Chasing Growth

The rise, proliferation, and stagnation of alcoholic RTDs

October 2021

CRA Charles River Associates

Marakon

Has the alcoholic RTD market crested and what's next?

Following notable growth between 2018 – 2020, alcoholic Ready-to-Drink (RTD) beverage sales seemed to lose momentum (and investor interest) over the summer of 2021, right as a wave of new entrants prepare product launches in the space, and current participants expand their offerings in multiple directions.

Are RTDs a fad, or is there a path forward for the category?

The category's growth was driven by legitimate innovation, earned relevance in today's extensive social discussions and persisted through COVID. In this article we explore the path charted by RTDs, the key learnings and what could lie ahead for the category.

A brief history of RTDs

The RTD space isn't new: legacy brands in spirits, beer, and wine have marketed an array of RTD propositions in the past. Products like Bacardí's Breezer, Diageo's Smirnoff Ice, and Mark Anthony's Mike's Hard Lemonade (Mike's) found different levels of success across markets and tested as part of a broader portfolio strategy.

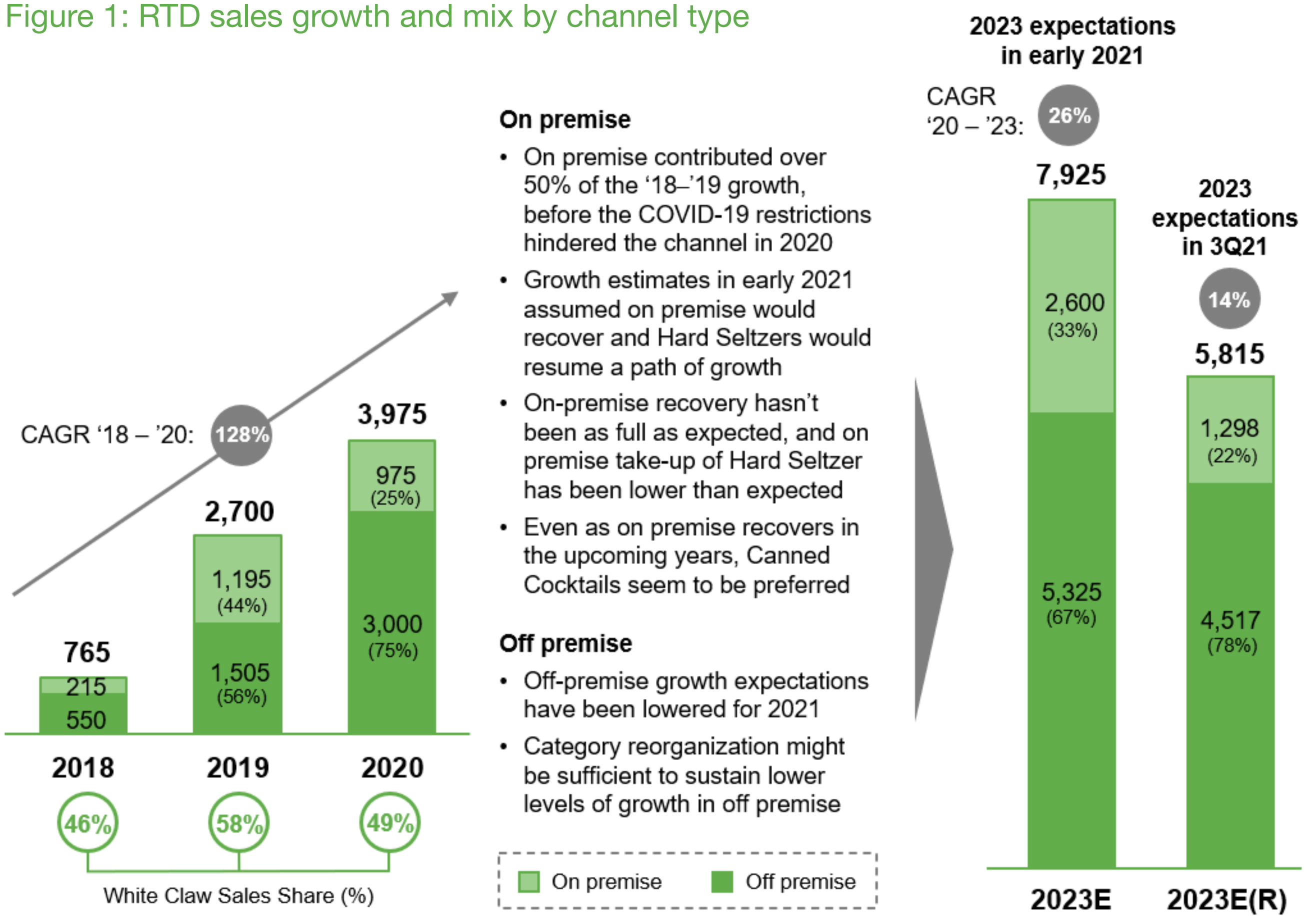
The category, in this piece defined as Hard Seltzers and Canned Cocktails, saw a significant resurgence over the past three years led by Mark Anthony's White Claw and followed by, well, almost everyone. As shown in Figure 1, after modest sales of 25 million cases in 2018, the category moved 85 million cases in 2019 and 120 million in 2020.

