

ALCOHOL KNOWLEDGE CENTRE

BRIEFING



THE ALCOHOL INDUSTRY: AN OVERVIEW

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This briefing contains the following chapters:

- What is the alcohol industry?
- How big is the alcohol industry?
- What is the economic contribution of the alcohol industry?
- Who are the major participants in the alcohol industry?
- The economics of alcohol production
- Consolidation of the alcohol industry
- Alcohol industry commercial strategies

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The alcohol industry: an overview

Summary

- The 'alcohol industry' contains a wide range of prominent actors, among whom the alcohol producers are the most prominent
- The industry is dominated by a handful of global multinational companies
- There has been a general trend towards consolidation of the alcohol industry, particularly in recent years – as these large firms play an ever more significant role in the alcohol market
- Global alcohol firms engage in a number of commercial strategies to increase their revenue, including targeting new customers, particularly women and the global poor, developing new 'occasions' to encourage drinking, and encouraging 'trading up' to more expensive products

Introduction

This briefing provides the following overview of the alcohol industry:

- Defines the different elements of the industry – raw materials suppliers, distributors and wholesalers, vendors and suppliers/contractors – but most significantly alcohol producers
- Estimates the size of the alcohol industry and its role in the economy
- Identifies the leading alcohol companies in the UK and globally and maps out how the industry has consolidated in recent years
- Describes business models and identifies key commercial strategies of alcohol companies

What is the alcohol industry?

The alcohol industry can be defined in different ways, with no agreed settled definition. The term is most commonly used to refer to corporations engaged in the production of alcoholic beverages. However, broader definitions also exist. The World Health Organization, for example, refers to ‘manufacturers of alcoholic beverages, wholesale distributors, major retailers and importers that deal solely and exclusively in alcohol beverages, or whose primary income comes from trade in alcohol beverages’, a definition that has been adopted by Public Health England:¹

... the term ‘alcohol industry’ means manufacturers of alcoholic beverages, wholesale distributors, major retailers and importers that deal solely and exclusively in alcohol beverages, or whose primary income comes from trade in alcohol beverages.

In addition, in this document the term ‘alcohol industry’ includes business associations or other non-State actors representing, or funded largely by, any of the aforementioned entities, as well as alcohol industry lobbyists and commercial interests in alcohol beverage trade other than above when the interaction with WHO can be linked to their interests in alcohol beverage trade.

Other non-State actors who receive funding from the alcohol industry (including funding for research) or have considerable links to the above-mentioned entities should be reviewed on an ad hoc basis in order to determine whether they should also be viewed as ‘alcohol industry.’

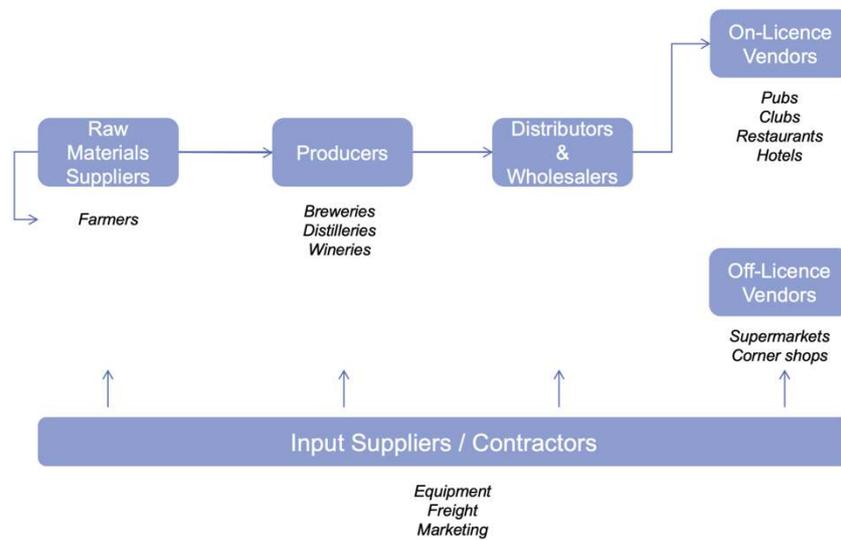
Alcohol researchers have observed that:

The alcoholic beverage industry includes producers, wholesalers and distributors, point-of-sale operators (whether licensed or not) and hospitality providers such as hotels or cafés that serve alcohol. Its production and distribution arms are allied closely with agriculture, trucking, capital goods manufacturing and packaging industries.²

In the broadest terms, the alcohol industry consists of all the companies that participate in the alcohol value chain, and so contribute to bringing alcohol to consumers. These companies fall into five categories:

- **Raw materials suppliers:** Primarily farmers, who grow ingredients such as barley, hops, apples, grapes and sugar
- **Producers:** Companies that manufacture alcohol, managing processes such as brewing, distillation, and bottling
- **Distributors & Wholesalers:** Intermediaries who connect producers and vendors, typically storing and transporting the product
- **Vendors:** Sellers of alcohol – both **on-licence** (where drinks are bought and consumed on the premises eg pubs, club and restaurants) and **off-licence** (where the drinks are bought and then taken away to be consumed eg supermarkets)
- **Input Suppliers/Contractors:** Companies that supply products and services to any of the above e.g. providing farm machinery, distillation equipment, freight services, marketing, consultancy, lobbying etc.

Figure 1 Alcohol industry value chain



¹ World Health Organization (2010), Global Strategy to reduce the harmful use of alcohol:

<http://www.who.int/substance_abuse/alcstratenglishfinal.pdf?ua=1>

Public Health England (2019), 'Principles for engaging with industry stakeholders', from World Health Organisation Information (29 March 2019) Principles and guidance for interaction between WHO Secretariat and the alcohol industry. Note 12/2019 <<https://bit.ly/2TWY1S>>

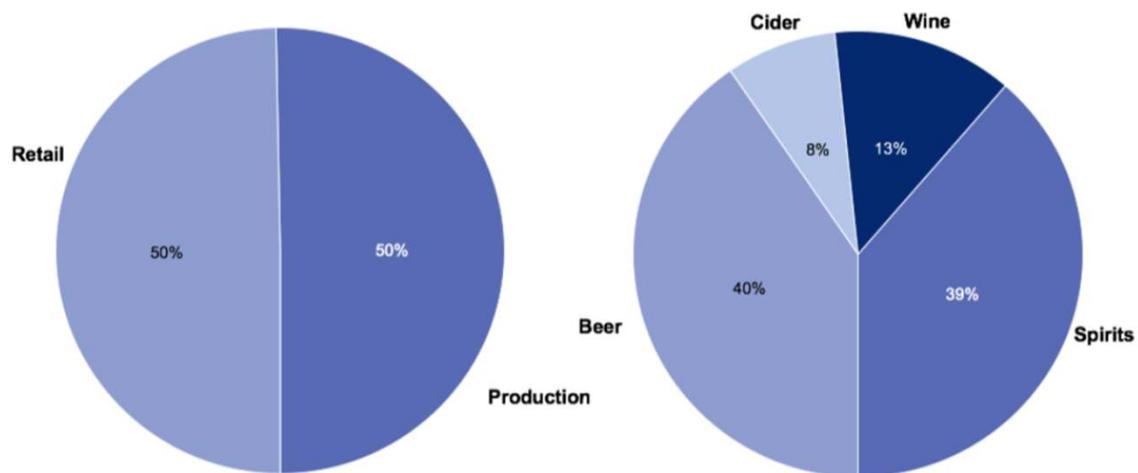
² Jernigan, D. H. (2009), The global alcohol industry: an overview, *Addiction* 104 (Suppl. 1), p. 6

How big is the alcohol industry?

