The changing demands of new generation beer drinkers

How shifting trends and tastes are changing the beer category

HEINEKEN

Foreword

Making the most of the on-trade

It is no secret that the last twelve months have been a turbulent time for our industry. But as our second beer report reveals, there is light at the end of the tunnel as drinkers look to make the most of their on-trade occasions.

Featuring independent research compiled by sector experts, our latest report explores the effects the changing economy is having on the beer industry and how this is influencing consumer tastes and trends.

I hope you find the following pages useful and can put the findings of he HEINEKEN Beer Report 2023 into practice in your business.

Will Rice, On-Trade Director, HEINEKEN UK

More than ever we're seeing drinkers focus on 'smart spending' and perceived value for money to maximise the return from their disposable income.

Contents

Beer Market Performance

How the beer market is performing

The pub and beer sector continue to evolve following recent global pressures. The cost-of-living crisis currently presents a tsunami of problems, while consumer habits influenced by the pandemic still affect the sector and outlet closures continue.

But it's not all doom and gloom. Beer sales quickly bounced back after the lockdowns, fuelled by consumers' excitement of being able to go back to pubs and bars. As a result, 2022 value sales were close to 2019 levels[1].

In 2023, draught volume sales are down, indicating pub closures are having an impact. Value sales continue their upward trajectory as more people buy into premium brands.

But draught beer remains king, accounting for almost £12m of beer value sales[1]. Not only is this a unique selling point with consumers unable to replicate the offer at home, but the larger serving size also offers a higher perceived value versus shorter drink serves.

The beer market continues to face key challenges

The impact of the current cost-of-living crisis cannot be ignored. It is having an impact on location of occasion, occasion type, serves, dwell time. However, the beer category has always been resilient – the breadth of taste profiles and consumer offering allows flexibility to meet these changing needs.

The key will always be to understand what the consumer needs and then meeting this with the right range in the right place at the right price. Classic and premium beer brands remain critical as consumers continue to look for familiar favourites on the bar, while world and craft beers continue to drive category growth as the premiumisation trend continues.

Serena Smith, Head of Category – On-Trade, HEINEKEN UK

1. Source: CGA data, OPMS, April 2023

The Beer Drinker

The challenges of the last few years have seen category trends change.

67% drink beer **at least weekly**[1]

1 in 4 drink beer **three or more times a week**[1]

28% **drink two pints** on average per visit[1]

30% say the main reason they visit the pub is for **draught beer**[1]

25% say the main reason they visit the pub is for the **beer selection**[1]

1. Source: KAM media research, March 2023, N=299 UK adults who consume beer at least once a month

What Are People Drinking?

