

Global ready-to-drink (RTD) and ready-to-serve (RTS) market review

2010 edition



Just-drinks

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July 2010

By The IWSR's editor-in-chief, Alex Smith

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Notes about the data

Where '-' or a blank table cell appears in The IWSR data tables, this indicates no sales recorded by The IWSR. When '0.0' precedes '-' in previous years, this indicates that the brand had not yet been launched in the year(s). There may be some cases where low sales are registered as '0.0' due to rounding. Low sales may also be recorded as 'Min' to signify minimum sales.

Unless otherwise specified, all data quoted in this report refers to 2009 market data.

Unless otherwise specified all data quoted in this report refers to total volume (ie: both on- and off trade consumption).

When 'cases' are quoted, these refer to nine-litre cases unless otherwise specified

Data in tables may not sum due to rounding.

Terminology

CAGR: compound annual growth rate

A&P: advertising and promotions

Chapter 1 Executive summary

Recent market performance

- Preliminary IWSR estimates indicate that global RTD sales declined by XX% to XXXm nine-litre cases in 2009 compared to 2008. This represents a modest improvement over the five-year CAGR (2005 to 2009) of -XX%.
- Some top ten markets such as Japan, Australia and Mexico returned to growth in 2009. Other markets such as South Africa and Canada saw growth accelerate. RTDs continue to decline in such major markets as the US and UK, but the rate of decline slowed in 2009.
- The great strength of the RTD and RTS sectors is that there is a broad spectrum of participants from the wine, brewing and spirits industries. This ensures a tremendous critical mass of investment and regular supply of so-called 'new news' around the category. Diageo remains the global RTD leader with around a XX% share of the market, down from XX% in 2005.
- Japan is the single largest global RTD market. RTDs in Japan are estimated to have risen by around X% in 2009. Most RTDs are shochu-based and are locally produced and marketed by the four large brewers – Asahi, Kirin, Suntory and Sapporo – as well as Takara, which remains relevant in the RTD category.
- The US was the world's largest-declining market for RTDs between 2003 and 2008, shedding an estimated XXm nine-litre cases. As such, it has lost its top spot and is now the world's third-largest RTD market. Although the US RTD market declined in 2009, the rate of decline slowed. Preliminary estimates are that RTDs fell by X% in 2009 to XXm cases over 2008, according to The IWSR. This represents an improvement over the five-year CAGR (2005 to 2009) by -X%.
- The Australian RTD market was slammed in the middle of 2008 by a steep hike in the excise duty on RTDs. That led consumers to revert to bottled spirits in the second-half of 2008. The total Australian market unexpectedly came back to growth in 2009, up by X% to reach XXm cases, and is forecast by The IWSR to rise by an additional X% in volume terms in 2010. The trade believes that consumers became accustomed to the higher prices and, due to the convenience factor, moved away from the bottled spirits back to RTDs.

Chapter 2 Introduction

Ready-to-drinks (RTDs) have come to be seen as the classic fad product. Following several years of torrid growth, fashions changed and fickle consumers moved on to other drinks such as rosé wine, premium packaged lagers, cider or full-strength spirits.

The perceived association between RTDs – sweet, fruity, easy to drink – and under-age drinkers, whether valid or not, has not helped the category's image and has led many governments to target it, particularly through higher tax rates and advertising restrictions. Over the course of the past decade, a number of countries have hiked taxes on the RTD sector. Australia's decision to hike duties on RTDs in 2008 was the most dramatic example, but there are many others such as the UK in 2002 and Germany in 2004, or specific US states such as California in 2008.

While some of these tax increases are aimed at reducing RTDs' attractiveness, in some instances it is due to the difficulty some governments have in classifying these new products. Greenalls marketing director Tim Dewey says: *"Some governments are struggling to understand how to treat it from a taxation standpoint, because it is viewed as a hybrid product. It doesn't neatly fit into the classic beer, wine or spirits categories."*

As the category began trending down in developed RTD markets, the leading suppliers started to scale back their investments, further accelerating the decline.