UK market size and growth

The Institute of Alcohol Studies has estimated that the production and sale of alcohol was worth £46 billion to the UK economy in 2014, accounting for 2.5% of Gross Domestic Product and 3.7% of all consumer spending.¹ Figure 2 shows that this is split evenly between retailers and producers. It also shows that the vast majority of the economic value of alcohol production in the UK comes from two different activities: brewing beer for the domestic market (largely to be sold in the on-trade) and distilling spirits for export (predominantly Scotch whisky).

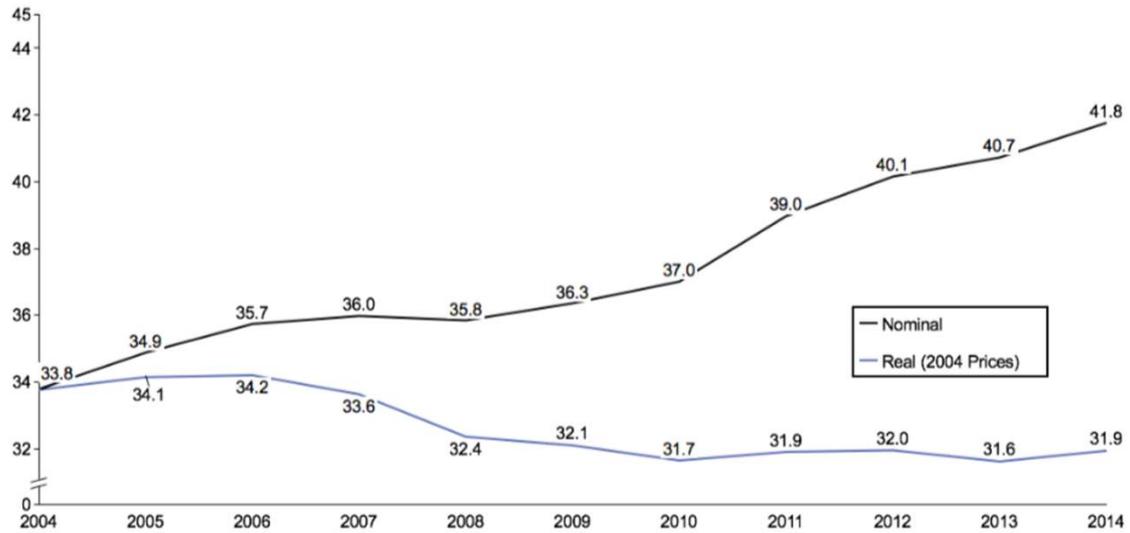
Figure 2 Share of non-tax UK alcohol industry value, 2014



Source: MESAS Alcohol Retail Sales Dataset, ONS Annual Business Survey. HMRC uktradeinfo, IAS analyses;
Bhattacharya, A. (2017), *Splitting the bill: Alcohol's impact on the economy*. London: Institute of Alcohol Studies, p. 10

The domestic UK alcohol market has been stagnant for a number of years. Adjusting for inflation, spending declined by 5% between 2004 and 2014.²

Figure 3 UK alcohol spending (£billion)



Source: MESAS Alcohol Retail Sales Dataset, ONS Consumer price Inflation, IAS analyses; Bhattacharya, A. (2017), *Splitting the bill: Alcohol's impact on the economy*. London: Institute of Alcohol Studies, p. 11

Figure 4 shows how different trends have contributed to this decline, based on IAS analysis. It shows that inflation and population growth should have boosted the market by £13 billion in that period, but in actual fact, the market grew by only £8 billion: a real-terms (ie inflation-adjusted) decline. This is because of lower per capita consumption and the shift to the off-trade, which each contributed £4 billion to the decline. However, the industry has succeeded in mitigating these trends by increasing the price paid per litre of alcohol above the rate of inflation – both through ‘premiumisation’ (encouraging consumers to trade-up to more expensive drinks) and like-for-like price increases.

Figure 4 Drivers of domestic UK alcohol revenue, 2004–14



Source: MESAS Alcohol Retail Sales Dataset, ONS Consumer price Inflation, IAS analyses; Bhattacharya, A. (2017), *Splitting the bill: Alcohol's impact on the economy*. London: Institute of Alcohol Studies, p. 12

¹ Bhattacharya, A. (2017), *Splitting the bill: Alcohol's impact on the economy*. London: Institute of Alcohol Studies, p. 9

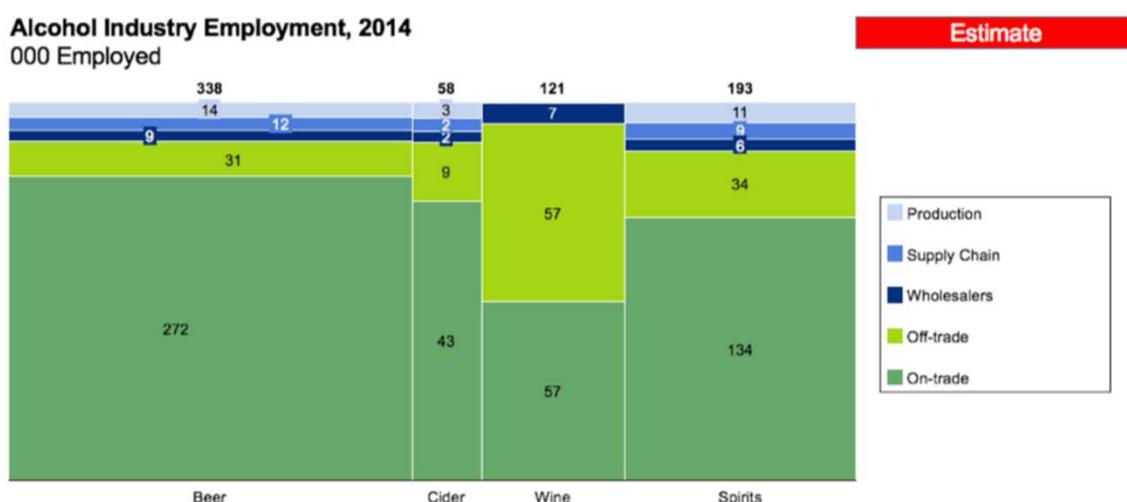
² Bhattacharya (2017), *op. cit.*, p. 11

What is the economic contribution of the alcohol industry?

IAS has estimated that the alcohol industry is responsible for 770,000 UK jobs, around 2.5% of all employment in the country.¹ This is lower than Oxford Economics's estimate of 898,000 jobs in the beer and pub sector,² and the Wine & Spirit Trade Association's estimate of 588,000 jobs attributable to the wine and spirits industry.³

Figure 5 attempts to show how these jobs are distributed. It shows that relatively few people are involved in the direct production of alcohol – fewer than 30,000 in total, mostly in brewers and distilleries. By contrast, the vast majority of alcohol industry jobs (80%) are in retail, and more specifically the on-trade.