Sales grew accordingly, leaping from about $765 million in 2018 to just under $4 billion in 2020. Expectations have turned in the past month, but by some early estimates this year, the US market was expected to reach $5.5 billion by 2022.

Mark Anthony's White Claw captured 46% of 2018 sales and increased its share to 58% in 2019, a notably high-growth year.

As consumers' preferences evolve away from traditional entry categories such as beer, the RTD category could be part of the strategy to engage younger consumers and drive growth.

Figure 1: RTD sales growth and mix by channel type



Sources: Nielsen, Sundale Research, IWSR, Goldman Sachs, Marakon analysis

The category's growth attracted investments by all sizes of brewers, wineries, and distilleries. Somewhat unusually, it also attracted players that had never sold alcoholic beverages (including Coca-Cola and PepsiCo, more on this below), or at least hadn't done so for many years. Looking to revert declines in sales from core products like Carbonated Soft Drinks (CSD), some brands launched new, low-alcohol by volume (ABV) propositions. Brands from other categories—pursuing new avenues of growth and price extension, such as tea and coffee, have also launched new products.

Generally, multiple entrants can strengthen a nascent category. In this case, many of the new players hold strong retail and on-premise relationships, experience, and fire power to make impactful market entries. But the proliferation of brands, flavors, and formats may have been too intense for off-premise channels and consumers to understand and engage with.

As retailers rationalize their RTD offering for the upcoming year, we will be able to isolate the effect overcrowding has played in the category's lifecycle. Whether rationalization in off-premise is sufficient to breathe new life and spark growth remains to be seen.

Mark Anthony's White Claw

Introducing a new category into a mature market is a high-risk endeavor. Consumer behavior is shifting and competitive innovation continues to evolve at a rapid pace. Long-term trends, regulatory changes, cyclical preferences, evolving occasions, and short-lived fads are rife with opportunity and risk.

Early-generation RTDs were mostly marketed to women and entry-age drinkers as alternatives to traditionally masculine-focused beers. Many core brand and product attributes delivered by White Claw have been tested by legacy brewers and spirits companies in the past. Targeting young segments, aiming for mixed-gender occasions, delivering low alcohol/no alcohol propositions, convenience to find and carry the product, and even the entry price point have all been explored.

Much has been written about White Claw, its stunning success, and prominent role in the Hard Seltzer boom. The confluence of factors that sparked the success of the new generation of RTDs are broad and specific to the market dynamics we see today.

White Claw was able to find the right balance for these attributes—and crucially, got enough nuanced sensitivities right. In our view, the key attributes are:

Approachability: White Claw is free of complexity and nuance (although expansion of flavors and higher ABV options may have contributed to consumer confusion in the context of multiple brands). Many new drinkers prefer to consume without learning of the history and traditions, the production methods, and category structure.

Wellness: The higher proclivity to consider impact on health, and White Claw's promise of guilt-free fun (the "buzz without the bloat") frees consumers to enjoy the "experience." "Made pure," "100 calories," "2g carbs," and "gluten-free" are arguments which accurately meet consumer barrier thresholds.

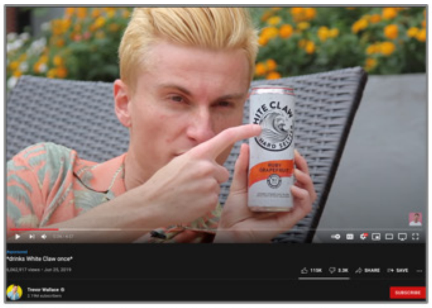
Delivery of an experience: White Claw has become a symbol for fun, care-free, social, and "Instagrammable" experiences. The product is perceived as an enabler for the experience and unifier for the "tribe." Its attributes are quasi-neutral, the flavors are acceptable, and the can art complements the aesthetics of visual social media posts.

Social media virality: White Claw's superiority in enticing earned social media virality—in YouTube, Instagram, Twitter, and TikTok (Figure 2)—and as a tool for customer engagement—leads the category.