Nevertheless, while the ready-to-drink (RTD) sector may have struggled to maintain the strong growth trends of several years ago, it is far from dead. The history of the ready-to-drink (RTD) sector is one of resilience and evolutionary mutation. RTDs' lineage dates back at least as far as the 1930s when Italy's Campari group launched the single-serve size Campari & Soda in a glass bottle. The wine cooler phenomenon in the US in the 1970s and '80s was another watershed along the way, as was the 'alcopop' craze in the UK and Australia in the 1980s and '90s. This was followed in the past decade by the entry of the big spirits brands into the RTD sector in the late '90s, led by such innovations as Smirnoff Ice and Bacardi Breezers. Now the category is again

Chapter 3 Scope of the market

Preliminary IWSR estimates indicate that global RTD sales declined by X% to XXXm nine-litre cases in 2009 compared to 2008. This represents a modest improvement over the five-year CAGR (2005 to 2009) of -X%. If you strip out the steep declines in the Russian and Ukrainian markets then the picture is better. Some top ten markets such as Japan, Australia and Mexico returned to growth in 2009. Other markets such as South Africa and Canada saw growth accelerate.

RTDs continue to decline in such major markets as the US and UK, but the rate of decline slowed in 2009; in the latter, RTDs have even been showing signs of returning to growth in recent months.

The emerging market economies, such as Brazil, China, South Africa or India also present strong growth prospects.

Oak of Halewood says: *“As a business we have enjoyed considerable growth in both South Africa and China, and we believe these will continue to offer us opportunities in the future. In addition, we see emerging markets such as Africa and Asia as key opportunities, whilst the rest of Europe we see as mature markets like the UK. Australia remains a strong RTD market, but entry is difficult due to taxes.”*

Table 1: Top ten markets, 2005-2009 (000's nine-litre cases, % share and change)

Rank	Country	Vol 2005	Vol 2008	Vol 2009	% change 08-09	CAGR 05-09	Share in 2009
1	Japan	XXXXX	XXXXX	XXXXX	XX%	XX%	XX%
2	United States	XXXXX	XXXXX	XXXXX	XX%	XX%	XX%
3	Russia	XXXXX	XXXXX	XXXXX	XX%	XX%	XX%
4	Australia	XXXXX	XXXXX	XXXXX	XX%	XX%	XX%
5	United Kingdom	XXXXX	XXXXX	XXXXX	XX%	XX%	XX%
6	Ukraine	XXXXX	XXXXX	XXXXX	XX%	XX%	XX%
7	South Africa	XXXXX	XXXXX	XXXXX	XX%	XX%	XX%
8	Canada	XXXXX	XXXXX	XXXXX	XX%	XX%	XX%

Chapter 4 Industry structure

Perhaps the great strength of the RTD and RTS sectors is that there is a broad spectrum of participants from the wine, brewing and spirits industries. This ensures a tremendous critical mass of investment and regular supply of so-called 'new news' around the category.

Diageo remains the global RTD leader with around a XX% share of the market, down from XX% in 2005. Diageo's RTD sales declined by CAGR X% between 2005 and 2009 to XXm nine-litre cases. Smirnoff Ice accounted for most of the decline, falling by X% CAGR between 2005 and 2009. The decline continued in 2009, falling by XX% to XXm cases. In Australia, the Bundaberg & Coke RTD has also fallen sharply in recent years, down XX% in 2009 over 2008.

That was offset somewhat by the growth of Smirnoff RTDs, which added Xm cases between 2005 and 2009.

Despite the decline, the company last year affirmed its commitment to the pre-mix category with the announcement that it was investing US\$XXm to expand its Plainfield, Illinois bottling facility as demand for RTS cocktails continues. The 44,000 square foot addition will house a new bottling line for Diageo's line of cocktails, including Smirnoff Pomegranate Martini, Smirnoff Mojito, Smirnoff Grand Cosmopolitan and Smirnoff Tuscan Lemonade.

Japanese brewer Kirin is the second-largest producer with sales of XXm nine-litre cases, which gives it a X% share of the global RTD market. Most of that volume is derived from the Hyoketsu brand, which rose by XX% in 2009 over 2008 to reach XXm cases.

Suntory, another major Japanese drinks group, is the third-ranked RTD producer with a share of just under X% and sales of XXm cases. These sales are roughly split between the Minus 196 and Suntory Calori; sales of each exceed Xm cases. Both brands grew last year, with Minus 196 rising by XX% in 2009 over 2008. Between 2005 and 2009, Minus 196 gained around Xm cases.