Figure 5 UK alcohol industry employment, 2014



Source: MESAS Alcohol Retail Sales Dataset, ONS Business Register and Employment Survey, ONS Annual Business Survey, BBPA Statistical Handbook 2015; Bhattacharya, A. (2017), *Splitting the bill: Alcohol's impact on the economy*. London: Institute of Alcohol Studies, p. 14

However, jobs in pubs, clubs and bars are often part time – only 35% of pub jobs are full time.⁴ These jobs are also among the lowest paid in the British economy, with a median hourly wage in 2015 of £8.61. By contrast, alcohol production is relatively well remunerated. Median pay in distilleries is (£17.10 an hour) and breweries (£15.37 an hour), is well above the national average, and even the average for manufacturing.⁵

It is important to note, however, that any reduction in spending on alcohol would at least partly be offset by increased spending on other products. Consequently, lower alcohol consumption would not necessarily be bad for the economy. Researchers at the Fraser of Allander Institute have modelled the economic impact of a 10% increase in UK alcohol taxes, leading to a 1.1% decrease in alcohol sales. They find this would lead to a 7,000 jobs being cut from the alcohol industry, but if the revenue from the tax were reinvested in public services the jobs created in the public sector would more than offset industry losses – overall, there would be an additional 17,000 full time equivalent jobs created.⁶ This is in line with similar findings from a US modelling study.⁷ Indeed, an analysis of the economic

performance of US states between 1971 and 2007 found that a 10% increase in per capita beer consumption is associated with a statistically significant 0.41 percentage point drop in annual income growth.⁸ This is most likely because lower levels of drinking lead to lower unemployment, sickness and premature death. See the Institute of Alcohol Studies report *Splitting the bill* for further discussion of these issues.

¹ Bhattacharya (2017), op. cit., p. 14

² Oxford Economics (2016), *Local Impact of the UK Beer and Pub Sector: A Report for the British Beer and Pub Association*. Lisburn: Oxford Economics <<http://bit.ly/2DgQGV4>>

³ WSTA (2016), *WSTA Market Overview 2016*. London: WSTA

⁴ Bhattacharya (2017), op. cit., p. 15

⁵ Smith, R. (2019), Earnings and hours worked, industry by four-digit SIC: ASHE Table 16.5a. Office for National Statistics. Available from: <<https://bit.ly/3j79lhb>> [Accessed 28 July 2020]

⁶ Fraser of Allander Institute (2018), *The economic impact of changes in alcohol consumption in the UK*. Glasgow: University of Strathclyde. Available: <<http://www.ias.org.uk/uploads/pdf/IAS%20reports/rp30042018.pdf>> [Accessed 28 July 2020]

⁷ Wada, R. et al (2017). Employment impacts of alcohol taxes. *Preventive Medicine*, 105(August), S50–S55

⁸ Cesur, R. & Kelly, I. R. (2014), Who pays the bar tab? Beer consumption and economic growth in the United States, *Economic Inquiry* 52:1, pp. 477–94

Who are the major participants in the alcohol industry?

Raw materials

Raw materials for the alcohol industry are supplied by a large and fragmented set of farmers, specialising in different crops, such as barley or grapes. Occasionally these crops will pass through third parties before reaching producers – for instance, specialist companies responsible for processes such as ‘malting’, a necessary pre-condition for producing whisky from barley.

Producers

Alcohol producers are often taken to be synonymous with the entire alcohol industry, as they generate most of the industry value, and are the only element of the value chain that typically focuses exclusively on alcohol. The largest global alcohol producers are listed below:*

Figure 6 Leading global alcohol producers

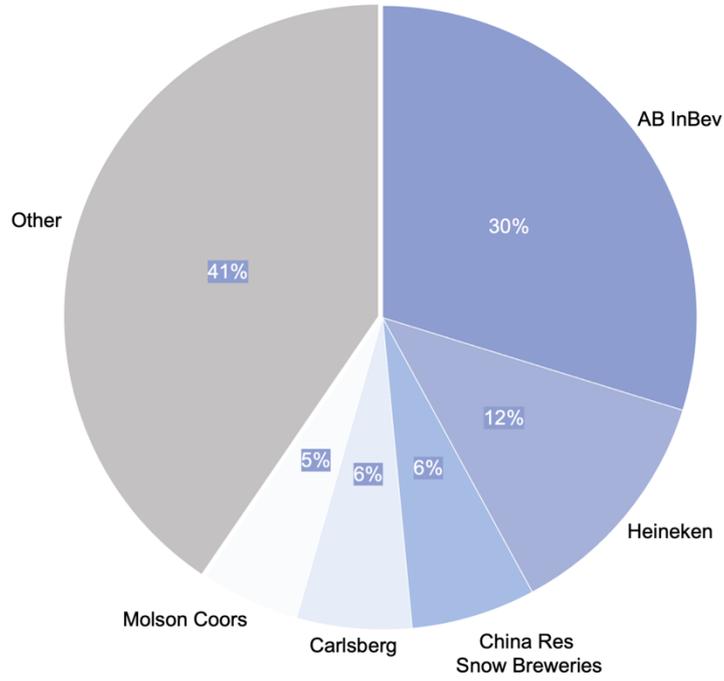
Company	Category	Headquarters	2019 global revenue	Major brands
AB InBev	Beer	Leuven, Belgium	£40bn	Budweiser, Stella Artois, Corona, Skol, Brahma, Quilmes, Victoria Bitter
Heineken	Beer	Amsterdam, Netherlands	£26bn	Heinken, Amstel, Desperados, Sol, Strongbow
Asahi	Beer	Tokyo, Japan	£12bn	Asahi, Peroni, Grolsch
Carlsberg	Beer, Cider	Copenhagen, Denmark	£8bn	Carlsberg, Tuborg, Kronenbourg, Baltika, Somersby
Diageo	Spirits, Beer, Wine	London, UK	£13bn	Johnnie Walker, Smirnoff, Captain Morgan, Baileys, Guinness, Tanqueray
Pernod Ricard	Spirits, Wine	Paris, France	£8bn	Jameson, Absolut, Malibu, Jacobs Creek
Constellation	Wine, Beer, Spirits	Victor, NY, USA	£7bn	Robert Mondavi, Clos du Bois, Blackstone, Modelo, Simi, Ruffino
E & J Gallo	Wine	Modesto, CA, USA	£4bn	Andre, Carlo Rossi, Boone's Farm, Barefoot Wine

Source: Annual reports, company websites and press reports

Industry structure varies substantially between drinks categories. A few large global firms dominate the beer market, while the wine market is extremely fragmented, with no single company holding a substantial market share. The global spirits market is somewhere in between: Diageo and Pernod Ricard are clear market leaders, but there is a ‘long tail’ of smaller local producers that still account for the majority of the market.

