company of Jack Daniel’s, have acquired two premium+ spirits Gin Mare and Diplomatico into their portfolio of brands. While Diageo, market leader for spirits with brands like Smirnoff and Captain Morgan, has increased its price and attributed this and premiumisation to its 10.7% net sales growth mitigating the decrease in overall sales volume.

The rise of at-home drinking over going out

IWSR Drinks Market Analysis CEO, Mark Meek, explained that the pandemic has generated two key consumer trends that continue to persist post-covid: First, the rise of at-home drinking. Second, occasionality and moderation.

This means that Brits would rather enjoy a drink at home than going out as consumers found they save more money and are able to “treat” themselves to a nicer bottle of wine or whiskey than going out. Alex Holbrook from Master of Malt, one of the UK’s premium alcohol retailers, saw an increase in the rate of sales of high-end spirits worth over £100 per bottle in 2022. But when they do go out, it will be for an occasion or saving up for a big night out.

How we buy our drinks: Off-premise, on-premise and e-commerce channels

At-home drinking during the pandemic saw the off-premise, retail venues where consumers purchase goods to bring home such as supermarkets, benefit the most and they have managed to maintain some of the footfall post-covid.

The e-commerce channel has gained a considerable share of the pie traditionally occupied by the on- and off-premise. During the pandemic, consumers were in an era of exploration and suppliers found the ecommerce space the best way to deliver their products.

The behaviour we’re seeing in the on-premise venues such as pubs, restaurants and bars, is consistent with the trends exacerbated by the cost of living crisis.

Lockdown restrictions from the pandemic and inflationary pressures on raw materials are putting people off from returning to the on-premise. Though young people are eager to go out, the same cannot be said for those in their 40s.

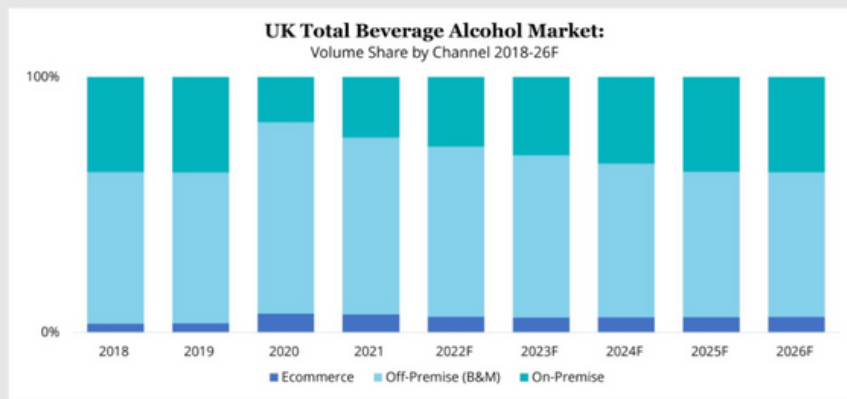
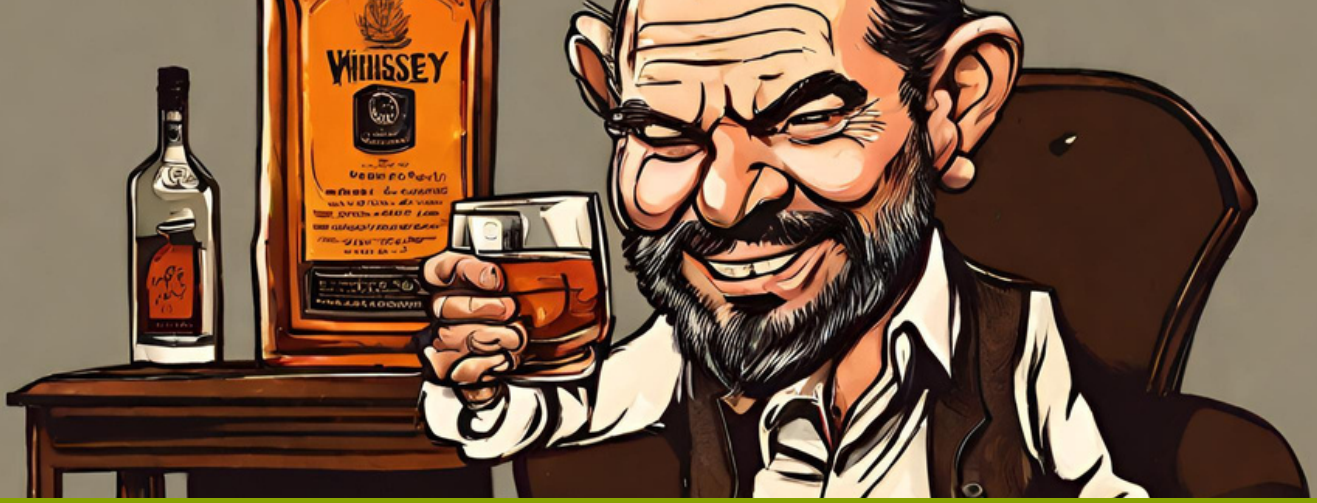


Figure 3 shows the forecasted share of the total beverage alcohol market in the UK per channel from 2018-2026 (forecasted).

The IWSR has not forecasted the on-premise to recover to pre-pandemic levels in the short term, further reinforcing the at-home and occasionality trends. Although there is intent and sentiment to go out, Brits are mindful about the frequency of.

As macroeconomic constraints continue to strain finances, the on-premise is experiencing positive but sluggish growth. However, it will soften in the medium term when inflation eases.

We will then start to see consumers back in the on-premise returning close to 2019 level with the off-premise slowly losing their gains of share and e-commerce volume share growth relatively flat.

Whether at-home drinking will continue will depend on the willingness of the older demographic to return to their favourite bars and pubs.

Premiumisation trend to continue

The one trend that will continue to stick around is the premiumisation trend.

Global demand is strong, and suppliers and distilleries are anticipating this. Premium+ whiskey is expected to drive the value growth journey alongside strong tequila demand.

In the UK, despite total gin in decline, premium gin is up and the UK continues to be a key value market for suppliers. Tequila is also the fastest growing category and there is a renaissance in the rum category.

Still uncertain...

We have emerged from the pandemic into a world of inflated prices and economic instability, this has caused consumers and households to be incredibly wary of spending. The pandemic has also eaten into some of their financial reserves.

It remains to be seen how quickly inflation stabilises and how swiftly consumption will bounce back up when it comes to. There is a lag between prices, wages and production after all.