Chapter 5 Development of the ready-to-serve (RTS) market

As the name suggests, ready to serve is taking established cocktail recipes and reproducing them in varying packaging formats. The pre-mixes tend to be of higher strength than most RTDs, typically falling between 10 to 15% abv, and often come in full size (70cl, 75cl or 1.75cl depending on the market) bottles. In the US, another point of differentiation is that the RTSs tend to be spirits-based whereas the RTDs are malt-based. RTDs, by comparison, tend to be sweet and are served in small single-serving bottles (typically 330ml in Europe and 12 fl oz or 355 ml (the usual size of a soda/pop can) in the US and Canada, although 250ml is also popular), and between 4-7% abv. Outside of the US, RTDs tend to be spirits-based. In the US, RTDs are generally unhopped beers with added flavouring, sugar and colouring.

Dewey of Greenalls contends that the difference between RTDs and RTSs is largely artificial. *“A whole different terminology has arisen to describe RTD and RTS that is probably a little bit contrived. It was done to try and separate out these sorts of products from alcopops, which haven’t always had traditionally the most positive image. But at the end of the day with these products it is about convenience.”*

In the last year there has been a big increase in the amount of innovation around the RTS area. This has been marked by the arrival of new flavours and new packaging concepts. For instance, there are a couple of entries that are Bag-in-Box (BIB) format and Malibu has even launched an RTD in a pouch.

Bacardi Flavoured Rums brand director Gordon Chisholm says: *“We are seeing a lot more activity and innovation going on within the RTS category, but it is a sizeable category and the view going forward is that it will continue to grow as people choose to introduce and add new innovations.”*

In the RTD area Diageo created a series of three malt-based Smirnoff mixed drinks that have the convenience of Smirnoff Ice, but with a less sweet flavour profile, more like typical premium mixed drinks. In the RTS segment Diageo recognised a consumer desire for a sweet tea-flavoured product. It addressed

Chapter 6 Impact on the parent brand

In the early days of RTDs marketers were concerned that they might cannibalise sales of the full-strength parent brand. There was also the related question about the impact of RTDs on the brand equity of the parent brand. Yet the evidence today is that well-executed RTDs can enhance both the sales and image of the parent brand. The best example is probably that of Smirnoff. The dramatic growth of Smirnoff Ice over the course of the past decade has also coincided with equally impressive growth of full-strength Smirnoff.

Beam Global marketing director, Australia James Sykes says: *“RTDs do cannibalise the full-strength mother brand to a certain extent, but RTDs also make spirits a lot more accessible and easy to drink to a larger number of people. So the net overall consumption of spirits increases. If you look at any market around the world where RTDs sell, the overall penetration of spirits as a category, irrespective of format, is much bigger than it is in other markets where RTDs do not exist.”*

All the marketing activity surrounding the RTD version can also rub off on the parent brand. The RTD label on the bottle can serve as a form of advertisement. This is particularly beneficial in markets where advertising is restricted. In a sense, they provide a hand-held billboard.

Jack Daniel's (Brown-Forman) pre-mix vice-president Carmen D'Ascendis says: *“When done properly, pre-mixes can enhance bottle sales and benefit the brand overall. Keep in mind that, for the most part, when people are enjoying a drink in a social setting, the drinks are anonymous and unbranded. Not so with pre-mixes, as they are heavily branded. By publicly enjoying a branded pre-mix, the consumer is actually endorsing the parent brand, which builds brand equity. Pre-mixes can be a tremendous marketing tool.”*

RTDs and RTSs tend to be more appropriate for standard or low-price brands and tend to be less suitable for premium brands. *“If you are a mainstream spirits brand then it can add value to the parent brand, because it is being seen to meet consumer needs. It is more challenging if you are a premium or*

Chapter 7 Greater segmentation

Also, as the category matures it will also inevitably segment by price and style. Toorank's Lake says: *"The [RTS] market [in the UK] is not really that defined in terms of segments, because it has all happened in the past nine months. We expect the market segments will become more defined as the market develops. The big multinationals that are coming into the pre-mix area are considerably more expensive. Their proposed price in the UK is around GBP14, while our price is around GBP5, so there is a bit of a gap. So whether we are really up against them is not clear. Yes, they have the brand name in Smirnoff or Bacardi but, given the price gap, the reality probably is that we are operating in two fairly distinct markets. Most consumers that are willing to pay GBP14 probably wouldn't pay GBP5 and vice versa."*