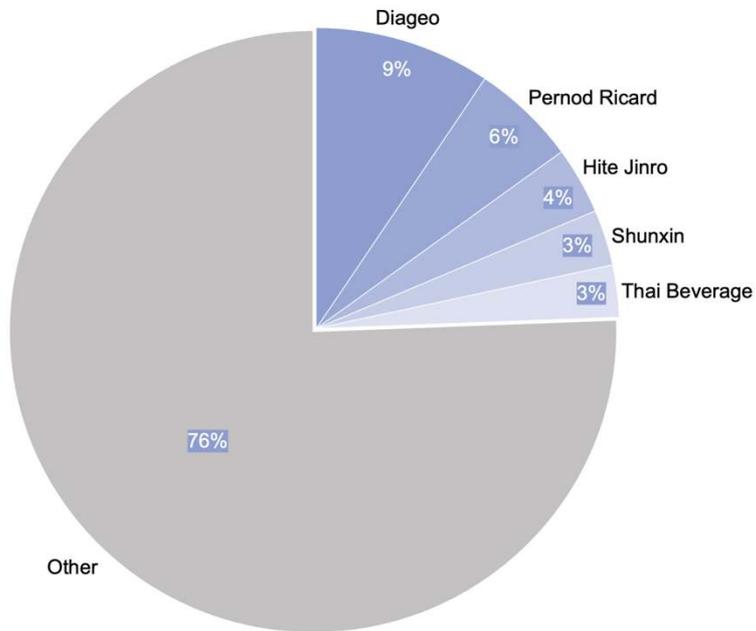
* Asahi figure represents alcohol and overseas revenue (which includes soft drinks sold abroad)

Figure 7 Share of global beer production, 2018



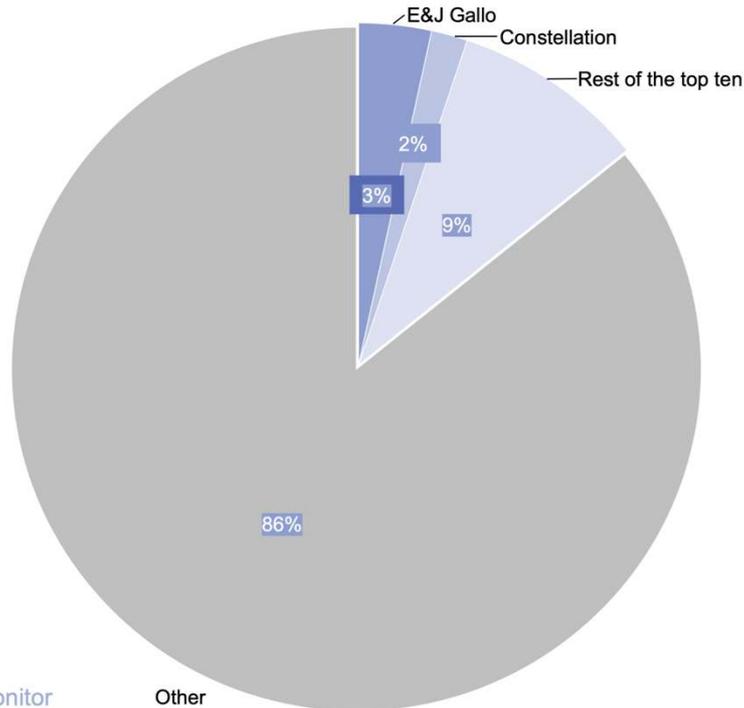
Source: Barth-Haas Group, The Barth report 2018–19

Figure 8 Global spirits volume market share, 2019



Source: Euromonitor

Figure 9 Global wine volume market share, 2019



In Western countries, domestic alcohol markets broadly reflect the global picture, with some specificities unique to each country. The dominant producers tend to be the same in each market, but their most successful brands tend to differ from each market to the next. For example, in the UK, AB InBev's highest selling brands are Stella Artois and Budweiser, two of its 'global brands'.¹ However, Molson Coors, despite being another multinational brewer, promotes Carling, a traditional British beer, as its leading product in the UK. Another distinctive feature of the UK landscape is the size of the cider market, with Strongbow amongst the top ten alcoholic beverages, though this too is owned by a global brewer (Heineken).² Large drinks companies tend to have a broad portfolio of products, catering to a wide range of products. For example, the C&C Group produce relatively premium 'craft'-style cider, such as Addlestones, mass market products such as Magners and Tennants and strong, cheap ciders such as K and White Ace, in a category that has been particularly associated with harmful drinking.³

Figure 10 Top 10 best selling UK alcohol brands, 2018/19

Rank	Brand	Sales value (£ million)	Category	Producer	Producer Headquarters
1	Stella Artois	533.3	Beer	AB InBev	Belgium
2	Smirnoff	485.4	Vodka	Diageo	UK
3	Budweiser	418.4	Beer	AB InBev	Belgium
4	Gordon's	354.2	Gin	Diageo	UK
5	Foster's	350.1	Beer	Heineken (brewed under licence from AB InBev)	Netherlands
6	Carling	276.5	Beer	Molson Coors	USA
7	Strongbow	271.3	Cider	Heineken	Netherlands
8	Hardys	266.8	Wine	Accolade Wines	Australia
9	Jack Daniel's	246.1	Whisky	Brown-Forman	USA
10	Famous Grouse	216.3	Whisky	Edrington Group	UK

Source: The Grocer, Britain's 100 biggest alcohol brands 2019 report

Distributors and wholesalers

There are a number of companies that purchase drinks from producers and distribute them to on-trade and off-trade retailers. According to IBISWorld, in the UK this market is relatively fragmented – comprising 2,675 businesses,⁴ with the top two players (Matthew Clark and Diageo's distribution arm) accounting for 11% of the market.⁵ Distributors and wholesalers can be alcohol-focused specialists, such as Matthew Clark, which focuses on pubs; or general suppliers, such as Palmer & Harvey, which typically serves supermarkets.

On-licence vendors

In the UK, as in many other countries, a licence from the state is required to sell alcohol, with different licences depending on whether alcohol is consumed on the premises. As of 2018, there were 133,000 licenced on-trade premises in England and Wales.⁶ These include pubs, bars, clubs, hotels, restaurants, theatres and sporting stadia. However, of these, only pubs and bars rely on alcohol for their primary revenue stream. The largest UK pub operators are detailed in figure 11 (note that average revenue per pub varies substantially between pub operators due to differences in business models, with some pubs owning more of their estate – see the section on 'Vertical Integration').

