

**Date: 5/21/13**  
**Circ: 20,000**

## **Beer's Loss is Wine and Spirits Gain**

Dear Client:

Beer has commanded the largest share of the alcoholic beverage category for decades. But as consumers demand more variety, wine and spirits have the wind at their back. Interestingly, US beer consumption peaked in 2008, while wine and spirits trends have been consistently growing for more than 20 years, David Decker, president of Consumer Edge Insights, told NABCA attendees last week.

As consumption trends evolve, wine has actually been the big winner. In 1985 wine's share of consumption was about 13%, while beer's was 55% and spirits represented 32% share. Now wine is sitting at 16% share, spirits represents 31%, and beer's share is down to 53%.

**NEW PRODUCTS/ TASTE EVOLUTION DRIVE CHANGE:** There are dozens of factors that have contributed to wine and spirits growth and beer's decline, but none more than evolving tastes and new brands/flavors, said David. The explosion of new SKUs is a relatively new trend we owe largely to the flavors arms race, while evolving tastes is not necessarily new. "This is a natural dynamic in the alcoholic beverage industry, that people's taste evolve in the category as they get older," he said. "A lot of that shift is normal taste evolution."

However, with the growing popularity of craft beers and the huge pipeline of breweries planning to launch in the next couple of years, the beer category is catching up to wine and spirits in terms of offering a wider variety of products. As a result, the beer category will probably benefit in the future.

Beyond new flavors and evolution, economic reasons play a big role in the growth of the spirits category. Consumers are still largely conscious of where they're spending money, but spirits have invested and been very creative in building their brands. "Those forces all working together have created a very strong combination of consumption growth and unprecedented pricing power that the beer and wine industries are envious of," David continued.

Health reasons is the other factor that largely affects why consumers are drinking more wine. Simultaneously, it is also a big reason why consumers are drinking less beer.

Although it's losing share, no one is implying the sky is falling for beer. It's still consumers' favorite category with 40% who say they prefer it. Wine and spirits are essentially tied for second place with 28% and 27%. But when it comes to women and millennials, two growing demographics, wine and spirits take the cake. Consumers aged 21-27 prefer spirits by 32%, followed by beer at 31% and wine at 23%. Women prefer wine by 40%, followed by spirits 27% and beer 25%.

**CHANGING SPIRITS MIX:** "The mix of what people are drinking is fundamentally different from what it used to be in the spirits category," said David. In 1980 whiskey held the most share in terms of consumption at 49%. It was followed by vodka (19%), gin (9%), rum (7%) and tequila (2%). At this point

in time, the "other" category had about 14% share of consumption. Fast forward to 2010 when whiskey's share was halved (24%) and vodka's share was up to 32%. Rum and tequila also steadily grew in share to 13% and 6%, while Gin gave up some share as it also represented just 6% in 2010. The "other" categories represented 19%. However, we've seen whiskey's share on the upswing since 2010 and gin is gaining popularity in craft distilling circles.

## **RESTAURANT TRENDS AT HIGHEST LEVELS EVER?**

Last week numbers from The Restaurant Industry Snapshot (see [WSD 05-14-2013](#)) showed that for the second consecutive month the restaurant industry posted positive sales in April. However, it may be better than they let on. Preliminary figures from the U.S. Census Bureau suggest that sales at "eating and drinking places" reached nearly \$46 billion in April, which represents an all-time high, [reports](#) USA Today.

Restaurant sales dipped in February, but have been steadily increasing since then. "After totaling nearly \$45.7 billion in December, eating and drinking place sales were dampened somewhat during the first three months of 2013, likely due in part to the impact of the payroll tax hike," the National Restaurant Association's chief economist Bruce Grindy wrote in his analysis of the numbers.

## **OCEAN VODKA STRETCHES ACROSS THE PACIFIC**

Shay Smith may be one of the luckiest guy in the business. Besides being the president of a craft spirits company, he also operates out of what is arguable one of the most relaxing places on Earth, Maui. Shay's family has lived in Hawaii for three generations and in 2006 they created Ocean Vodka. "We were looking at it from a point of view of wanting to create something based on quality - not necessarily that it is made in Hawaii," Shay told WSD.

Made with organic sugar cane and deep ocean mineral water, Ocean Vodka is what Shay calls a word-of-mouth brand. It can be purchased in about 30 states and is still growing without much marketing. Most of the states it's not in are control states. "Those are a little bit more challenging," he says. Ocean is sold both on and off-premise for anywhere from \$30 - \$33. "Typically we do a few on-premise accounts and some of the surround off-premise accounts."

2012 was a big year for Ocean as it was up 10% to 10,000 cases. More importantly, in 2012 the Smiths were able to begin a transition that would allow them to control all aspects of supply and production for the first time since the brand's inception. That transition included building a new visitor's center, organic farm and distillery. In fact, the grand opening was the last week in April.

