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Premiumisation trend in the alcohol industry: A slowdown in sight amid economic pressures?

As the US economy continues to grapple with inflation and cost-of-living pressures, the once-booming premiumization trend sees a slowdown

Friday, July 7, 2023



The realm of high-end alcoholic beverages has witnessed a significant ebb and flow, marked by a remarkable growth trajectory through 2022. Referred to as 'premiumisation', this trend became a buzzword, particularly amongst US consumers

who were inclined to trade up their choices in both wine and spirits. However, the once flourishing trend appears to be witnessing a decline. The critical question then is - are consumers starting to shun high-end products due to mounting economic pressures?

Recent data from the Distilled Spirits Council of the United States (DISCUS) reveals a discernible dip in 'trading up' among US consumers in the first quarter of 2023. Hasan Bakir, a noted economist from DISCUS, has commented on this trend stating that it "grew drastically" in the pandemic era. He adds, "it's only natural to see that growth normalise and level off" as the world continues to recover from Covid-19.

Richard Halstead, head of consumer insights at IWSR, however, suggests that the premiumisation category will continue to experience growth in the US, albeit at a "more moderate" pace than previously witnessed. This moderation, it seems, could be attributed to the inflationary pressures and a sweeping cost-of-living crisis as indicated by the 2023 Drizly Consumer Report. According to this report, two-thirds (66%) of the survey respondents admitted to altering their alcohol purchasing behaviours over the past year due to inflation. Interestingly, about 17% confessed to buying cheaper brands than their usual preferences, and 14% reported a shift towards less-expensive beverage categories.

Bakir elucidates this trend by pointing out that consumers, who are prioritising essential purchases such as rent and groceries, are left with less disposable income to spend on non-essentials like high-end spirits.

Despite this shift in consumer behaviour, Mark Meek, CEO, IWSR Drinks Market Analysis, in a recent report noted that the industry will still "deliver pockets of significant value growth." Meek underlines that in mature markets, premiumisation is likely to stay embedded in consumer purchasing behaviours, albeit at slower growth rates.

In the context of unit prices, Drizly, an alcohol e-commerce platform, has recorded a steady rise since 2019. The average unit price of products sold on this platform has grown nearly 17% over the past five years, hitting a peak of $20.16 in 2023. However, in the year 2023 to date, the average remains relatively static.

Looking at category-specific trends, wine has been a notable contributor to the premiumisation trend. Over the past five years, the average unit price for wine has surged by over 20%, reaching $19.57 in 2023, marking a slight increase from the previous year. Within the top-selling wine subcategories, sparkling wine commands the highest average unit price, followed by red wine, rosé, and white wine.

However, the spirits category seems to be losing pace. On Drizly, the average unit price for spirits is only 2.7% higher today than in 2019. More notably, it has dipped in 2023 year to date, even sitting below the 2020 level.

Liz Paquette, head of consumer insights at Drizly, pointed out that while the spirits category saw the most significant growth in premiumisation in the early years of the pandemic, "it appears that has slowed down" based on current data.

Taking a closer look, tequila holds the highest average unit price among the top-selling spirits subcategories on Drizly, standing at $48.60 – a significant leap from $39.32 in 2019. Whiskey and vodka rank next, with prices of $37.78 and $21.78 respectively. However, the average unit price for both whiskey and vodka has seen a slight decline in 2023 year to date. Vodka's current unit price is even below the 2019 level, suggesting that the premiumisation trend in the spirits category is slowing down as consumers tighten their financial belts in the face of ongoing economic strains.

While the premiumisation trend may be encountering headwinds due to economic factors, it is crucial for industry stakeholders to monitor these shifts closely and adapt their strategies accordingly. The evolving consumer behaviour reflects not just their preferences, but also their resilience and adaptability in the face of macroeconomic pressures. As the market adjusts to this new normal, the alcohol industry is poised for intriguing times ahead.