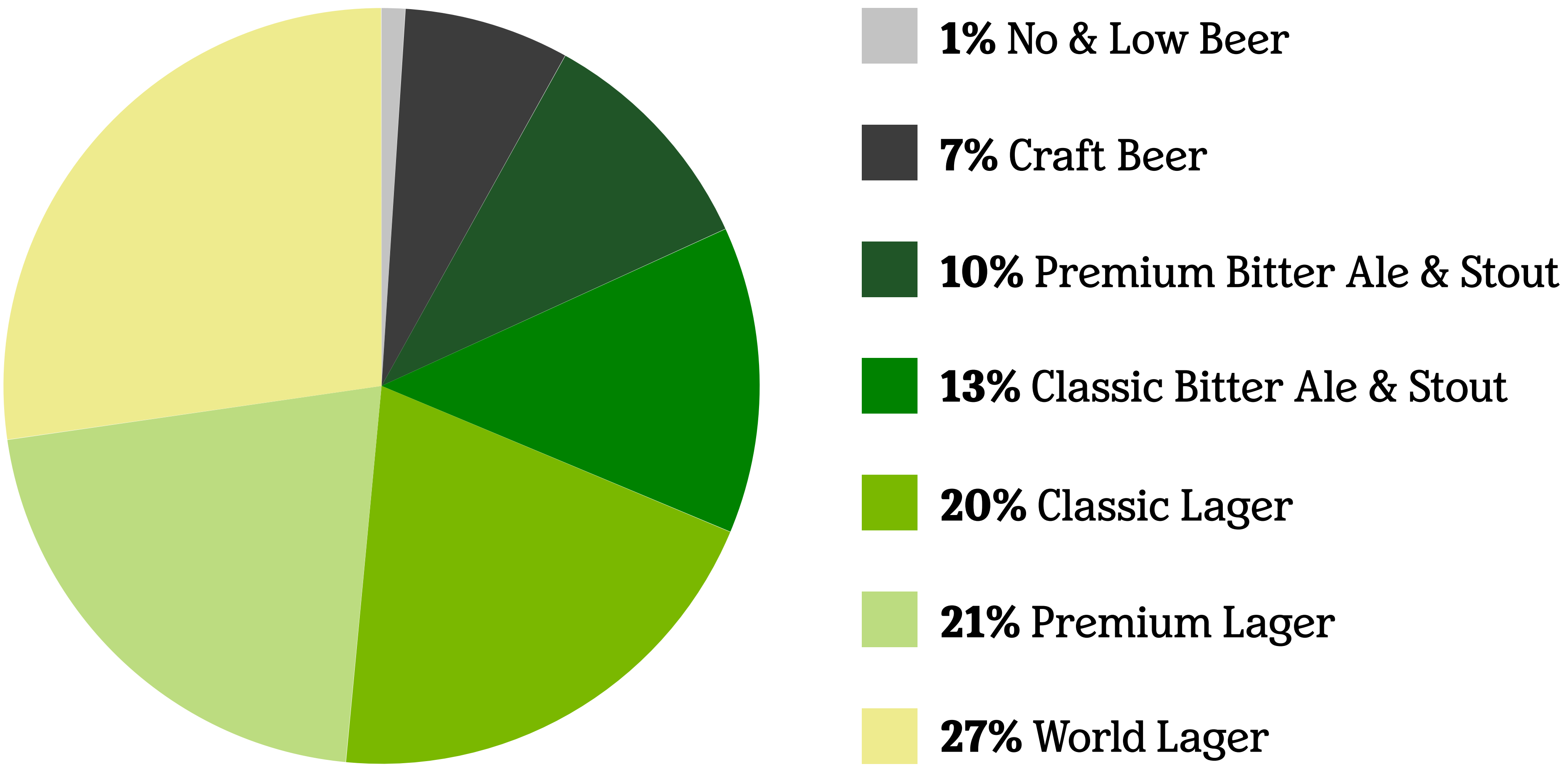
While overall beer volumes are falling, world lager is bucking that trend and is attracting drinkers with volumes higher than in 2019[1].

So, when drinkers head to their favourite venue they are willing to pay that little bit extra for a pint that promises premium taste credentials. World lager grew to 27% value share during 2022 – up from 22.7% in 2021 and 11.7% in 2017. This is followed by premium lager at 21% and classic brands at 20% value share[1].

Perceived higher quality of beer is important to a third of all drinkers, but more so to 18-34-year-olds with 40% seeking brands that have a premium look and feel. This age bracket is also less likely to go without a premium beer versus other age groups[2]. Venues catering for or looking to attract a younger demographic should therefore stock premium options on draught as well as in the fridge.

Overall, consumers are willing to spend more but drink less to gain a higher quality product[3]. This means higher value beers, especially as a trade up, will win out in the market going forward.

Beer breakdown – type of beer consumers are purchasing[4]



1. Source: CGA data, OPMS, April 2023. **2.** Source: KAM media research, March 2023, N=299 UK adults who consume beer at least once a month. **3.** Source: CGA data, OPMS, December 2022. **4.** Source: Nielsen Market Total On Trade Value Sales Growth

Changing Beer Drinking Occasions

Growing occasions

Since the middle of 2022, consumers are spending more time in pubs and bars.

We have seen an increase in the number of days spent a week in outlet 'having fun' rising from an average of 0.9 to 1.5 between 2020 and 2022[1]. Consumers are also drinking more during these occasions, with the average number of serves increasing from 3.5 to 4 over the same period[1].

The same trend has emerged for consumers looking to chill out and relax, with the number of days spent in the pub 'chilling' rising from 0.4 to 0.5 for the same period and serves consumed growing from 1.9 to 2.2[1].

Declining occasions

One of the greatest changes in recent months is the reduction of spontaneous occasions.

