

Nielsen: "New Normal" Impacts Alcohol Beverages



By Meghan Belanger

February 08, 2010 - NEW YORK -- While there are recent signs that the U.S. economy has righted itself and is on a path to recovery, the road ahead faces significant headwinds that will make a true reversal protracted. And as economic pressures continue to impact consumers' buying habits into a "New Normal," retailers' alcohol beverage categories will be similarly shaped to take advantage of some opportunities and address shoppers' newfound frugality, according to the quarterly The Nielsen Co.'s Economic Advisor Beverage Alcohol Webinar.

The presentation -- by Danny Brager and Nick Lake, both vice president and group client directors for The Nielsen Co., parent company to *CSNews Online* -- focused on current economic indicators and the impact of those figures on consumer behavior, and how it shapes beer, wine and spirits purchases across several retail channels.

"Consumer confidence is back from the steepest falls," said Brager. "It's up and down every other day, but it's not to where it would be in a good economy" in the 90 percent range. The economy also tops the list of consumer concerns, with job security and work/life balance filling out the top three.

Additionally, while job losses aren't as bad as previous months, the U.S. has to create 200,000-250,000 jobs each month to truly recover, he noted.

According to the Nielsen experts, the recession's bottom was reached in March and April 2009, but improvements have been very weak.

"The Great Recession may have ended, but a human recessions continues," Brager said. "The U.S. mindset is still very much recession-based." He added the nation has the lowest confidence indices compared to the other 50 countries polled, and 90 percent of Americans believe we are in a recession.

As such, consumers have taken actions to compensate, he said, explaining consumers "totally stayed on sidelines" for the last part of '08, and only tepidly spent in '09, with consumers currently "on the playing field, but not on the starting team."

For example, consumers are taking fewer shopping trips compared to last year. Consumer panelists for the Nielsen Co. report making 1.5 percent fewer trips than the prior year, and shopping baskets are smaller -- the year-over-year percent change for spend per trip is in the negative territory, due to falling retail prices, more promotions and less discretionary spending.

For the retail food channel, this means consumers are cutting back on out-of-home dining. A recent Nielsen study found 57 percent of consumers polled said they were visiting casual dining less often, and 55 percent said they were eating dinner at home more often.

In the off-premise segment, shopper behavior differs by channel, but overall, one-stop shops and discounters -- such as grocery, club, super center and dollar channels -- are all gaining retail shopping trips, as others are losing them, including c-stores, which saw trips fall between 5 percent and 9.9 percent, according to Nielsen figures.

"Consumers are looking for deals," said Lake. "Beginning in late 2008, this trend has been on a steady climb up. Regardless of household income, consumers are looking to save money, and retailers and suppliers are offering more promotional activity than ever."

This is evident in pricing data, as the fourth quarter of 2009 was the fifth consecutive period of negative prices, he said.

"Consumers are desperately seeking value, but it's a label that describes what they want, not just a low price, but quality," Brager said, adding consumers are also making a prioritization to their needs vs. their wants.

"While [consumers] move and migrate towards need and practicality, beer wine and spirits fall within that description," explained Lake.

Meanwhile, off-premise retailers are looking to enhance the in-store shopping experience by analyzing assortments to create the right product mix by category and across the store. This is causing SKU reductions and improved merchandising with clean floor policies and fewer displays, which is resulting in enhanced margins from better inventory management less overhead and reduced costs, Lake said.

"This is happening across all classes of trade, from the convenience store channel to mass club stores," he said.

Beer, Wine and Spirits

Within the alcohol beverage category, the number of wine and spirits items handled in stores has been flat for the last few years, but there have been shifts in the vodka segment, and wine has seen a shift toward the \$9-\$15 bottle segment. And the average retailer added 11 beer items last year, most of which have been on the higher end -- crafts and domestic super premiums -- while rationalizing the flavored malt beverage segment.

For the beer category, growth is coming from the craft segment's import and super premium areas, along with the below-premium segment, which is seeing consumers flock to it from premium light beers, according to Lake.

Within imported beer, which makes up 16 percent of beer's volume, a bright spot was Belgian beer, which was up almost 13 percent, on a relatively small base, he said. Meanwhile, imported beer's largest segment, Mexican beer, was down 3 percent for the year.

And looking at pack size, consumers are gravitating toward big and small packages, with growth being seen in 30-packs -- to satisfy consumer' desire for more value per serving -- and four-packs -- as consumers experiment with craft offerings.

The convenience store channel -- which is the largest in terms of beer volume -- was up 0.6 percent in beer for the last 52 weeks ending with the close of the fourth quarter 2009, according to Lake, who noted the c-store channel is losing some volume to club and mass channels.

"The c-store channel -- which is critically important to the beer industry -- was soft, and an object of need for growth in 2010 for the [beer] industry to be healthy again," he said.

There was a positive jump for flavored malt beverages in convenience stores, with a 4.6-percent increase in the latest 12 weeks, which was driven by product innovation, Lake said. However, the segment saw declines in all other off-premise retail channels.

Spirits in convenience stores, value channels and one-stop shops saw "tremendous growth" with c-stores seeing a 5 percent year-over-year increase in sales in the segment, according to Nielsen data cited at the Webinar. Within the segment, flavored vodka, rum and Irish whiskey were bright spots.

Across all channels of retail tracked by Nielsen -- food drug and mass, including Walmart -- wine was up 2.9 percent in dollar sales for 2009. Within that, convenience stores were up 9.0 percent in dollar sales.

The strongest wine price point for off-premise retailers in 2009 was \$3-\$6 on a 750-milliliter bottle equivalized basis. Another strong segment is \$9-\$15, while the \$20 and up section was seeing a steeper decline, but has stabilized in the fourth quarter 2009.

For pack sizes, consumers' emphasis on value is providing growth for 5- and 3-liter box wines.

By origin, domestic wine is exceeding imports, with California and Washington wines performing well, according to Brager. Imports, while not faring well overall, see some positive influence from increases in Argentina and New Zealand wines, while vintages from Australia and France are declining.

And by varietals, Riesling is leading the growth, along with Sauvignon Blanc and Pinot Noir.

Future Predictions

The Nielsen analysts forecast GDP settling in the 3 percent range for 2010, while a "jobless recovery" will see unemployment stay elevated in the double digits in 2011 and not return to the 4 percent to 6 percent range until the middle of the decade, Brager said, noting this will dampen consumption.

For 2010, Americans will feel slightly better and the equity markets will perform better. However, Brager was unconvinced there will be drastic improvement.

"Consumer spending adjustments will continue whether by choice or necessity, at least until into next year," he said. "It will be a slow road to recovery, consumers have recalibrated. Restraint is the new normal, value is the new priority. Consumers are satisfied with their experience at lower price points."