In the US, the RTS market is estimated to be around Xm equivalent nine-litre cases. The category has been around for about ten years and is now showing signs of segmenting with the emergence of the premium segment, priced at about US\$19.95 per 1.75cl with such brand lines as Jose Cuervo Golden Margaritas or Bacardi Classic Cocktails. Then, there is the standard segment, priced at around US\$14.95, includes Bacardi Party Drinks, Kahlua Drinks To Go, Jose Cuervo Authentic Margaritas and TGI Fridays.

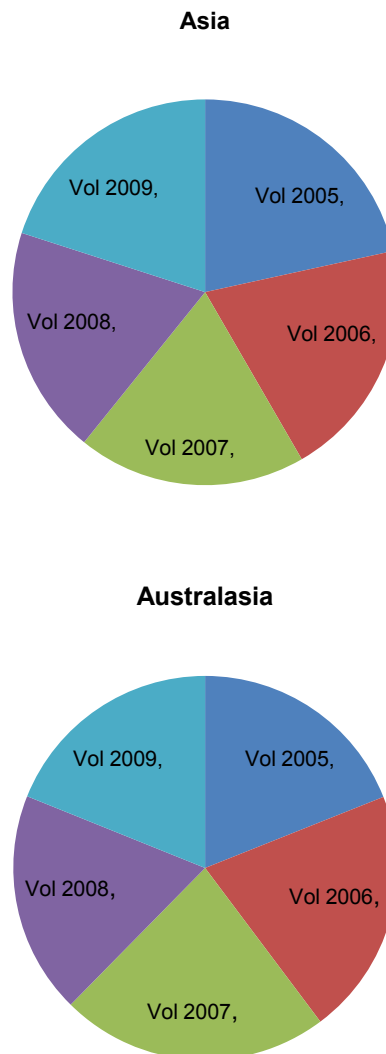
Fairburn believes that the pre-mix category will eventually segment into a number of areas. *"There will be the cheap RTD-style market, which will appeal to younger consumers. Then there will be the quality cocktail market, which will compete with full-strength spirits. I don't see pre-mix cocktails competing with RTD-style drinks going ahead. They will compete more with quality spirits."*

Halewood International marketing director Graham Oak believes that four sub-sectors have emerged within the RTD market – 'crisp refreshment' with brands such as Moscow Mule and Smirnoff Ice; fruit refreshment with Bacardi Breezer and Reef as examples; prepared cocktails and pre-mixed cans. He says: *"Over the next 12 months we will see dramatic changes within the RTD category in terms of margin/value delivery, recruitment of new consumers driven by new formats and product innovation."*

Chapter 8 Markets

Asia and Australasia

Figure 6: Asia Pacific – sales by sub-region, 2005-2009 (000's nine-litre cases)



Source: IWSR/*just-drinks*

Appendix: From the archive

A selection of the biggest RTD-related stories of the past several years.

GERMANY: RTD tax hike pushes adolescents to other drinks – research

9 June 2010 | By just-drinks.com editorial team

A tax rise on RTDs in Germany has seen adolescents in the country turn to other forms of alcohol, according to recent research.

In a report on the findings of the Institut für Therapieforschung (IFT) in the latest issue of the journal *Addiction*, researchers considered the result of a tax levy on RTDs – also known as alcopops – in Germany back in 2004.

“While alcopop consumption declined after the alcopops tax was implemented, consumption of spirits increased,” the researchers found. “Changes in beverage preference revealed a decrease in alcopop preference and an increase in the preference for beer and spirits.”

The research, based on a survey of 4,694 ninth and tenth graders in the country, indicates *“a partial substitution of alcopops by spirits and a switch in preference to beverages associated with riskier drinking patterns”*, the researchers said.

The German government claimed at the time that the price increase caused by the levy was *“the most effective means of reducing the consumption of alcopops among underaged young people”*.

The IFT concluded: *“Effective alcohol policies to prevent alcohol-related problems should focus upon the reduction of total alcohol consumption instead of regulating singular beverages.”*