Life changes and increased financial pressures means drinkers need to consider how and when they spend their money.

You don't need always need to throw big events to attract customers. Over half want to go to the pub just to socialise and 53% for a meal or just a quiet drink[2]. Operators can increase spontaneous footfall through marketing, such as a more active social media presence, showcasing great images of your food and drink offering, or highlighting events you are hosting (perhaps using some great photos from previous events), to stay top of mind for locals.

Making the most of the big occasions

The British Pub will remain a key part of consumers drinking habits for big occasions.

Coronation weekend saw +24% value sales uplift versus a normal weekend in April, with growth driven by Sunday and Monday performance[3]. Even more so than a typical bank holiday, the Coronation saw consumers move away from standard categories to more premium, sessionable options, such as packaged premium flavour cider and draught continental lager.

Getting sport right

Live sport is a huge footfall driver with 70% of drinkers visiting the pub to watch live sports at least once per month[4].

These consumers visit and spend more in the on-trade compared to the average consumer[4]. Beer is king here, with over half drinking lager while watching live sport[5].

1. Source: Kantar Alcovision, Total Beer , Total Demographics , On Trade, 12 m/e, Actual. **2.** Source: KAM media research, March 2023, N=299 UK adults who consume beer at least once a month. **3.** Source: Star Pubs and Bars, JAT Data , May 2023. **4.** Source: Brandtrack February 2023 **5.** Source: CGA OPUS June 2022

Looking Ahead

Where will consumers be drinking?

As people settled into hybrid working patterns, high street outlets experienced an increase in footfall as more people returned to socialising with friends and colleagues. After work drinks are back but they have changed, as "Thursday is the new Friday."

High street pubs and circuit bars are slowly seeing volumes rise, driven by experiential and competitive socialising offering a point of difference.

Premium locals are also seeing footfall grow, up by 18%[1], as working from home continues.

Drinkers are spending their Friday evenings more locally instead of in major towns and cities. Conversely, city and town centre venues trade higher mid-week as many hybrid workers are typically in the office from Tuesday to Thursday, causing post-work socialising to shift.

Rural pubs are benefitting from the increase in beer and cider share, as people still look to drink locally for more low tempo occasions (up 0.5 percentage points)[1].

How often are consumers drinking beer?

Expectations and trends are also changing. Almost half of all beer drinkers (48%) expect to go out for a beer in a pub or bar the same amount over the next year, with 16% indicating they will go out more often[2].

Not all consumers feel the same. From the third (34%) who expect to drink beer in the pub less often, 24% revealed they are planning to drink less alcohol altogether[2]. This showcases the importance of non-alcoholic beer options to meet this consumer need, and the segment's importance to the on-trade's future.

In volume – where people drink[3]

47.1%
suburban (+0.3pp)

13.9%
rural (+0.6pp)

390%
high street (-0.9pp)

1. Source: CGA Managed Volume Pool Data to April 2023. 2. Source: KAM media research, March 2023, N=299 UK adults who consume beer at least once a month. 3. Source: CGA, Managed Volume Data, April 2023.

Driving Beer Category Growth in 2023

World & Premium Beer

World and premium lagers remain key drivers of category growth.

World lagers are still performing well, but increased demand for Mediterranean lager in particular shows that tastes are changing as drinkers look to recapture holiday experiences. For example, sales of Spanish lagers are in 73% growth and account for one in five pints sold in the UK[1].

Craft Beer

Craft Beer is now worth over £1.1 billion.

This is +7% of where the category was pre-pandemic, with large scale brands dominating the ranges in the on-trade[2]. Drinkers are starting to see these as more experience brands, rather than for experimentation.

Choice

More than half (55%) of drinkers expect to stick with brands they know and like over the next year, while 43% are drinking the same number of classic brands such as Foster's and Carling[3].

This highlights the need to maintain a well-known classic lager option on the bar. Regardless of outlet type, a draught range should deliver throughput at a minimum of one keg per week per tap to maintain quality and sales.

But there is an opportunity to boost sales with a broader offering, as 41% of drinkers revealed they have a wide range of brands they like. And just under a quarter (23%) are more adventurous as they are happy to try new brands. Specifically, younger drinkers (18–34-year-olds) are more open to try new brands than older drinkers (55+ year olds) at 30% and 22% respectively[3].