Mixed gender: White Claw has been passionately adopted by both feminine and masculine segments, including subsets who are highly active on social media and welcome the content generated in the most relevant consumption occasions.

Occasions: While widely known for party-related occasions (at the pool, at the beach, and reunions

Figure 2: Key drivers of social media virality and engagement for White Claw



(NSFW): https://youtu.be/FApbkER3ulY

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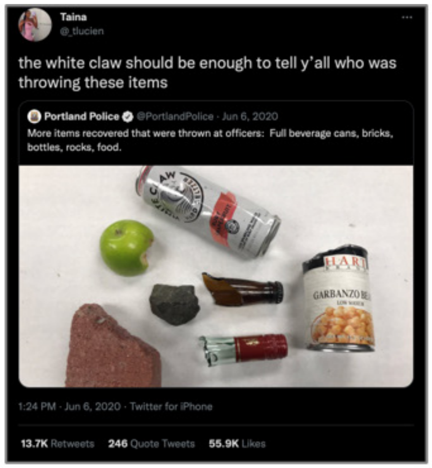

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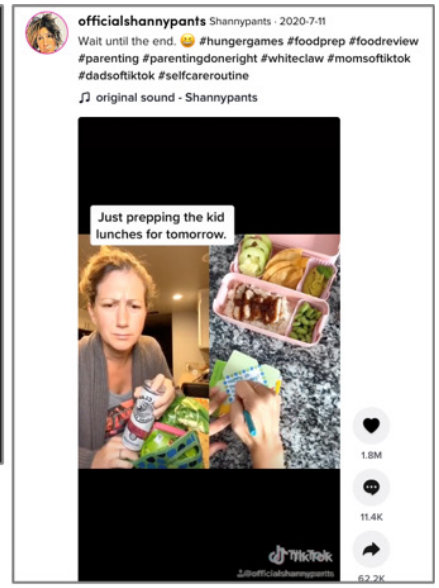


https://vm.tiktok.com/ZMR2cj9Hy/

Sources: YouTube, Twitter, TikTok

with friends in the home), White Claw has also seen adoption in urban rooftops and in outdoor activities such as camping.

Convenience: Easy to find, easy to carry, and packaged for individual consumption, White Claw has become a key go-to in the "pick-up on the way and bring to the party" drink.

As a result of this positioning, White Claw fared well through the COVID-19 lockdowns in 2020 and kept consumers sufficiently engaged with the brand to carry it into the summer of 2021.

The brand has leveraged its social media presence to engage with its customer base, particularly generating anticipation ahead of new flavors, multi-flavor packs, and more recently, new products.

Diversification is important to White Claw as a way to compete against a seemingly never-ending list of new entrants, to expand its market base, and to introduce its consumers to new, higher-priced variants.

It is crucial to find ways to maintain engagement and sales during the non-summer months.

Social media engagement

The success of White Claw attests to the link between social media engagement as a key driver of sales in the Hard Seltzer category. Millennials and Gen Z have long expressed their appetite for experiences.

White Claw delivered a great opportunity for these generations to share experiences that are generally, closely intertwined with social media.

Hard seltzer brands have followed White Claw and broadly attempted to present themselves as experience-focused. The drinks are packaged in "Instagrammable" cans that are slimmer and taller, sport a minimalistic design, and straight-forward branding alluding to a premium aesthetic. Brands aim to be flag-bearers for "tribes," removing barriers and worry, and enabling a fun, care-free lifestyle that promotes social connection across genders and occasions.

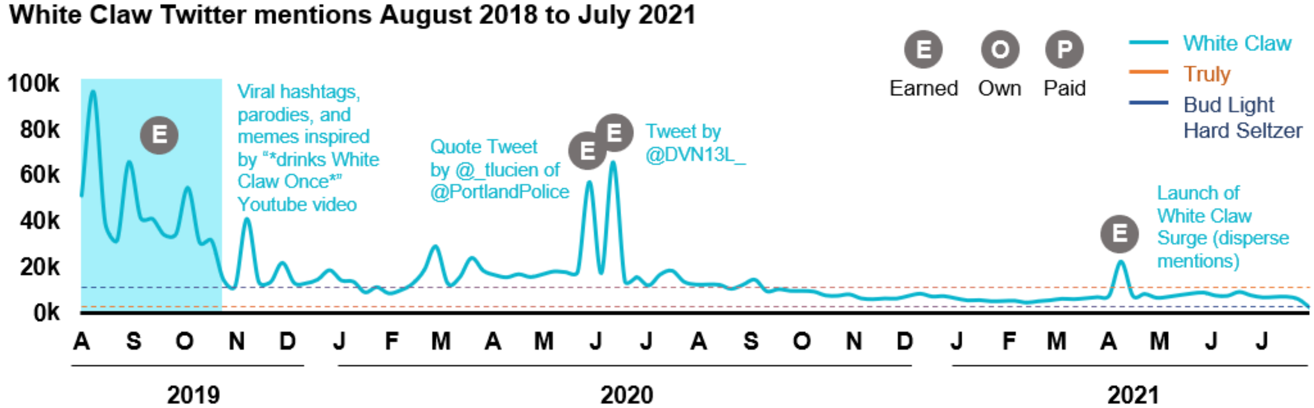
The low calorie, low carb, no gluten, low ABV, low price, and seltzer flavor profile are all designed to remove barriers to enjoyment and put the experience, not the drink, at the center.

