How Inflation and Innovation Are Disrupting Beer

A Q&A With Jim Watson

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Hosting a summer barbecue isn't getting any cheaper. While the pace of inflation has eased over the last year, food and beverage prices continue to move higher. As a result, consumers are experiencing fatigue from the marathon of inflation over the past five years that has put their personal balance sheets in worse shape.

In 2024, a 10-person barbecue on the Fourth of July will cost $99, the highest on record, up from $97 last year and $73 in 2018. Beer, the most expensive item on the barbecue menu, makes up 27% of the total cost. Prior to 2023, the price of beer, on average, had risen for 15 straight years. At the same time, total beer volume has declined in the face of stiff competition from spirits. The reality is consumers are living healthier lifestyles and drinking less beer, with many seeking low-calorie beverage alternatives with more flavors and styles.

In a Q&A, Jim Watson, senior beverage analyst at Rabobank, discusses the changing competitive landscape in the beer industry, the continued rise of ready-to-drink cocktails and how beer is struggling to maintain its long-held grip on the classic American barbecue. Plus, he shares his outlook for non-alcoholic beer and strategies for beer drinkers to get the best bang for buck this summer. For more insight, read on:

1 Beer prices have gone up for the last 15 years. Can brewers continue to raise prices?

The affordability gap in beer relative to wine and spirits has narrowed over the years as beer raised prices at a notably higher rate. That is a serious long-term issue for the beer industry, particularly in the United States. The beer industry runs the risk of losing a percentage of young beer drinkers every year. Beer has already lost share steadily for more than 20 years and affordability is a big part of that story. Effectively, they're trading in market share for what they hope are higher profit margins. But once you lose enough volume, it starts to impact your margins. Beer companies may need to develop new brands or acquire existing ones to keep customers from leaving the category altogether.

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2 Which beer brands had the most success gaining market share in the past year?

Molson Coors was the big winner in 2023 in terms of improvement over long-term trends, while Constellation, which owns the U.S. licensing rights to Corona and Modelo, continued to perform well. Like other mainstream lagers, Michelob Ultra, Coors and Yuengling reaped the benefits of Bud Light's boycott woes and saw a nice bump in sales. But it wasn't just a one-time benefit—it has been a structural shift. In 2018, Bud Light had a 17.5% volume share of beer and Coors had 8.9%. This year, Bud Light dropped to 11.3% and Coors rose to 10.7%. Bud Light was close to doubling its lead over Coors Light five years ago and now they have only a slim lead. It's wild. Michelob Ultra has jumped to 7.2% from 4% in that time frame. Meanwhile, Modelo rose to 9.2% from 4.6%.

Beer Battles

Modelo Especial and Michelob Ultra have taken significant market share amid Bud Light's woes

Top beer brands by total volume

Brand Name	2018	2023
Bud Light	17.5%	11.3%
Coors	8.9%	10.7%
Miller	9.2%	9.8%
Modelo	4.6%	9.2%
Michelob	4%	7.2%
Corona	5%	6.4%
Budweiser	5.6%	5.8%
Busch	5.8%	5%
Natural	4.4%	4%
Heineken	2%	2.2%

Source: Euromonitor International

3 Beyond Bud Light's struggles, what are these competing brands doing differently to attract new customers?

Brands that are growing are focused on aspirational marketing, uplifting themes and targeting different consumer demographics. It represents a continued departure from the silly humor we've seen in the past with most mainstream beer advertising. They're looking to recruit consumers by creating a new occasion for your beer that another drink would try to take. A post-exercise beer is a great occasion for groups like running clubs, which are known to meet up at a bar after a race. The post-exercise vibe may also appeal to more women than it has in the past. Overall, beer marketing has become more gender-balanced. The Hispanic segment of the population is also one of their target audiences. Modelo, for example, has leaned into combat sports. The company has a long history of boxing ties and, more recently, ultimate fighting sponsorships, as an expression of its Mexican heritage. Inflation is putting a lot of pressure on the beer industry right now but if you get the brand story right, the consumer pricing will follow.

4 How are ready-to-drink cocktails performing and will they continue to take share from beer?

The threat posed by ready-to-drink cocktails to beer is real. In 2023, RTDs saw a 24.3% spike in volume growth—the growth in number of beverages sold—whereas beer saw a decline of 5.1% and every other spirits category was in decline except for tequila, which generated 5.7% growth. What people want to drink is changing. This new trend of spirits-based cocktails becoming an at-home beverage staple is meaningful. It's a game-changing innovation that is bringing dollars in the door and disrupting the competitive playing field. The backyard barbecue has always been the most traditional of beer occasions. Spirits are now looking to crash the party. Once you crack an occasion like this, you've created new drinkers—and new memories—while unlocking another driver of sales.

The RTD revolution was launched by malt-based hard seltzers in 2017 led by White Claw and continued by spirits-based drinks like High Noon in 2019. The hard seltzer craze was driven by massive innovation. Every six months, there was an array of new flavors. It was too much innovation. They're now going through a reset and defining the category more clearly.