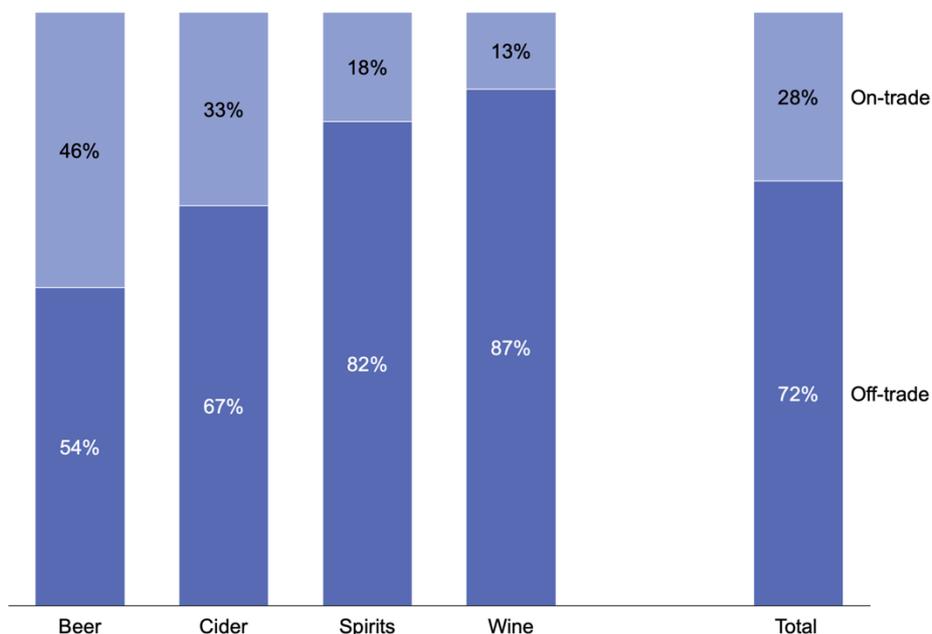
Figure 11 Leading UK pub owners

Operator	Headquarters	Outlets (approx.)	2019 revenue
Mitchells & Butlers	Birmingham	1,700	£2.2bn
Greene King	Bury St Edmunds	2,700	£2.2bn
JD Wetherspoon	Watford	900	£1.8bn
Marston's	Wolverhampton	1,100	£1.2bn
Enterprise Inns	Solihull	4,000	£0.7bn

Source: Annual reports and company websites

In 2019, 28% of the alcohol consumed in England and Wales was purchased on premises, though this varies substantially by type of drink – beer is much more likely to be consumed in the on-trade than wine.⁷

Figure 12 Volume of alcohol sales in England and Wales by beverage type and channel, 2019



Source: NHS Health Scotland (2020), MESAS monitoring report 2020

Off-licence vendors

As illustrated above, over 70% of UK alcohol sales occur in off-trade premises.⁸ Supermarkets account for two-thirds of off-trade sales – that is, a little under half of the total market. These are operated by the major grocery retailers – Tesco, Sainsbury’s, ASDA, Morrisons, Aldi and LIDL. Convenience stores represent a further 10% (approximately) of the off-trade market.⁹ Specialist alcohol retailers (Majestic, Oddbins and Bargain Booze), as well as corner shops (SPAR, Londis and independents) make up most of the rest of the off-trade market.

¹ AB InBev website, Global Beer brands. [Accessed 17 December 2015]. Available from: <<http://www.ab-inbev.co.uk/brands/global-beer-brands/?redirect=1>>

² Woolfson, D. (2019), Britain’s Biggest Alcohol Brands 2019 report: Generation Sensible?, *The Grocer* (12 July). Available from: <<https://bit.ly/2QfKCjH>>. [Accessed 30 July 2020]

³ Goodall, T. (2011), *White Cider and street drinkers: Recommendations to reduce harm*. London: Alcohol Concern <<http://bit.ly/1PFG1Nb>>

⁴ IBISWorld (2015), Alcohol Beverage Wholesaling in the UK. [Press Release]. Available from: <<http://www.ibisworld.co.uk/market-research/alcoholic-beverage-wholesaling.html>>

⁵ PRWeb (2015), *Alcoholic Beverage Wholesaling in the UK Industry Market Research Report Now Updated by IBISWorld*. [Press Release]. Available from: <<http://www.prweb.com/releases/2013/1/prweb10284922.htm>>

⁶ Oakley, P. (ed.) (2019), *British Beer and Pub Association Statistical Handbook 2019*, Table E1

⁷ Public Health Scotland (2020), MESAS monitoring report 2020. Available from: <<http://www.healthscotland.scot/publications/mesas-monitoring-report-2020>>. [Accessed 30 July 2020]

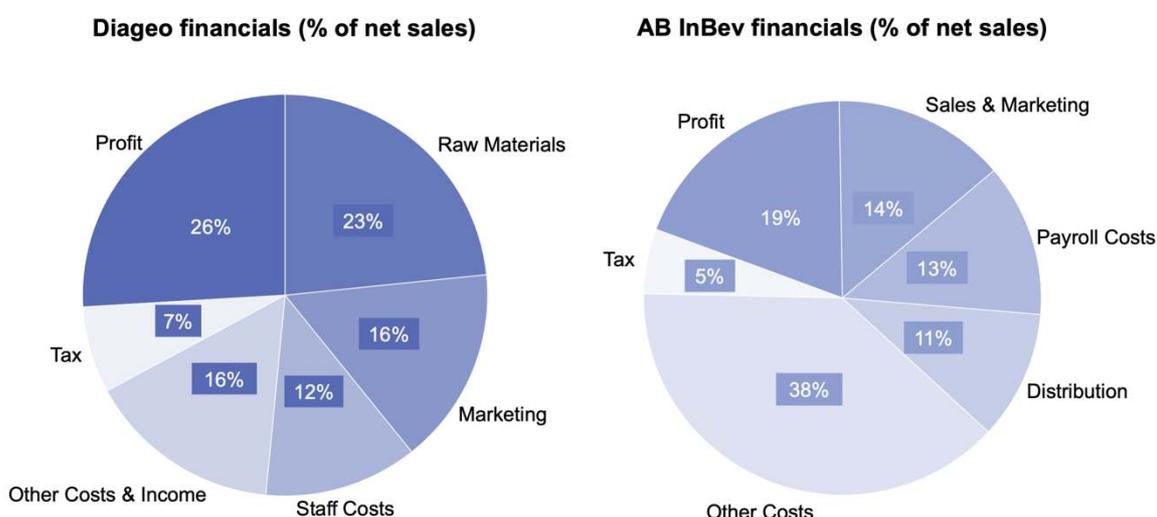
⁸ Ibid.

⁹ Green, M. (2014), Convenience stores eat BWS market share, *Off Licence News* [Online]. 4 April. [Accessed 17 December 2015]. Available from: <<http://bit.ly/1MBtBLH>>

The economics of alcohol production

The economics of alcohol production vary between producers, based on their actual activities, efficiency, and market. However, the charts in figure 9 take the examples of two of the leading global producers – Diageo and AB InBev – as an indicative view of the costs and profitability associated with alcohol production. Both companies have net profit margins of around 25%, meaning that a quarter of their revenue is retained by shareholders. These companies invest more in marketing (*circa* 15%) than their entire employee payroll costs (*circa* 10–15%). In both cases, tax accounts for around a sixth of pre-tax profit (note that this is tax paid directly by the producer, and excludes taxes borne by consumers, such as excise duty or value added tax).

Figure 13 Leading alcohol producers' costs



Source: Annual reports

Consolidation of the alcohol industry

Perhaps the most significant trend in the alcohol industry in recent decades is its consolidation: in various ways, fewer companies are accounting for an ever-increasing share of industry activity and revenue.