Performance dynamics

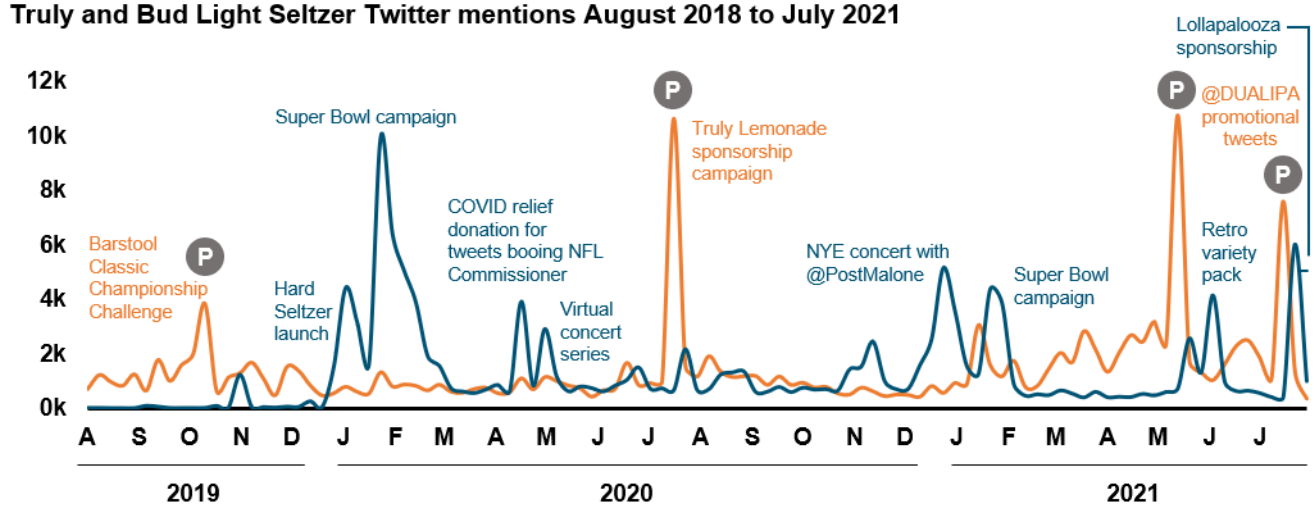
Using CRA's proprietary social media analytics tools we tracked the performance and dynamics of the category by looking at significant brands. White Claw, Truly, and Bud Light Seltzer—the best-selling hard seltzer brands over the past two years—show different approaches and results.

Figure 3: Social media engagement for top-3 players in Hard Seltzer

White Claw Twitter mentions August 2018 to July 2021

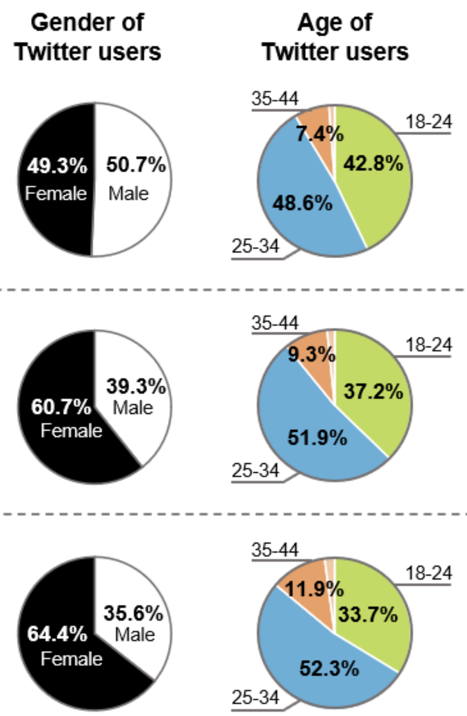


Truly and Bud Light Seltzer Twitter mentions August 2018 to July 2021



Sources: CRA's Risk, Investigations & Analytics Practice, Twitter, Forums, Online News, Blogs, Newspaper, YouTube, Magazines, TV/Radio, Other, Marakon analysis

