



## There may be trouble ahead ...

After a reasonable Christmas for the alcoholic drinks sector, there are a few potential obstacles that might further prevent growth of BWS in 2015



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Spirits and sparkling wine did well at Christmas, but many BWS categories are struggling

## Spirits and sparkling wine drive small gains over Christmas

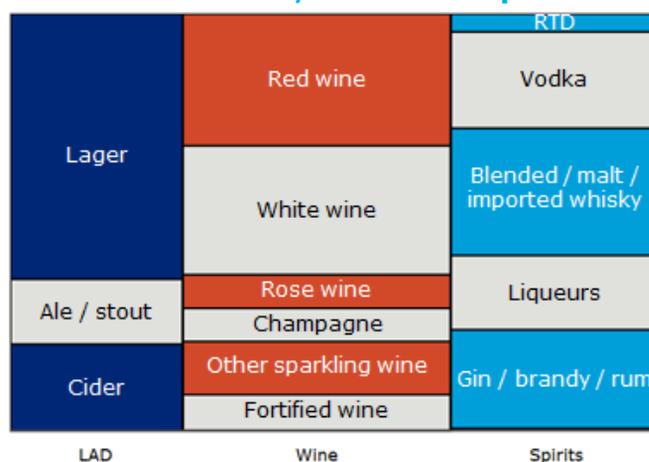
The Christmas sales results are in for beers, wines and spirits (BWS) and there was a small amount of growth for the 6 weeks to week ending 3rd January 2015 over the previous year.

As predicted, sparkling white wine (excluding Champagne) recorded the biggest rate of growth, with value up 36%.

However, it is perhaps the spirits category that deserves the biggest plaudits with growth of 5.9%.

Between these two categories, total sales grew over £70m, while the whole of BWS only grew by £65m, so total sales across all the other categories were actually down about £5m.

## Sales of beers, wines and spirits



A visual representation of the size of each sector in the market. Source: IRI, 6 w/e 3 January 2015

## What about the bigger picture?

The big retailers have been busy releasing their Christmas trading statements.

Food prices remain under immense pressure, so any actual growth achieved in grocery sales has been hard fought

The headlines for Christmas include the following :

- Tesco LFL sales down 0.3%
- Sainsbury's LFL sales down 1.7%
- Morrisons LFL sales down 3.1%
- Waitrose sales up 7%
- M&S food LFL sales up 0.1%
- Aldi sales up 22.6%
- Lidl sales up 15.1%

These latest results add further evidence to the concept of the "squeezed middle" within grocery.

While Waitrose and M&S are enjoying success at the premium end, and Aldi and Lidl are taking significant share at the discount / value end, it leaves the other major players fighting for their survival in the squeezed middle, especially Morrisons.

Category	Growth (%)	Growth (£m)
Spirits	5.9	40.7
Sparkling white wine	36.0	29.7
<b>Total Spirits &amp; sparkling</b>		<b>70.4</b>
Lager	0.4	1.7
Champagne	1.8	1.4
Rose wine	2.8	2.2
Fortified wine	2.6	2.1
Red wine	(1.0)	(3.0)
White wine	(0.8)	(2.4)
Cider / Perry	(0.8)	(1.0)
Other sparkling wine	(20.8)	(3.1)
RTD	(8.2)	(2.9)
<b>Total other BWS categories</b>		<b>(5.0)</b>
<b>TOTAL BWS</b>	<b>2.9</b>	<b>65.4</b>

Source: IRI 6 w/e 3 Jan 2015

\*Please Note: Retailer performance figures are from industry press releases

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## Obstacles to growth

Sales of beer, wines and spirits are not immune from this pressure on the squeezed middle.

BWS is typically the biggest category within grocery, so competition in the drinks aisles is always intense.

However we believe there are a few additional obstacles that lie in the way of a return to profitable growth within BWS for 2015.

## Duty could go up by 2.1%

With inflation running at low levels, the Chancellor will be tempted to index link all categories of BWS and increase duty by 2.1% in the March 2015 Budget (i.e. by forecast inflation).

Although beer duty has been cut by small amounts in the last two Budgets, a 2.1% increase across the board will increase revenues for the Government by around £200m p.a. vital funds which could be committed elsewhere just before the election.

## Election uncertainty

Most general elections are close to call, but this one seems more uncertain than most.

A new coalition of some sort is highly likely once the votes are all in and counted, and this could lead to much uncertainty for the rest of the year, with consumers nervous about increasing their spending on food & drink.

## Plain tobacco

The recent rushed moves to introduce plain packaging for cigarettes indicates that the

health lobby is increasing its influence across Whitehall.

These new changes on tobacco are likely to be followed by some additional restrictions on alcohol.

A new coalition agreement might, for example, include the introduction of Minimum Unit Pricing for alcohol or further limits on sports sponsorship which would be a major blow to many of the larger BWS brands.

## Greek dominoes and Quantitative Easing

Meanwhile the recent election result in Greece could kick start a domino effect across Europe.

Will Greece default on its debts?

Will Greece or any other country leave the Euro?

The European Central Bank has recently announced a significant quantitative easing plan, so the medium term impact on the Euro exchange rate is not yet clear for the many BWS retailers and suppliers who source most of their drinks from Europe.

Any further increase in European uncertainty is not good news.

## Any winners in 2015?

Despite all this gloom and doom, there are still likely to be a few significant winners in 2015.

Prosecco has been the glamour category of BWS over the last couple of years, with strong volume and value growth. We believe that the British consumer has latched onto Prosecco as a fashionable drink, not only instead of Champagne when celebrating but perhaps more importantly as a drink of choice when going out. As long as

quality is not compromised, Prosecco will have another good year in 2015.

Craft ales have also done well in 2014, and British consumers are switching away from more traditional standard lagers. These highly differentiated beers create a vibrant display in most retailers and lend themselves to "3 for £5" type promotions. Another winner in 2015.

More fruit ... whether in lagers, ales, ciders or wine, we expect lots more fruit varieties to be launched in 2015. Not all of them will emerge successfully, but there will be a few who create their own sustainable niche in the drinks aisles.

Online is the other likely winner in 2015. More and more product is being purchased online, and the advance of "Click & Collect" is perhaps the tipping point that allows working households to collect their online purchases at a time of their choosing. Wine in particular is very well suited to the online channel, where the story of each wine can be told.

2015 should be very interesting.

## Contact IRI

If you would like to speak with one of our consultants to find out how to find growth areas in your assortment range

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