

U.S. Consumers View Alcoholic Beverages As Affordable Indulgence

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Grocery, Convenience and Other Off-Premise Retailers to Benefit As Consumers Stay Home More Often
 Despite a fragile economy, consumers continue to see alcoholic beverages as an affordable indulgence. The Nielsen Company offers its outlook on alcoholic beverage trends as the critical holiday season approaches:

Restaurants and Bars Hurting

With consumers staying in and entertaining at home more often, the on-premise sector - - restaurants, bars and nightclubs - - are facing serious challenges in the current economy. Consumers are going out to eat less often, as evidenced by a recent Nielsen survey**, where two-thirds (66 percent) of fine dining patrons admitted they are going out less often compared to a year ago. Their sentiments were echoed by 65 percent of nightclub patrons, 55 percent of bar patrons, 59 percent of casino and resort patrons and 52 percent of casual dining visitors.

When they do go out, some consumers are cutting back on their restaurant bills by ordering fewer or lower-priced alcoholic beverages, especially as it relates to higher-priced wines and spirits. Other consumers are trading down by visiting "fast casual" restaurants and quick service restaurants that may offer few or no alcoholic beverages.

"Given the importance of the holiday season to restaurants and bars, these establishments will need to pull out all the stops to lure consumer traffic back, using a variety of creative incentives as a hook," said Richard Hurst, senior vice president, Beverage Alcohol, The Nielsen Company. "Watch for on-premise outlets to push customer loyalty programs to drive repeat business."

Incentives for Consumers to Drink at Home

Off-premise retailers, such as grocery stores, convenience stores and mass merchandisers, are using the on-premise vulnerability, and the lure of one-stop shopping, to their advantage. For example, grocery stores are targeting restaurant-goers with well-priced easy meal solutions and increasing their promotional efforts to encourage multiple purchases for shoppers who make fewer, but larger trips. Nielsen also expects to see a continued increase in online alcoholic beverage shopping, especially for wine, where legal to do so.

"Many stores are adding alcoholic beverages to their assortment, providing more opportunities for consumers to purchase alcoholic beverages at competitive prices," said Hurst. "And as we've seen in the past, some states may experiment with extended hours for alcoholic beverage purchases, such as Sunday sales, for an additional boost. Given that fewer consumers are likely to be able to afford luxury wines and spirits in their holiday budgets - - and there is evidence of trading down -- stores would do well to ensure that they offer products across a variety of price segments."

Domestic Vs. Imports

With exchange rates unfavorable to the dollar, imports have been forced to raise prices, making it more difficult for these products to compete with domestic alcoholic beverages. For example, while both domestic and imported wines were growing at the same double-digit rates last year, domestic growth is now ahead of imports. Imported beers have also suffered, showing steady declines in the last six months. Consistent with the "localization" trend, craft beers and U.S. wines from outside California have been gaining share, and there are now more than 200 "micro-distilleries" across the country.

"In tough economic times, consumers are often biased toward national or local products, further enhancing the prospects for domestic brand growth, whose prices have remained relatively stable through the year," said Hurst. "At the same time, the weak dollar has helped tourism and despite the dollar's recent recovery and the threat of a global economic meltdown, major cities should continue to expect to see the benefits during the holiday season."

'Tis the Season for Gift-Giving

Given that wine and spirits are common gifts during the holidays, Nielsen expects a rise in the purchase of alcoholic beverage as gifts this year, helped by the usual selection of special "value-added" packs.

"Alcoholic beverages as gifts, especially those with value-added packaging, can fit most holiday shopping budgets and represent a more economical alternative to bigger ticket items," said Hurst. "Retailers should consider multiple store

display locations to capitalize on impulse purchasing, as well as providing gift accessories nearby, such as bottle openers, gift bags, mixed drink party pack ingredients and glassware.â€•

â€œHistorical as well as more recent consumer trends indicate that alcoholic beverages are much more recession-resistant than many other product categories,â€• said Hurst.â€• â€œWhile there is evidence of consumers reducing on-premise consumption, as well as trading down to less expensive beverages, they are reluctant to cut back significantly on beer, wine and spirits, especially for at home consumption and entertaining.â€• With the prospect of limited economic recovery in 2009, consumers are likely to consider alcoholic beverages as an affordable indulgence during the holiday season.â€•

**â€• In May 2008, Nielsen surveyed approximately 3,500 consumers who had purchased alcoholic beverages from a store during the last three months.

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