When it comes to beer choice, over half (53%) want to see more standard strength beers (3.5% to 5.5% ABV), while No & Low Alcohol continues to be a growing trend with 34% wanting to see a wider choice when they venture out[3].

1. Source: CGA OPUS Volume MAT Total GB Premium and Mainstream Draught Lager, 25.2.23. **2.** Source: CGA, The role of craft beer in another 'new normal', April 2023 **3.** Source: KAM media research, March 2023, N=299 UK adults who consume beer at least once a month.

Combatting the Cost-of-Living Crisis

Cost-of-living has had a major impact on the beer and pub trade, with everyone feeling the squeeze. However, there are still gains to be made.

Drinkers want to save money, but don't necessarily want to cut back on quality. So, when out, they seek better value which is where the pint wins against other categories such as wine and spirits.

However, despite the world lager trend continuing, premium brands remain a core choice for most drinkers and take the lion's share of beer sales.

Trading up

Beer drinkers will trade up, especially to celebrate.

Consumers still like visiting their favourite pub or venue for an occasion, with 58% going to meet friends/family while 42% go for the atmosphere[1]. When out with larger groups and for special events, consumers are more likely to splash out on premium or even new brands[1].

A standard keg range typically begins with:

- Classic Lager which has the highest sales volume, or Premium 4% for the most upmarket outlets
- A Keg or Craft Ale
- Trade-up options, such as a Premium 4%, Mainstream Premium, then a World or Craft Lager, depending on the outlet
- Stout

You can't get the pubs' USP at home

Any of you who have seen KAM present recently will have likely seen the stat that 88% of us want pubs/bars to provide an experience we can't get at home[1]. At the most simplistic level, a memorable experience can of course be achieved through providing a quality F&B offering that can't be replicated in our kitchen or an atmosphere you simply can't get from hosting at home.

While the social element of connecting with friends and enjoying the atmosphere are the top reasons for visiting pubs/bars, for beer drinkers a preference for draught beer and 'a good selection of beers' is a real pull to the pub.

But as our diets are generally diversifying, we are seeing a shift in beer drinking habits too. People are showing more of an interest in where their beer (and food and drink in general) is coming from – they are interested in provenance but also the story behind the brand. We also see a continued movement towards lower ABV and no-alcohol beer, which we now consider a mainstream category.

Where people are drinking beer is shifting too. Virtually all beer drinkers have consumed a pint in pubs/bars (98%) and restaurants (92%) although many are visiting pubs/bars less frequently, mainly for financial reasons but also for health[1]. But Brits are now also drinking beer in tap rooms (52%), in cafés (62%) and music/sports venues (73%)[1]. Certainly, where UK consumers are enjoying a cold beer is broadening, bringing new opportunities to brands, operators and retailers.

Most beer drinkers however are still not overly experimental in their choice of beer- the vast majority still tend to stick to their 1 or 2 favourites. 18% of drinkers say they are experimenting more and trying new beers[1], this is especially prevalent within younger generations, whereas older beer drinkers are less likely to experiment. We see a big opportunity for brands to really start shaking this up.

Katie Jenkins, Marketing & Partnerships Director, KAM

1. Source: KAM media research, March 2023, N=299 UK adults who consume beer at least once a month

Beer Selection

The key to any offering is ensuring the brand selection has maximum appeal to the customer demographics of a venue.

This means having the right range in the right place. For example, outlets with a large proportion of classic lager (such as Foster's) drinkers would be better placed offering Heineken® or Cruzcampo® as a trade-up rather than Birra Moretti on draught, to maximise volume sales and therefore revenue.

Likewise, venues with a strong cohort of craft beer drinkers need an entry-point lager like Red Stripe, rather than a classic variant. Followed by well-known and trusted craft brands such as Brixton and Beavertown before adding more niche craft options across different beer styles, to provide the right range for their venue while avoiding alienating any beer drinkers.

Spending habits

The way consumers spend money in the on-trade differs for each drinker. For example, some will buy more affordable beers to save money, whereas others gravitate towards perceived value for money and opt for pints over other beverages as the serving size is larger and they get more for their money.

