



TOPIC: NEW BREWERY & EXPANSIONS, PRODUCT INNOVATION

HARD SELTZER'S UNTAPPED POTENTIAL

When a category explodes the way hard seltzers have, it's typical to hear a lot of people call it a fad, or at least questioning its sustainability. You don't generally find a lot of claims that a surging category still has untapped potential, and yet this may well be true of hard seltzer.

Certainly the yardstick for this category seems to change continuously as one benchmark after another has been exceeded. We've all seen the comparisons offered up by analysts intended to give us some perspective – the hard seltzer category is as big as Yuengling, or White Claw outsells Coors Banquet. These current points of comparison may well be outdated a year from now if not sooner.

And the cries of “fad” have seemingly already died down. Nielsen reports that 40% of hard seltzer buyers repeat, a strong performance that “indicates a sustainable and healthy segment.” The research firm reports hard seltzers now account for 5% of total beer/FMB/cider category dollars in the off-premise. White Claw currently commands 59% of total hard seltzer dollars.^[i]

Possibly even more compelling is the fact that hard seltzer has already outperformed previously declared fads by a long shot. The category is expected to sell 3.1 million barrels this year.^[ii] For comparison Flavored Malt Beverages, an enduring category despite being repeatedly declared a fad, didn't cross the 3 million barrel threshold until these had been around for a decade. (Hard seltzers are included in the FMB category, although prior to 2015 FMBs were a very different animal, consisting almost exclusively of sweeter drinks like Smirnoff Ice and Mike's Hard Lemonade.) White Claw alone will likely sell around 1.86 million barrels this year, a figure Mike's Hard Lemonade didn't achieve until it was almost two decades old. Sales of Not Your Father's Root Beer peaked at between 300,000 and 400,000 barrels in 2015.

Given this tremendous success, though, could we actually expect a still-greater upside for the category? If that seems unlikely, consider the evidence that this acceleration, or at least the groundwork for it, is already happening. Lester Jones, the Chief Economist for the National Beer Wholesalers Association, recently summarized an analysis of beer industry sales trends on the association's web-

“When brewers introduce new brands and line extensions to the industry there is always the possibility these new brands will ‘cannibalize’ existing volume and result in a zero-sum game where total industry volumes do not grow overall... The 2019 summer season of hard seltzers appears to have bucked this trend for the U.S. beer industry and led to higher overall industry volumes.”^[iii]

What are the dynamics behind this acceleration? It isn’t quite unprecedented in the beer industry. Recently Dave Burwick, president and CEO of Boston Beer (makers of the number two brand, Truly) called hard seltzers “...arguably the most disruptive entrant into the alcohol category since light beer in the 1970s.”^[iv] And in fact the precedent for this category acceleration was set in the light beer category 30 years ago.

In its early years the success of a new category is driven by, and in some ways is secondary to, the success of its biggest brand. Miller Lite invented the modern light beer category and then dominated that category for its first decade, with competitors eking out volume gains by doing little more than hitching a ride on the general demand for light beer that Lite was creating. In essence, Lite was building a brand while others were content to do little more than product marketing. And Miller Lite set the terms of the category proposition; light beer was for older (30+) drinkers who were drawn to it because it was less filling, a concern fairly specific to that 30+ target.

In the mid-80s, however, both Bud Light and Coors Light successfully changed the terms of that proposition. They targeted younger, entry-level drinkers based on the (largely unspoken) proposition that light beer’s milder taste was easier to drink. Bud Light and Coors Light saw their growth accelerate, but their growth didn’t come at the expense of Miller Lite, at least not for the first few years; rather they were drawing new drinkers into the category, accelerating the growth of light beer as a whole.

As for what this means for hard seltzer, the category clearly has a dominant brand in White Claw, and it could be argued that at a 60 share the brand is more than dominant enough to set the terms of the consumer-brand relationship for the whole category. Is it fair to say that others have been riding on the wave (no pun intended) created by the category leader? It may well be, at least until recently.

But eventually competitors tire of settling for the status quo, and some will reposition themselves away from the shared imagery and benefits that have been more or less generic to the category. And some will be successful, altering the proposition and the dynamics and drawing in drinkers for whom hard seltzer hadn’t previously created much of a connection.

This process has already begun in hard seltzer. Over the past summer some of the biggest players in the category launched new ad campaigns, each intended to broaden the audience. Anheuser-Busch InBev’s Bon & Viv ran a campaign targeting vodka soda drinkers.^[v] Boston Beer’s Truly launched new ads targeting not just beer but wine and spirits as well.^[vi] And Henry’s Hard Sparkling Water from MillerCoors began targeting men, setting itself apart from a category that the company says had primarily targeted women.^[vii]

Let’s be clear about one thing: we’re not saying hard seltzer will become anywhere nearly as ubiquitous as light beer. But the growth dynamics in the category’s first decade may offer some parallels – including the premise that hard seltzer growth may actually accelerate in the coming years.

[i] Beyond Beer, presentation by Nielsen at the Brewbound Live session on December 5, 2019

[ii] The estimates in this section are based on our calculations using numbers drawn from the following articles:

<https://www.goodbeerhunting.com/sightlines/2019/11/21/millions-on-the-line-as-hard-seltzer-brands-look-ahead-to-2020>

<https://www.cnn.com/2019/11/20/business/white-claw-bombas-the-table/index.html>

<https://www.bevindustry.com/articles/91265-mikes-hard-lemonade-accelerates-growth>

[iii] <https://www.nbwa.org/resources/hard-seltzers-adding-new-volume-industry-2019>

[iv] <http://marketwatchmag.com/hard-seltzer-sales-chug-toward-1-billion/>

[v] <https://www.marketingdive.com/news/bon-viv-looks-to-ban-basic-vodka-sodas-this-summer/557520/>

[vi] <https://www.marketingdive.com/news/truly-hard-seltzer-swipes-at-beer-wine-and-spirits-in-new-ads-starring-kee/560786/>

[vii] <https://www.millercoorsblog.com/news/henrys-hard-sparkling-water-unveils-2019-campaign>