Mergers & Acquisitions

The most visible indication of the consolidation in the alcohol industry is the rate of high profile mergers and acquisitions (M&A), which has accelerated in recent years. Most prominently, in 2016, AB InBev completed a £79bn takeover of SABMiller to form the world's largest beer company.¹ This represents the biggest ever deal in the alcohol industry, and is the third largest acquisition in any sector.² Prior to the acquisition, the two firms accounted for around 30% of the global beer market,³ although the merged entity's actual market share is significantly lower as it was required by regulators to sell off a number of SABMiller's most prominent brands.⁴

This deal is only the latest in a long line of mergers and acquisitions between brewers. The present form of each of the major global beer producers has been substantially shaped by such activity:

- AB InBev was the product of a 2004 merger between American brewer Anheuser-Busch and InBev, itself formed from the merger of the Belgian producer Interbrew and Brazilian producer AmBev
- SABMiller was established in 1999 following the acquisition of the US Miller Brewing Company by South African Breweries
- Heineken has strengthened its presence in a number of markets through the part purchase of British brewer Scottish & Newcastle in 2008, the Mexican FEMSA Cerveza in 2010 and gaining full control of Singapore-based Asia Pacific Breweries
- Carlsberg Breweries A/S was formed by a merger between Carlsberg and Norwegian conglomerate Orkla's brewing activities; in 2008 Carlsberg acquired a share of Scottish & Newcastle's assets

A similar process has occurred among the leading spirits manufacturers. Diageo was formed in 1997 from the merger of Guinness and Grand Metropolitan. Thereafter, it has sought to expand into middle and lower income countries through the acquisition of local drinks manufacturers such as Mey Icki in Turkey, Ypioca in Brazil, and most prominently a majority share of Indian-based United Spirits (the world's largest alcohol producer by volume).⁵ Its main competitor, Pernod Ricard bought Allied Domecq in 2005 and the former Swedish government-monopoly producer V&S Group in 2008.

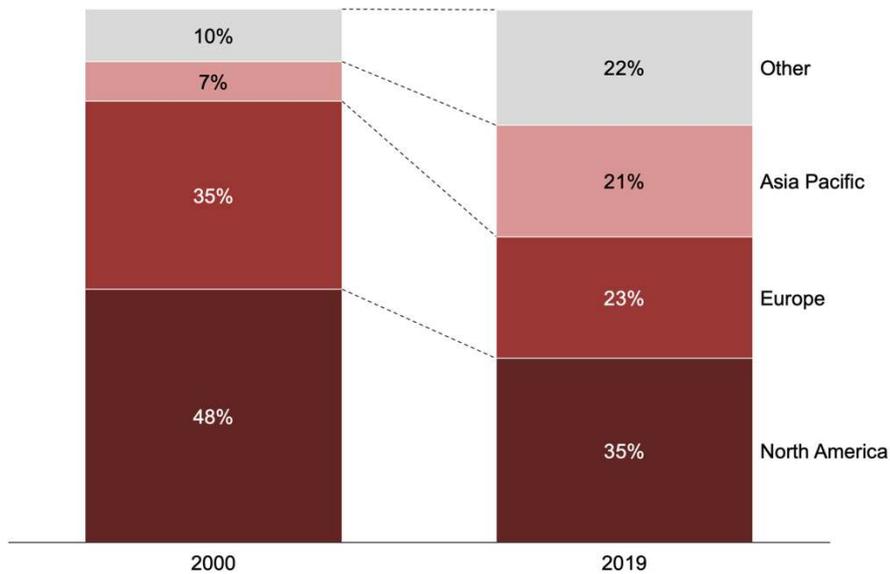
By contrast, the wine market has remained relatively fragmented. E&J Gallo, the global leader, accounts for just over 3% of the all wine sales.⁶

Global expansion

Another force driving the consolidation of the alcohol industry is globalisation: the world's leading producers have increasingly focused their efforts on selling their products to fast-growing developing countries. As described previously, this has partly been achieved by acquiring local producers, but it has also been facilitated by increased marketing, cheaper distribution costs and lowered trade barriers. This trend is illustrated by figure 10, which

shows how the geographical distribution of Diageo sales have changed over time. In 2000, its traditional markets in Europe and North America accounted for 83% of all sales. Today they represent just 57%.

Figure 14 Diageo sales by region



Source: Diageo annual reports

Diversification across categories

It should be clear by this point that the markets for beer, wine and spirits are relatively specialised, with most major producers generating the majority of their sales from one of those categories. Nevertheless, there has been a slight trend towards companies diversifying their portfolios to cover multiple types of drinks. The most prominent example is Diageo, which, as well as being the global leader in spirits, also manages beer (most notably Guinness) and wine brands (including Dom Perignon and Moët & Chandon). Similarly, Constellation Brands, the number one wine producer in the world, purchased Spirits Marque One (owners of the SVEDKA vodka brand) in 2007, and in 2013 bought the US rights to beers including Corona and Modelo.

Vertical integration

A final way in which the alcohol industry has consolidated in recent years is through 'vertical integration'. This occurs when a company takes over responsibility for additional stages of the value chain. For example, if a winery were to start growing its own grapes or distributing its own products to retailers that would represent vertical integration.

'Backward integration', which involves producers taking control of their supply chain, is relatively unusual in the alcohol industry. One exception is the wine industry, where producers often source some of their grapes from owned or leased vineyards. For example, Treasury Wine Estates generates 27% of its Australian grapes, 35% of New Zealand, 17% of its Californian grapes and 16% of its Italian grapes from its owned vineyards.⁷

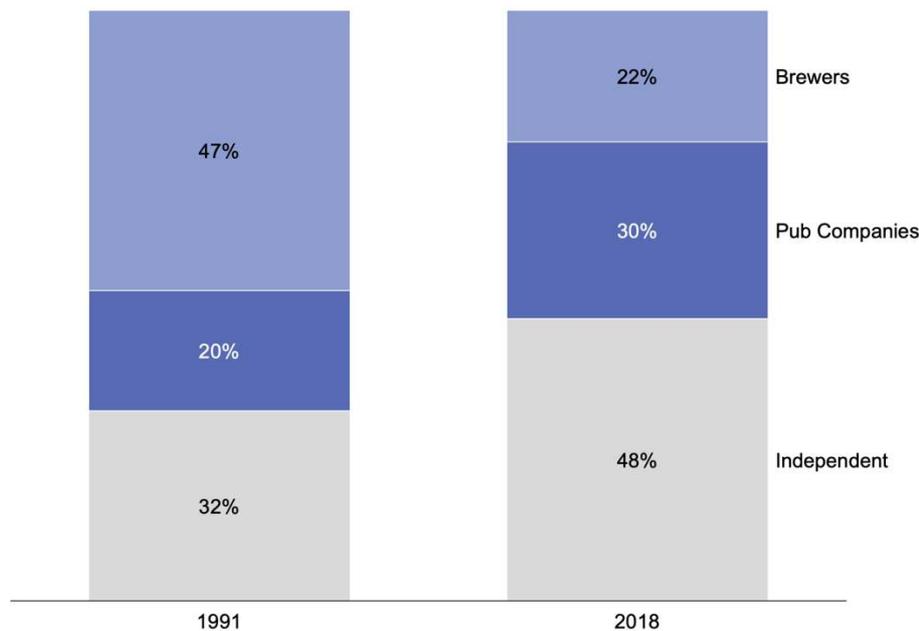
In the US, there has historically been significant resistance to ‘forward integration’: merging of the production, distribution and retail of alcohol. The ‘three-tier system’ in most states prohibits the same company from performing more than one of these functions. However, in recent years, the three-tier system has come under pressure. Despite the efforts of regulators, in a number of states AB InBev is the largest distributor of beer in the US, as well as the largest producer.⁸ Moreover, retailers have also sought to circumvent distributors – for example, in 2011, Costco contributed \$22m to a referendum campaign in Washington state which allowed it to purchase alcohol directly from producers.⁹