At the same time, some drinkers look for affordable premiumisation. This means they are looking for drinks that are higher quality, and so perceive this as better value for money. However, others will buy less, but more expensive drinks. This is because they consider the experience to be the most valuable output. Therefore, it is important for operators to stock a range of beverage options so that each customer need can be met.

Serena Smith, Head of Category – On-Trade, HEINEKEN UK

Implementing Sales Driving Initiatives

Generate the occasion

Pubs need to give people a reason to go out. Whether for Mother’s Day, Eurovision or even just the weekly pub quiz, make sure to shout about your drinks offer to best suit that occasion.

Encourage trade-up

Building on the above, trade-up by occasion is important as one consumer’s needs can be different from another’s. Offering a range of products is important and trade-up options for the right occasions should be communicated to consumers clearly.

Put beer on the menu

Food remains a key driver for outlets. Helping consumers see the range of options available to accompany their meal is an opportunity to engage more drinkers with new or world beer brands, along with some trusted favourites, across ‘with food’ occasions. So, ensure beer is referenced on food menus, particularly when there is a great beer pairing or trade-up option, such as a Cruzcampo® with a Spanish dish or Birra Moretti with an Italian one.

Recruit new drinkers

Gen Z and Y are going out but not all categories are relevant to them. Image is important, which means lighter-tasting lagers (such as Heineken® Silver), No & Low Alcohol, and more premium options appeal to this group as they tend to have a more affluent aesthetic or association.

Provide choice

It has never been more important to add a No & Low Alcohol option to your beer range. Every category should have an alcohol-free choice, but the focus should be 'Right Range Right Place.' For example, if your venue sells more Heineken® than Birra Moretti, then a Heineken® 0.0 may achieve a higher cut-through than Birra Moretti Zero.

Deliver the experience

Creating the best experience is one of the strongest ways to encourage repeat purchases and return visits to the outlet. At the core of a great beer experience is quality, especially with a draught serve. The basics of cellar management, therefore, should be prioritised to always ensure a positive customer experience.

Beer's place in a cost-of-living crisis[1]

Consumption and spend has reduced overall. However:

- Alcohol retains its place as an affordable luxury or treat
- Consumers are ensuring they have some income available for socialising
- Drinking in the pub has or will become a treat occasion for consumers
- Consumers look for deals and ways to save on alcohol spend, but perceived value for money is key
- If consumers are on the fence whether to spend their money in the on-trade, they can be swayed with attractive offers and experiences

1. Source: The Monday Project, Qualitative Debrief, March 2023, N=34, How has consumer behaviour changed since second wave of the cost-of-living crisis

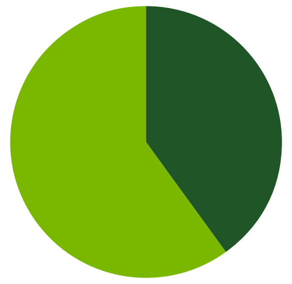
Balancing the Range with Big Names

How have classic brands performed?

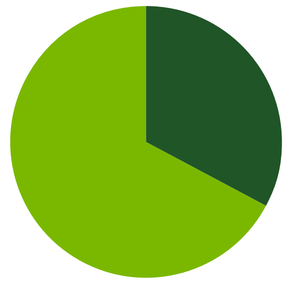
Classic brands, such as Foster's, John Smith's and Carling, are the engine room of the pub and represent 4 out of 10 pints poured in on-trade venues[1].

As consumers demand more value for money, it means there is an increased need for mainstream price points which can appeal to a wide demographic. Beer drinkers' journeys differ depending on their demographic and outlet. Some drinkers seek well known and trusted brands for their first pint before moving onto something different, such as a world beer. Other drinkers may stick to a classic brand, and some might trade up or down between categories. It is therefore essential that a beer range appeals to the variety of drinkers and occasions which match the venue.

The importance of classic brands[2]



40% volume sales



33% value sales

#1 Highest number of serves across any occasion

1. Source: CGA data, OPMS, April 2023 **2.** Source: CGA Strategy, MAT, 22 April 2023

The Price of Premiumisation

While the watchword for the beer sector over the last few years has been premiumisation, the higher cost-of-living means that premium lager remains hugely important. And it is a large part of the market, as one in three pints served in the on-trade are premium lagers[1].