Figure 4: Demographics and top influencers for top-3 Hard Seltzers



	Types of engagement	# of accounts in top 10	Total engagement	% of total
White Claw	Own	0	0	0
	Paid	0	0	0
	Earned	10	1.7 M	100%
	Total	**10**	**1.7 M**	
Truly	Own	1	19 K	5%
	Paid	9	355 K	95%
	Earned	0	0	0
	Total	**10**	**364 K**	
Bud Light Hard Seltzer	Own	1	152 K	42%
	Paid	9	440 K	66%
	Earned	0	0	0
	Total	**10**	**392 K**	

Sources: CRA's Risk, Investigations & Analytics Practice, Twitter, Forums, Online News, Blogs, External, Newspaper, YouTube, Magazines, TV/Radio, Other, Marakon analysis

As shown in Figures 3 and 4, between August 2019 and August 2021, the three brands amassed about 2 million aggregate mentions on Twitter. Of these, over 1.7 million were mentions of White Claw. White Claw's traction was predominantly earned with viral takes on its taste and topical social commentary originated by accounts with no particularly noteworthy influence on social media. The posts that commanded the highest engagement did not express a distinctly positive sentiment regarding the brand. They do, however, indicate the depth to which the brand has become part of today's broader social discussion.

The earned nature of social media engagement has resulted in a persistent 10,000 daily mentions of the brand, despite limited use of own and paid posts. White Claw uses its own account essentially for engagement with consumers, prompting feedback on flavors and future launches, and announcing new products.

At a fraction of White Claw's engagement, Truly and Bud Light Seltzer reached comparable results over the same period, albeit through different approaches. Both brands garnered ~150 thousand mentions each, but Truly's engagement was almost entirely driven by paid media, while Bud Light Seltzer posted through its own account, and promoted related posts from sponsored partners.

Truly's engagement has been driven by paid influencers—in this case predominantly focused on posts by @DUALIPA and @PostMalone. Peaks reached 10,000 mentions in a day but mentions quickly returned to low levels.

Leveraging a legacy brand with three decades of mass brand promotion, Bud Light Seltzer drives engagement from its own account (@BLSeltzy) and other brands it associates with, mostly XFL teams. Spikes in engagement occurred when stimulated by brand tweets, yet levels promptly dropped.

White Claw's growth is inextricably linked to its social media success. The benefits are two-fold:

- Effectiveness of broad-brand dissemination through trusted promoters
- The economic efficiency of continued, unpaid engagement and the crowd-sourced development of brand content

White Claw achieved new levels of success by combining target segments, its motivation to create shareable social media content, and placing the product at the center of the occasion.

This play doesn't come without trade-offs. For White Claw, social media success implied lack of control over the sentiment of its promoted brand content—collateral which might prove challenging to legacy players with highly curated brand equity at stake. Additionally, it exposed White Claw to the intrinsic volatility of virality, which is known to render concepts, personalities, and brands stale at a moment's notice.

It should also be noted that White Claw leveraged its social media clout to engage with consumers to map perception of its products' attributes and anticipate evolution of demand. The shortened lifecycle of Hard Seltzer limits our understanding of how effective this could have been given more time.