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More recently, spirits-based cocktails have grown at a faster rate, particularly vodka-based and tequila-based seltzers. Consumers continue to gravitate toward spirits-based RTDs for a more premium experience coupled with the cost, portability and convenience of mixed drinks in a can. Many brand-name spirits makers have an RTD on the shelves right now. And we will continue to see an expansion of that product lineup. If you're Jack Daniels, why wouldn't you put your whiskey in a can of Coke? In the end, folks want good-tasting, easy-drinking, lower-alcohol drinks so they'll just continue to evolve.

Shaking It Up

Ready-to-drink cocktails continue to show robust growth

Category	% Volume Growth
Cocktails/RTDs	24.3%
Tequila & Mezcal	5.7%
Vodka	-2.6%
Cordials	-3.5%
Whiskey	-4.2%
Beer	-5.1%
Rum	-5.7%
Gin	-8.7%
Brandy & Cognac	-12.8%

Source: Distilled Spirits Council of the United States

5 Non-alcoholic beer is growing in popularity. What's driving that trend and does it have staying power?

Non-alcoholic beer is an exciting new category and an opportunity for beer brands to diversify their revenue streams. But it's also a defensive strategy to prevent customers from leaving beer altogether or cutting down on drinking in pursuit of a healthier lifestyle. A lot of the volume and the marketing focus is on current drinkers who want a beer to enjoy at occasions when they don't want to drink alcohol. Brewers are looking to expand the number of occasions where you can have a beer. They're trying to get in front of a consumer at a time when they might not normally drink their products. Or grab their attention at a different location with new shelf space at convenience stores, supermarkets and restaurants.

In the one-year period ending July 2023, non-alcoholic beer represented the bulk of the $510 million in sales, a 31% gain year over year, of non-alcoholic adult drinks. In 2024, non-alcoholic beer has eclipsed 1% of the total beer market. While that's still small, growth projections suggest it could triple in the next five to 10 years. Heineken, Guinness and Athletic Brewing are the heavyweights in this field focused on creating new demand and driving growth. And they're putting advertising dollars behind it. In February, Heineken 0.0 ran a TV commercial in tandem with Marvel during the Super Bowl. Guinness 0 ran its "singing pints" spot last year on St. Patrick's Day. And Athletic recently launched its multi-million dollar "Ask for Athletic" campaign.

From a regulatory perspective, beer companies are happy to tout a product portfolio that includes non-alcoholic beer. It highlights the fact that they sell beverages for every consumer and they're making it easier for people to drink responsibly. While that is beyond what a consumer wants, it's an added benefit for beer producers.

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Tapping a New Market

Dominant players are emerging in non-alcoholic beer

Brand Name	2020	2023
Heineken	8.4%	10.4%
Athletic Brewing Co	2.1%	9.9%
Miller	15.8%	9.5%
O'Doul's Premium Non-Alcoholic Brew	20.3%	8.4%
Budweiser	1.7%	5.8%

Source: Euromonitor International

6 Will drinking non-alcoholic beer become commonplace?

There's still a lot of work to do for non-alcoholic beer to become more engrained in consumer behavior. A barbecue is a prime example where you would not typically drink a non-alcoholic beer. You're either having a traditional beer or, if you're not drinking, you're drinking iced tea, lemonade or soda. The question is, "Are you replacing the beer or the soda?" We don't know the answer to that—and the industry doesn't either. They're trying to create new occasions or steal you from other occasions to recreate it as a beer occasion. Drinking a non-alcoholic beer during a night out so that you can extend your drinking session is one way. A barbecue may soon become another occasion when you want to have a beer or two but taper off so you can still get stuff done later in the day. But it's up to brewers to create the occasion and help form new habits. Consumers have to view it as a legitimate option. If successful, then it will certainly give beer a boost.

> *"The beer industry has too much inventory—a 20-year high— and that will affect pricing. This pandemic-driven inventory hangover will lead to summer deals."*

7 Where can consumers find value in beer to pair with their summer barbecue?

The beer industry has too much inventory—a 20-year high—and that will affect pricing. This pandemic-driven inventory hangover will lead to summer deals, as consumers hunt for bargains to prep for their barbecues. Right now, there is not much of a growth story for low-priced beer. However, Pabst Blue Ribbon, to commemorate its 180th anniversary, is offering a limited-time 180-pack of its beer for $95 at select retailers this summer. For consumers, that's only 53 cents a beer. With all of the free media it's getting, PBR is getting good value too.

Elsewhere, Busch Light has focused its marketing efforts on rural customers, particularly farmers. Partnering with tractor giant John Deere and issuing limited edition "corn cans" to help raise money for Farm Rescue, a non-profit dedicated to helping farmers recover from an unforeseen crisis. For craft beer drinkers, buying an IPA with double the alcohol by volume (ABV) percentage than a traditional light beer remains a smart strategy for finding value this barbecue season.

For more insight and data on food inflation and consumption trends, view our Rabobank BBQ Index press release and infographic.

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