What does premiumisation mean for your customers?

Facing the implications of less disposable income, guests are watching their spending. Offering accessible beers within your range, across different styles and at an affordable price point will be key for operators.

Above all, drinkers will look for a style of beer (58%) when deciding to try something new, while 34% want a premium look and feel and 32% a local brand[2]. But they are also keen to try beers from different regions with the majority keen to try Mediterranean beers such as Cruzcampo®, the number one draught beer in Spain[3].

Premiumisation for some is moving from classic beers to the premium segment, which could provide a huge commercial opportunity to trade drinkers up and drive revenue.

The role of world beer in the on-trade?[2]

50% won't cut down on drinking world beers

34% look for world beers when trying something new

82% 18-34-year-olds will drink more or the same amount of world lager

40% of 18-34-year-olds seek a premium look and feel in a beer

1. Source: CGA data, OPMS, April 2023. **2.** Source: CGA Strategy, MAT, 22 April 2023. **2.** Source: KAM media research, March 2023, N=299 UK adults who consume beer at least once a month. **3.** Source: Nielsen Spain FY data 2022. **4.** Source: KAM media research, March 2023, N=299 UK adults who consume beer at least once a month.

What is Accessible Premiumisation?

Premiumisation means different things to different people.

Quality

In the face of cost-of-living increases, nearly a third of UK consumers have reduced alcohol spend. But they still seek high-quality brands and on-trade experiences[1].

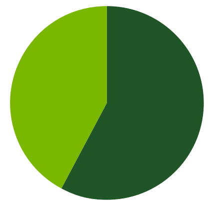
Products that cater to the premium needs of a consumer but at a lower price are well equipped to grow. With an increasing demand for Mediterranean lager in the UK, Cruzcampo®, Spain's number one draught lager, is positioned to help operators tap into this rising trend while offering a great quality experience at an accessible price point.

Value for money

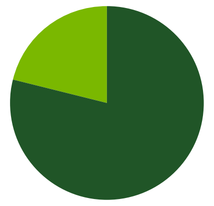
The latest data shows that value for money is becoming more important to purchase decisions.

This doesn't necessarily translate as a trade down. Drinkers are moving away from spirits to pints to achieve a longer serve at a better price, often within premium or world lagers. The cost-of-living impact is being felt in beer as experimentation gives way to experience, perhaps best demonstrated within craft beer where growth has slowed as drinkers opt for familiar brand favourites at the bar.

What is the role for accessible premium beer in the on-trade[2]



58% will drink more or the same amount of accessible premium lager



79% 18-34-year-olds won't cut down on accessible premium lager

1. Source: KAM media research, March 2023, N=299 UK adults who consume beer at least once a month. **2.** Source: KAM media research, March 2023, N=299 UK adults who consume beer at least once a month

Think beer is under threat? Think again

For centuries, beer has been Britain's drink of choice. Our brewers are world renowned for creating legendary brews and crafting bold and interesting blends, serving and preserving an iconic drink. Whether it's at your local pub or at home, enjoying a refreshing beer is a simple pleasure like no other, and one we naturally want to seek out regularly.

However, with younger generations drinking less and people looking to moderate their alcohol consumption, the industry has had to respond to meet consumer demand as well as public health policy outcomes. The rise in consumers opting for low and no alcohol reflects this, with recent Portman Group research showing that just under two thirds of UK adults have tried a low and no product, a figure that is increasing year on year.

With 7 in every 10 drinks purchased in a pub being a beer, it would be easy to see this trend as a threat to the industry. However, this provides a great opportunity, because our brewers and pubs haven't survived hundreds of years by standing still, they have adapted to trends and tastes, invested in innovation and this is no different. UK brewers are innovating and creating world class non-alcoholic options that are interesting, flavoursome, and full of character. They are providing more options for consumers than ever before – with low and no as a category having the largest annual growth for close to 10 years now and there remains huge growth potential in the market.

It's an exciting time for our industry and we are undoubtedly a world leader when it comes to low and no. British brewers are continually trialling new technologies and methods for crafting the best brews, and I, for one, look forward to trying many more in the years to come.

Emma McClarkin OBE, Chief Executive of the British Beer and Pub Association

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