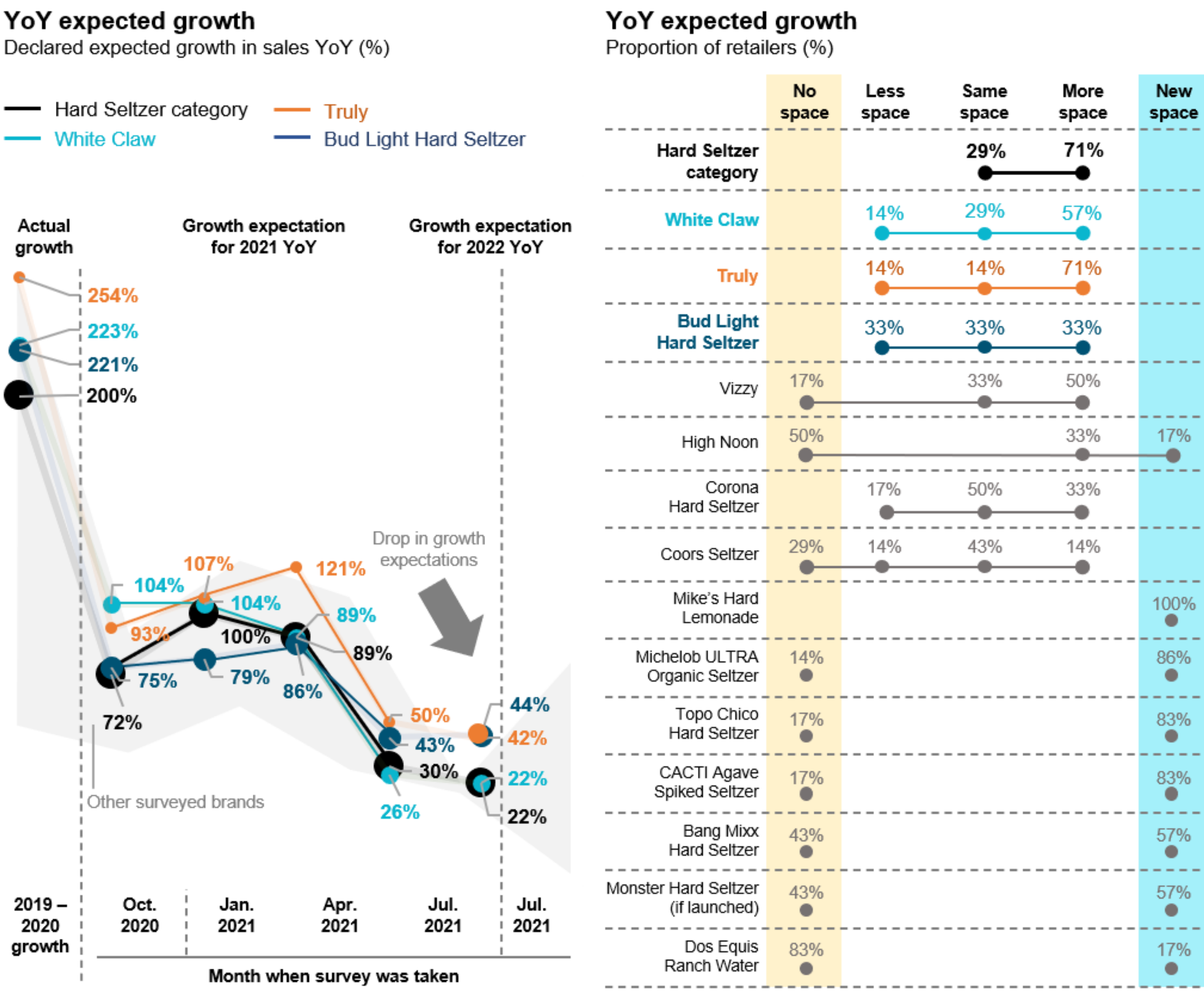
Market landscape

Sudden and rapid category growth attracted legacy players and large beverage brands to the alcoholic beverages space for the first time. Staples like Diageo and Beam Suntory are leveraging their strengths in premium spirits to offer new premium spirits-based RTDs. Beer companies like Anheuser-Busch InBev and Molson Coors are extending brands, offerings, and flavors and testing different price positionings. The category has expanded from the core Hard Seltzer, low-ABV space in many directions including canned wine seltzer, hard lemonades, hard teas, and hard kombuchas. Extensions of the category have added to market complexity, with players focusing on a wide range of attributes to establish differentiation. Particular attention has been given to the taste, ingredients, brand heritage, and surprisingly, even health.

In off premise—where all the growth came from during COVID restrictions in 2020 and part of 2021—it wasn't uncommon to find Hard Seltzers prominently taking shelf and floor space from beer. As months went by, what seemed like a wall of White Claw in stores became more colorful with new brands and new variations.

In aggregate, retailers and consumers seem to be struggling to make sense of this rapid expansion of offerings, as brands anticipated the arrival of summer 2021 which aligned with near-full easing of COVID-

Figure 5: Retailer sentiment survey



Source: "Beverage Bytes" reports by Goldman Sachs Equity Research, July 2021. Survey covers 40 beer distributors representing 145 thousand retail outlets, equivalent to ~25% of US outlets that sell alcohol.

related restrictions. With summer season approaching, retailers planned their layouts and shelf-space allocation, and then noticed indications of waning consumer excitement for the category (Figure 5).

By April, growth expectations for 2021 slowed down. By July, growth expectations were about a third of what they had been in January. And in August, Boston Beer announced it had seen a YoY volume decline in its Truly sales for the month.

Representing only 11% of the broader malt beverages market, with a dominant player, a long off-season and an arguably disproportionate number of competitors, category managers are surely considering whether to remain in the fight.