In the beginning the Smiths were buying bulk spirits and refining them. Their biggest challenge back then was getting distributors to notice them, says Shay. His solution? Elbow grease. "It was a labor of love and it was a lot of hard work." But "once you're in with the distributors, you work your way to a little bit of the mindshare."

The current price point is essentially the same one the brand has been at since it's introduction. And Shay doesn't see them raising it any time soon. "We've just been trying to consistently work our back end, our efficiencies, our cost of goods and that sort of stuff. Ultimately if we can achieve some economies of scale to maintain in overtime as well."

## **OKLAHOMA RENEWS FIGHT FOR WINE IN GROCERY STORES**

The Oklahomans for Modern Laws is resurrecting the fight to get wine into grocery stores in the state. You'll recall this isn't the first time they've attempted to change this alcohol policy. In April 2012 the organization launched a signature drive, but were forced to withdraw it. This time supporters are hoping to get the issue on the ballot in November 2014, reports The AP.

This version of the petition proposes a new wine license to permit the retail sale of wine in grocery stores, superstores, supermarkets and warehouse clubs that measure at least 25,000 square feet. Additionally

only those grocery stores in Oklahoma counties with population greater than 50,000 - of which there are 15 - would be approved in advance of countywide votes.

You may recall a coalition of organizations attacked the measure in court last year, but their protest was rejected. Supporters are expected to resubmit the same petition as last year, so we'll expect to see more challenges. The Retail Liquor Association of Oklahoma is one of the petitions stiffest opponents. "Our move would be to go to the court of public opinion," says J.P. Richard, president of the retail group. "That's the only thing we can do, convince the public how poor it is." He added that opponents were prepared to spend up to \$200,000 to fight the measure.

#### **WSD BRIEF:**

SKYY VODKA PARTNERS WITH HIP-HOP ARTIST Theophilus London for its "Be Part of the Art" campaign to support newly launched Skyy Infusions Moscato Grape. The campaign began this month with television advertising and online activations that emphasize modern hip-hop culture and nightlife. The TV ads will appear on the likes of Bravo, E! Network, BET, Oxygen, Style and FX among others. "The 'Be Part of the Art' campaign embodies the hip hop culture's evolution as it moves away from the cognac and champagne-fueled days of excess towards a broader, all-encompassing influence on the trendsetters of today and tomorrow - what some are calling the 'Moscato Movement,'" says Umberto Luchini, head of marketing for Campari America.

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***Editor's note:** Yesterday our website had a glitch that has since been fixed. If you had trouble registering with a credit card, please retry [here>>](#) or call Kim at 210-805-8006. Register by June 14 to save \$100 off the price of \$960 per seat. Seats are going fast, so sign up today.*

#### **ANNOUNCING WINE & SPIRITS DAILY SUMMIT**

When we look at the wine and spirits industry today, it is clear that there are two drivers of topline growth: innovation and the high end. To better understand how these drivers of growth have been executed in the trade, Wine & Spirits Daily has invited several key industry execs to speak candidly about their successes at our inaugural Wine & Spirits Daily Summit.

The Summit will be a day chock full of panels, speakers, and networking events to be held Monday, August 19, 2013 at the Four Seasons Hotel in Austin. We expect a wide range of distillery and winery suppliers, wholesalers, retailers, along with consultants and buy-side analysts. Our goal is to generate the free flow of conversation on the industry. What's driving growth? What are people worried about? What can we do better? And what are we already doing great?

Our speakers include: Jay Wright (coo of Constellation); Mark Teasdale (ceo of Proximo); Chris Indelicato (ceo of DFV Wines); Bill Newlands (president of Beam Inc. North America); Tito Beveridge (founder of Tito's Handmade Vodka); Thomas Mooney (ceo and co-owner of House Spirits Distillery); Dan Garrison (proprietor of Garrison Brothers Distillery); and Ralph Erenzo (partner at Tuthilltown Spirits Distillery). More will be announced in the coming weeks.

All of these individuals have one important thing in common: The companies they lead are among the top growth drivers in the industry. We're going to hear about where their companies are headed, and how they plan to keep their spot at the helm of the industry.

If you've ever been to one of our events, you know that we mix actionable, valuable content with fun. I promise you will not fall asleep at this meeting.

So please join us in Austin. It will be an informative and entertaining day.

**And remember, sign up by Friday, June 14 to save \$100.**

For more information on the Wine & Spirits Daily Summit, click here:

<http://www.winespiritsdaily.com/summit.php>

To sign up and secure your spot at the Summit, click here:

<https://winespiritsdaily.com/register.php?id=7>

Until tomorrow, Emily

"To send a letter is a good way to go somewhere without moving anything but your heart."  
-- Phyllis Theroux

----- *Sell Day Calendar* -----

*Today's Sell Day: 15*

*Sell days this month: 23*

*Sell days this month last year: 23*

*This month ends on a: Fri*

*This month last year ended on a: Thurs*

*YTD sell days Over/Under: 0*

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