The UK distribution system is somewhat different, with less of a taboo on producers distributing the products directly to retailers. In particular, British breweries have traditionally owned the pubs that sold their beers. The government’s *1989 Beer Orders* relaxed this control by stipulating that no brewer would be allowed to own more than 2,000 licenced establishments. Reluctant to sell pubs to their competitors, this led to the development of a new business model: specialist ‘pub companies’, commonly known as ‘Pubcos’ such as Enterprise Inns, who control a large number of pubs, which they either manage themselves or lease to tenants. Nevertheless, breweries still own a fifth of all pubs in the UK and continue to dominate the distribution market to pubs (see figure 15).¹⁰ Indeed, in 2017, Heineken agreed the purchase of 1,895 pubs from the pubco Punch Taverns, making it the third largest pub owner in the UK.¹¹

In recent years, the ‘beer tie’ has been a source of significant controversy. Under this system, pub companies rent their premises to managers at subsidised below-market rates, on the condition that they purchase certain drinks and supplies from the pub company, typically at a significant premium to the market price. It was alleged that this system imposed excessive costs on tied pubs, which were less profitable on average than untied pubs.¹² In 2016, the government introduced a statutory pubs code, which seeks to ensure that such ‘tied’ pubs are no worse off than untied pubs. Specifically, the code ensures that tied pub tenants can have their rent regularly reviewed, and provides them with the option to release themselves of the tie and revert to market rents.¹³

In summary, though still closely bound, the relaxation of the links between breweries and pubs represents one of the few areas where the industry has become less consolidated. Indeed, independent pubs represent a larger proportion of all pubs today than in 1991.

Figure 15 UK pubs by ownership model



Source: BBPA Statistical Handbook 2015

¹ Washtell, F. (2016), Megabrew is done: AB InBev's £79bn takeover of SAB Miller completes, *CityAM* (11 October). Available from: <<http://www.cityam.com/251145/megabrew-done-ab-inbevs-79bn-takeover-sabmiller-completes>>. [Accessed 18 October 2017]

² Croucher, S. (2015), SABMiller and AB InBev deal: 'Megabrew' enters top five biggest mergers in corporate history, *International Business Times* [Online]. 13 October. [Accessed 17 December 2015]. Available from: <<http://bit.ly/1SmVFPu>>

³ BBC News, (2015), Beer giants AB InBev and SABMiller agree mega-merger [Online]. 11 November. [Accessed 17 December 2015]. Available from: <<http://www.bbc.co.uk/news/business-34784926>>

⁴ Nurin, T. (2016), DOJ Approves Largest Beer Merger In Global History, With Significant Conditions, *Forbes* (20 July). Available from: <<http://bit.ly/2DfD0JJ>>. [Accessed 18 October 2017]

⁵ United Spirits website, USL at a Glance. [Accessed 17 December 2015]. Available from: <<http://unitedspirits.in/aboutus.aspx>>

⁶ Euromonitor (2020), *Passport*.

Constellation Brands (2015), 2015 Summary Annual Report <<http://www.cbrands.com/investors/financial-information>>

⁷ Treasury Wine Estates (2017), Annual Report 2017. Available from: <<https://www.tweglobal.com/~media/Files/Global/Annual-Reports/2017-Annual-Report.pdf>>

⁸ Heffernan, T. (2012), Last Call, *Washington Monthly*. November/December <http://www.washingtonmonthly.com/magazine/november_december_2012/features/last_call041131.php?page=5>

⁹ Celock, J. (2011), Initiative 1183: Washington State Voters To Decide Fate of Privatizing Liquor Sales, *Huffington Post*. [Online]. 13 October. [Accessed 17 December 2015]. Available from: <http://www.huffingtonpost.com/2011/11/07/costco-initiative-1183-liquor-sales_n_1080242.html>

¹⁰ Oakley, P. (ed.) (2017), op. cit., Table E5

¹¹ Murray Brown, J. (2017), Heineken cleared to take over Punch Taverns, *Financial Times* (August 18). Available from: <<https://www.ft.com/content/851b7b16-83fc-11e7-94e2-c5b903247afd>>. [Accessed 15 December 2017]

¹² Hope, K. (2014), Q&A: Calling time on the beer tie. BBC News [Online]. 19 November. [Accessed 17 December 2015]. Available from: <<http://www.bbc.co.uk/news/business-30114911>>

¹³ Department for Business, Energy & Industrial Strategy (2017), Policy Paper: Pubs Code and adjudicator. Available from: <<https://www.gov.uk/government/publications/pubs-code-and-adjudicator/pubs-code-and-adjudicator>>. [Accessed 8 August 2017]

Alcohol industry commercial strategies

The alcohol industry, along with most businesses, is largely engaged in the pursuit of growth. Alcohol industry growth can come in three ways: by encouraging more people to drink, by encouraging people to drink more and by encouraging them to drink more expensive drinks. In recent times, the alcohol industry has pursued each of these strategies. The discussion here is narrowly focused on commercial strategies. Social and political activities are also an important part of aspect of industry activity, but are covered in a separate section (*The alcohol industry: Social and political activities*)

Targeting new customers

As described in the section '*Global expansion*', there have been clear concerted efforts from alcohol producers to market their products to consumers in more and different countries. As SABMiller observed in its *2013 Annual Report*, '*Developing markets remain the engine of volume growth for the global beer industry*'.¹ Multinational alcohol companies have typically sought to win customers in low and middle countries in two principal ways. They have formulated cheap products affordable to those on low incomes for the mass market. For example, AB InBev's Chibuku beer is made from sorghum, maize and cassava and is sold in cardboard cartons for half the price of its bottled products.² Small plastic alcohol sachets, sold not only by licenced retailers but also by informal street traders, are increasingly common countries such as Zambia, Malawi, Tanzania and Uganda.³

Figure 16 Alcohol sachets on sale in Malawi



Source: Afriem

At the same time, premium Western brands have been targeted at middle class consumers in low income countries as an aspirational status symbol. For example, Diageo claims its alcoholic apple drink Snapp provides African women with a 'product they feel is more refined than beer, with cues of differentiation and sophistication'.⁴

Figure 17 Advert for SABMiller's Redd's Beer in African Woman magazine /
Ghanaian TV advert for 'Sweet Cherry'



Source: STAP (2011), Alcohol marketing practices in Africa

Even in Western countries, alcohol companies have sought to target demographics that tend to drink less than average. For example, in 2008 the brewer Molson Coors set up a unit to develop brands and marketing messages to appeal to women, with the goal of creating 'a world where women love beer as much as they love shoes'.⁵ This is part of a broader trend of an increasing number of products being developed and marketed for women.⁶ Similarly, even though alcohol companies universally claim to refrain from advertising to underage drinkers, there seems to be an awareness of the importance of winning over younger drinkers, to secure the next generation of consumers. For example, in 2014, SABMiller reported that:

People have grown up on Pepsi and Coke, so the younger generation have a much sweeter palate. We are playing to that. There has been a huge focus around flavoured beers, and we are developing products around apple and citrus.⁷