Retailers are now making a structured effort to include Hard Seltzers in their layout planning: A recent review of major retailers' layout plans reflected cautious optimism for volume growth accompanied by rationalization of how space is used and which brands will be present. In many cases, retailers expect White Claw and Truly to be the main brands on display.

The cleanup is welcome and will surely put a better foot forward in how these products are seen by consumers and should have a positive effect on the category as a whole. However, we expect to see much stricter rationalization of space for Hard Seltzers in Goldman Sach's next survey.

Category development lens

Category development follows societal change, and few categories are exposed to more volatile consumer behavior shifts than those that target young adults. Recent market developments confirm this. It remains relevant to explore the new learnings the journey has offered.

In this section we discuss the birth of the RTD category in its current iteration, current perspectives, and how different participants may be looking forward.

The (re)birth: Accessibility

From a category development lens, Mark Anthony's launch of White Claw was an accessibility expansion of its legacy product family, Mike's Hard Lemonade. Mike's markets low ABV to predominantly young, masculine segments searching for an alternative to beer. To deliver a non-beer flavor while remaining a flavored malt beverage, Mike's added citrus flavoring, and complemented it with sugar.

Successfully removing the malt flavor from the base formula was central to the White Claw proposition. A softer flavor profile allowed for a product which mimicked the confirmed appeal Seltzer had gained over sugary carbonated drinks in recent years, equally free of sugar.

To its core target segments White Claw offers a flavor profile associated with a healthy beverage, precisely chosen calorie and carb levels, no gluten, and low ABV. The expected calculation is that a limited number of calories and carbs is an acceptable compromise for the alcohol content.

Traditional new entrants: Beer

The potential for sustained growth, and the resonance with young adults quickly attracted a broad set of players.

Beer companies are adjusting to a decade-long decline in volume. These adjustments have included category extensions in different directions to attract a broader set of consumers, to expand occasions, and to extend price expectations. As a result, overall revenues declined more slowly than volume.

Beer brands have become particularly nimble in exploring growth opportunities and were quick to shift manufacturing and distribution capabilities to Hard Seltzers. Notably, the Boston Beer Company and Molson Coors have placed multiple bets.

The Boston Beer Company's Truly brand is positioned in second place, trailing only White Claw. Other launches include Twisted Tea and Angry Orchard Hard Cider. The company has also entered agreements to provide manufacturing and distribution capabilities to third-party brands like PepsiCo for Hard Mtn Dew and Beam Suntory for Sauza-based RTDs.

Molson Coors has followed suit, launching two Hard Seltzer brands of its own: Coors Seltzer (recently discontinued due to low sales) and Vizzy. The company has also established high-profile partnerships, most notably with Coca-Cola for Topo Chico Hard Seltzer.

Traditional new entrants: Spirits

Spirits brands start from a high-value, consistently rebalanced portfolio, and apply disciplined category development. They engage in a constant effort to match customers to the categories where they will provide most value and need intake channels to constantly grow their base.

Beer is a $600 billion market globally and the category plays a key role in attracting new drinkers. Despite infrequent consumption behaviors and mostly low brand engagement and price points, this segment has years of consumption ahead and there are many paths towards consumption of more profitable products.

At 1% of beer's global market size, Hard Seltzer hasn't proved it can move the needle either directly or as a consumer intake channel.

Still, many are investing in Canned Cocktails—a similar format at higher price points and predominantly in on-premise occasions—with limited traction so far.

Non-traditional entrants: Carbonated Soft Drinks

A somewhat surprising event was the entry into the category by Coca-Cola, PepsiCo, and more recently, the JAB Dr Pepper association with Polar.

In recent years Coca-Cola has refocused and diversified its portfolio, from which alcoholic beverages have been absent since the 1980s. Launching Topo Chico Hard Seltzer, in partnership with Molson Coors, is part of a search for ways to reach a core segment in new ways, driving growth and potentially extending price coverage.

PepsiCo seems to be pursuing an even broader strategy in the low-ABV space, having announced Hard Mtn Dew in conjunction with the Boston Beer Company, and potentially a Rockstar Hard Seltzer.

Both initiatives carry risk to Coca Cola and PepsiCo, which frequently review which new additions of the portfolio to continue to invest in or drop.

What happens next

The category as a whole faces an uphill battle. Companies with Hard Seltzers as their core offering will find limited headroom in a stalling market dominated by White Claw. The low price-point makes even niche plays challenging, and no reliable paths to premiumization have matured. Extension of price expectations has historically worked in cases where categories have expanded in directions that have given the consumer the opportunity to ascribe value to new attributes, which requires deliberate communication and time.

