



March 26, 2015

## Wine & Spirits Daily: Goliath is Vulnerable and David is Winning

In recent years, spirits have outperformed both beer and wine categories with the compound annual growth rate (cagr) of consumption up 1.6% from 1992-2012. However, you may recall from some of our previous reports that the top spirits brands have begun losing momentum as the tail-end of the category picks up the pace.

“Goliath is vulnerable and David is winning – not necessarily alone but as a group,” Park Street founder Harry Kohlmann told listeners at the recent American Craft Spirits Association conference.

**BIG BRAND STRUGGLE:** As of 2013, the top ten spirits suppliers held about 80% of category revenue, but “all of them are having their own issues.... they’re not doing that great,” said Harry, adding that some retailers are carrying up to six months worth of inventory of these top products.

You don’t have to take his word for it though, the proof is in the pudding: From 1993-2013, the top five spirits suppliers share of volume collectively dropped 5.6 percentage points, from 56% to just under 50%, per Beverage Information Group data. Though he did mention they were able to maintain revenue share (up 1.4 percentage points) through brand development and M&A. “What they’ve done is acquire to keep their market share,” he said.

In looking at the six major categories — straight whiskey, vodka, rum, Scotch whisky, gin and tequila — large brands in each one of them have also struggled to maintain market share.

The top five whiskey brands lost 17 percentage points, top five vodka brands lost 48 percentage points, Scotch brands dropped 40 and tequila brands dropped 54 during the 20-year period, per Liquor Handbook data. Of course there’s premiumization to factor in, but “overall the numbers are pretty staggering.”

**SMALL DISTILLERS ON THE WAY UP:** On the other end of the spectrum, the non-top five spirits brands in each category have markedly increased their share over the same 20-year period. Non-top five gin brands gained 29 percentage points, non-top five vodka brands gained 37 percentage points and non-top five Scotch brands gained 30, for example.

Park Street also did a deep dive in the gin category and found that for the 12 months to January 2015 approximately 45% of the category growth came from small supplier brands. Small gin brands outgrew the top five supplier premium brands by 7.5 times, the top 15 premium supplier brands by 5.5 times and the overall market nearly 19 times, per IRI data. “It’s a major shift in the industry,” he said.

IF PAST GROWTH IS ANY INDICATION.... Sales of products from small distillers have increased with a 50% cagr since 2010 and reached 3.5% volume share based on DISCUS estimates. If the category grew at just half the pace of the last four years, It would grow to 8.5 million cases and represent 4% share of the overall industry by 2018. If the category maintains the past growth rate, small distillers would reach 8% market share by 2018 – a growth of 15 million additional cases.

“I’m not saying that’s happening, but if you assume that it is, everybody is going to pay attention. That’s where the craft definition is becoming really important because if you’re the ceo of one of the top companies what are you going to do? Are you going to let all of [the small] guys take 15 million cases (\$1.5 million in profit)?”