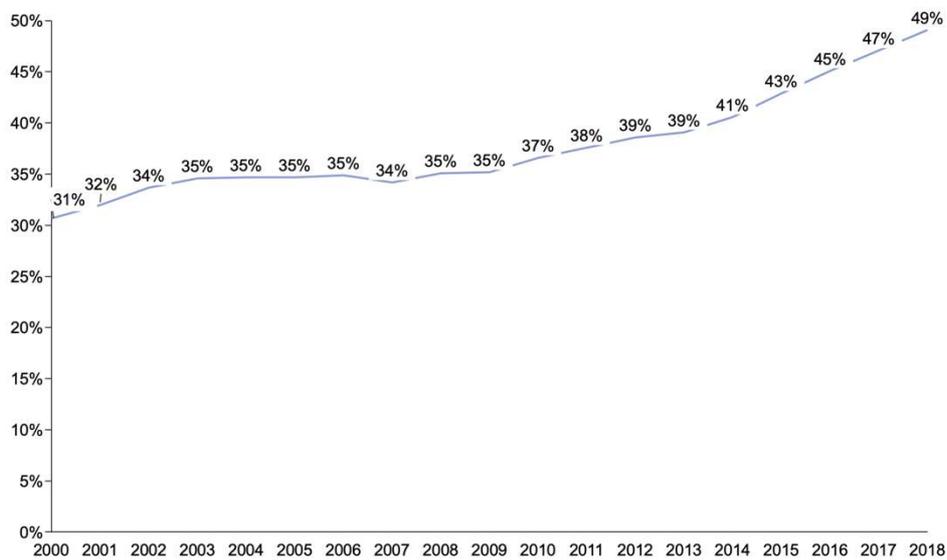
Increasing consumption per consumer

Alcohol producers also seek to deepen their relationship with existing consumers by increasing the volume of alcohol they consume. For example, in its *2013 Annual Report*, AB InBev claimed that its goal is to 'create new occasions to share our products with consumers'. It outlines its strategy to associate specific contexts with specific products to try to ensure that people drink in these contexts. It claims its 'insights have enabled us to create and position products for specific moments of consumption: enjoying a game or music event with friends, shifting toward a more relaxed mood after work, celebrating at a party or sharing a meal'.⁸ Along similar lines, in 2014 the British Beer Alliance, a consortium of major British brewers, invested £5m a year in the marketing campaign 'There's a Beer for That', aiming to showcase 'the variety of beer available in the UK and how these different styles fit perfectly a wide range of occasions'.⁹

Premiumisation

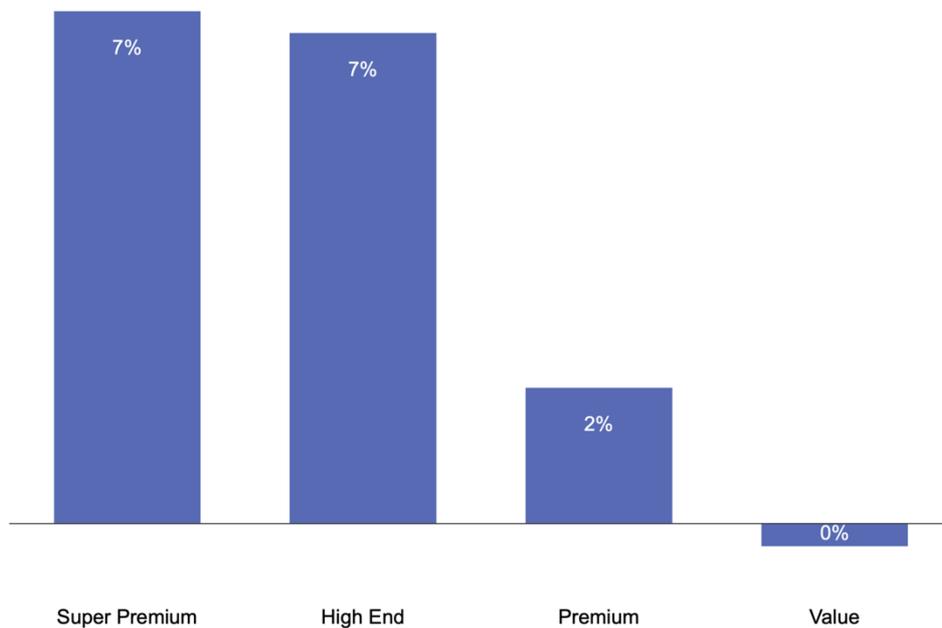
A final strategy for growth involves convincing consumers to ‘trade up’ to more expensive drinks. This has been particularly salient in Western markets, which have generally seen a decline in the volume of alcohol consumed per person. As Diageo explains in its *2015 Annual Report*, ‘The opportunities in developed markets are...very different from emerging markets. Given the higher levels of disposable income and the importance of branding, in developed markets consumers are often prepared to pay more for high quality brands’.¹⁰ The success of such strategies is reflected in the fact that premium drinks categories have tended to see stronger growth than cheaper products.

Figure 18 Premium beer share of total UK beer market



Source: BBPA Statistical Handbook 2017

Figure 19 US spirits – annual volume growth by price point, 2010–19



Source: Discus distilled spirits industry briefings

¹ SABMiller (2013), Annual report 2013 <<http://bit.ly/1tgtv2i>>

² Alcohol Concern, Creating Customers, p. 22

³ Babor, T., Robaina, K. & Jernigan, D. (2015), The influence of industry actions on the availability of alcoholic beverages in the African region, *Addiction* 110, 566

⁴ Alcohol Concern (2014), Creating customers, p. 23

⁵ Alcohol Concern, op. cit., p. 14

⁶ Alcohol Concern, op. cit., pp. 12–15

⁷ Alcohol Concern, op. cit., p. 15

⁸ Anheuser-Busch InBev (2013), 2013 Annual Report <<http://bit.ly/1DahfRd>>

⁹ Green, M. (2014), “There’s a Beer for That”: biggest names in British beer unite for £10 million campaign, *Off Licence News* [Online]. 30 October. [Accessed 17 December 2015]. Available from: <<http://bit.ly/1VTF6jz>>; Winstanley, B. (2016), There’s A Beer For That campaign receives £5m funding boost from big brewers, *Morning Advertiser* (29 January).

Available from: <<http://bit.ly/2FEUQn8>>. [Accessed 15 December 2017]; Robinson, N. (2017), There’s A Beer For That campaign receives £5m funding boost from big brewers, *Morning Advertiser* (19 January). Available from: <<http://bit.ly/2FEUQn8>>. [Accessed 15 December 2017]

¹⁰ Diageo (2015), Annual Report 2015. Available from:

<https://www.diageo.com/pr1346/aws/media/1429/diageo_interactive_ar2015.pdf>. [Accessed 15 December 2017].

Conclusion

The 'alcohol industry' contains a wide range of prominent actors, among whom the alcohol producers are the most prominent. These are dominated by a handful of global multinational companies, though the wine and spirits market are more fragmented than the beer market. There has been a general trend towards consolidation of the alcohol industry, particularly in recent years – as these large firms play an ever more significant role in the alcohol market. This consolidation has occurred through mergers and acquisition, through global expansion and through the integration of production with other elements of the value chain, such as distribution and raw materials. These global alcohol firms engage in a number of commercial strategies to increase their revenue, including targeting new customers, particularly women and the global poor, developing new 'occasions' to encourage drinking, and encouraging 'trading up' to more expensive products.