White Claw succeeded in delivering the care-free "Instagrammable" experience young adults had been clamoring for, and arguably they were only able to test marginal new attributes, such as higher ABV in exchange for slightly higher calorie and carb counts.

While COVID-related restrictions gave Hard Seltzers the opportunity to extend their positioning off trade, it cut off on-trade growth. In 2021, as on premise reopened, Hard Seltzer adoption faltered. It may have created a better foundation for Canned Cocktails, where spirits companies have placed their pieces should there be a game, but it's still a tiny market even by RTD standards.

Companies with broader portfolios might extend their experiment in the space through measured investments but are likely to be reactive and reassessing whether to remain or refocus their efforts on other fronts.

For beer companies, the search for growth through diversification continues and the recent agreements with large CSDs may prove to be the largest prize.

White Claw will likely remain the standout of the category, given its brand equity and scale. The target segment of young adults turns over quickly and there is space to apply learnings and innovate further, particularly in connecting with new emerging behaviors.

Conclusion

The structure of the RTD category is not poised to grow significantly. It will remain at its current scale and likely crowded. Traditional category repositioning options exist (niche plays and international expansion, for example), but the abrupt disengagement by young consumers undercuts the category's attractiveness. Most brands will need to consider whether to remain in the space.

For brands with Hard Seltzer at their core (besides White Claw), making the case to stay would involve repositioning the value proposition for consumers, overcoming retailer skepticism, and taking share from an established market leader. The appetite for risk and willingness to invest will be tempered by lower expectations for growth.

The best opportunities may rely on the role Hard Seltzer can play within broader portfolio strategies.

Established brands may find the category complements existing consumer entry paths to a broader portfolio and other growth categories. Hard seltzers seem to drive acceptance of canned cocktails, for example.

Non-alcoholic beverage companies should consider the opportunity to further explore low-ABV opportunities, building on the agreements with flavored malt beverage (FMB) manufacturers and distributors.

Beyond the Hard Seltzer space, building a growth portfolio remains a core pursuit, partly driven by the opportunities offered by a dynamic competitive market, and partly driven by the urgency of adapting to the declining consumer appetite for legacy categories.

Further, effectively and sustainably engaging young consumers remains an important, challenging, and high-risk mission which will be heightened by more active participation by the broader beverage players and will require new approaches to access the opportunities posed by social media.

Moving the needle through innovation is not a single-category effort. Our work with clients shows that effective companies are disciplined in building and actively managing a rational growth portfolio, and these companies consistently and significantly outperform their peers in total shareholder returns.

A central part of a growth portfolio is reading the playing field. Leading players across the beverages space are at the forefront of category development. While there are learnings to take in (e.g., effective use of social media), companies in this space perform ahead of most other industries.

A top-performing growth portfolio matches these capabilities with granular line of sight of spaces a company is best suited to play and, by extension, how it can improve its competitive advantages in initiatives where it can drive more profit growth.

Further, it is unclear whether young consumers can be attracted by fixing the value proposition—the efforts to expand the category didn't uncover materially successful adjacencies or even clearly which attributes drive differentiation.

About Marakon

At Marakon we work with industry-leading companies to shape uniquely powerful portfolios that accelerate growth, fuel category innovation, and drive superior shareholder value. Find out more about us at **www.marakon.com**.

About Charles River Associates

CRA's capabilities in social media analytics provide cross-platform, real-time assessment of brand performance, engagement, and sentiment, along with industry-leading mapping of engagement drivers and influencers. Find out more at **www.crai.com/analytics**

About Marakon, Management Consulting at CRA

Marakon is a strategy and organizational advisory firm with the experience and track record of helping CEOs and their leadership teams deliver sustainable profitable growth. We get hired when our clients' ambitions are high, the path to get there is not clear (or taking too long), and lasting capabilities are as important as immediate impact.

We have a joint team delivery approach where client ownership and engagement is paramount. Partners are highly engaged in the work product and supported by strong analytical and industry relevant capability. We work as advisers and catalysts in close, trust-based relationships with top management teams.

About the Risk, Investigations & Analytics Practice at CRA

Our consultants deliver complex multi-jurisdictional and multidisciplinary investigative, compliance, and disputes assignments for clients. These complex matters often require sophisticated data analytics tools combined with unique investigative capabilities and deep subject-matter expertise integrated into a single team for efficient delivery of services. Our team is comprised of former federal and state prosecutors, former intelligence officers and analysts, data scientists, white collar criminal investigators, forensic accountants, risk and compliance specialists, economists, political risk analysts, and damages experts.

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