

**THE DRINKS MARKET**  
**PERFORMANCE IN 2012**

*PREPARED FOR*

*Drinks Industry Group of Ireland*

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## 1. Overview of 2012 Market

- The national economic environment continued to be relatively weak in 2012 despite a continuation of low growth. While GDP volume increased slightly by 0.9% and GNP volume increased by a substantial 3.4%, the volume of total national consumer expenditure declined by 0.9%. National employment decreased by 0.6% and the unemployment rate was 14.7% compared with 14.6% in 2011. The pressure on discretionary and disposable incomes continued in 2012.
- The main feature of the 2012 performance is the continued decline of the on-licence sector and the growth of off-licence sales (but with declines in the independent specialist off-licence sector) with consequent negative effects of employment and VAT receipts. This repeats the pattern of 2011.
- The drinks market was hit by the VAT increase from 21% to 23% in January 2012 and by the large excise increases in Budget 2013 which took effect in December 2012. Beer excise increased by 22%, spirits by 18% and wine by 41%.
- The weak economic environment continued to take its toll on the on-licence sector with bar sales declining by 5.0% in volume and 3.8% in value.
- The weak on-licence performance was offset by an increase in off-licence sales volume of about 3% so that the volume of total alcohol consumption as measured by Revenue clearances decreased slightly by 0.7% in 2012.
- The volume of alcohol consumption as measured by Revenue clearances is now 41.943 million LPA.
- Average per adult consumption in 2012, as measured by the Revenue clearances indicator is 11.681 lpa (using the 5% cider alcohol coefficient).
- Per adult consumption decreased by 0.5% % in 2012
- Average adult alcohol consumption in 2012 remains at the 1995/96/97 levels and compares with 14.44 lpa at its peak in 2001.
- Of the four alcohol drinks categories, beer, wine and cider had volume declines and spirits increased. The cider decline was 3.4 %. Beer declined in volume terms by 0.9 %. Wine decreased by 1.9 %. Spirits increased by 2.4 %.
- The individual product market volume shares in 2012 were wine 26.1%, beer 46.6 %, spirits 19.7% and cider 7.6 %.

- Alcohol prices increased by 0.9% in 2012 compared with 2011 based on yearly averages. Off- licence prices declined by 1.1% in 2012. On- licence prices increased by 1.7% in 2012.
- The value of the alcohol market decreased slightly by 0.2% to €6.390 billion in 2012, inclusive of excise and VAT. When indirect tax is excluded there was a larger decline in market value.
- Bar sales volume, which includes food sales, soft drinks and off licence as well as bar sales of alcohol, decreased by 5.0% in 2012 following the large declines of earlier years. The value of bar sales decreased by 3.8 % in 2012. The volume of bar sales of alcohol declined by about 6% in 2012 and there was an estimated 3% increase in off licence sales volume.
- The off-licence growth is being absorbed by the multiples, discounters and symbol operators. The independent specialist off-licences continue to experience closures and substantial volume decline and this negative performance will continue into 2013.
- Due to the decline in the bar volume and the increase in off-licence volume the off-licence share of alcohol consumption has increased in 2012 compared with 2011 and now accounts for almost 60% of alcohol consumption.
- Prospects for the Irish drinks market in 2013 remain weak. Overall economic growth will be low. The volume of consumer expenditure will decline by 0.2%, according to the Central Bank .
- Based on the overall expected economic situation the employment intensive on-licence alcohol market will continue to decline in 2013 but by less than the 2012 experience while off-licence volume should continue to increase but this will be concentrated in the multiples and the independent specialist off-licence sector will continue to decline. This continues the broad pattern of recent years.

## **2. Introduction and 2012 Economic Environment**

This report examines the performance of the drinks market in 2012. It deals with total and per adult consumption, product mix, prices, value and volume of sales and the distribution between on and off-licence sales.

The report is mainly based on official data sources from the Revenue Commissioners and the Central Statistics Office and is compiled by Anthony Foley, Dublin City University Business School. The emphasis on official data sources is designed to facilitate external scrutiny of the analysis. In some limited cases there is use of industry market research data where official data are unavailable.

The overall volume of alcohol, as measured by the Revenue clearances data, decreased slightly by 0.7% in 2012. The on-licence sector of the drinks industry continued to perform poorly in 2012. The off-licence sector experienced solid growth in 2012 but, as in previous years, this was concentrated in the multiples sector and the independent sector continued to experience difficulties. This combination of on-licence decline and off-licence growth resulted in the overall alcohol volume decrease of 0.7% in 2012.

The volume decrease of 0.7% was offset by a small alcohol price increase of 0.9%, which was itself caused by indirect tax increases and some supplier price increases resulting in a very small increase in the value of sales, including VAT and excise, of 0.2%.

In 2012 GDP volume increased by 0.9%. This is lower than the increase of 1.4% experienced in 2011 and follows decreases of 2.1% in 2008, 5.5% in 2009 and 0.8% in 2010. Real GNP growth outperformed GDP in 2012 when real GNP increased by 3.4%. Real consumer expenditure which is a major determinant of drinks market performance declined by 0.9% in 2012 following a decline of 2.4% in 2011. The nominal monetary value of total consumer expenditure increased by 0.8% in 2012, following declines in the previous three years. National employment declined by

0.6% in 2012 compared with 2011 and the average 2012 unemployment rate was 14.7% compared to 14.6% in 2011. Disposable and discretionary incomes remained under severe pressure. These negative economic factors contributed to the continuing substantial decline in the on-licence sector.

The overall macro growth was derived as follows; consumption -0.9%, Government expenditure -3.7%, investment +1.2%, exports +2.9%, and imports +0.3%. The main positive feature was the improvement in the investment performance compared with 2011. Unfortunately the 2012 export growth performance was much weaker than 2011 (+2.9% compared to +5.1%). The big difference between GDP and GNP performances is due to the decline in net factor income outflows from €31.7 billion in 2011 to €28.9 billion in 2012.

Moderate economic growth is expected in 2013. According to the Irish central bank (April, 2013), GDP will increase by 1.2% but consumption volume will decline again compared to 2011 but by a lower rate of 0.2% and GNP will increase by 0.6%.

The January 2013 IBEC forecasts are more optimistic with a GDP growth of 1.8% and a GNP growth of 0.7%. IBEC expects consumption volume in 2013 to match the 2012 level.

### **3. Volume of Alcohol Consumption**

The most generally used domestic and international indicator of aggregate alcohol consumption is the quantity of pure alcohol contained in the various beverages. In this report when calculating the aggregate alcohol volume the alcohol content of wine was based on a 12.5% alcohol content and cider was based on a 5 % alcohol content. The Government and Department of Health use a 4.5% conversion factor for cider.

Revenue Commissioners' clearances data are not an exact indicator of consumption due to factors such as stock changes, consumption by tourists in Ireland and Irish people abroad and unrecorded legal and illegal external sourcing of alcohol.

Based on the Revenue Commissioners' data for the overall alcohol sector, the volume of alcohol decreased marginally by 0.7% in 2012 compared with 2011. The 2012 level is lower than 2011 and 2010.

Average alcohol consumption per adult is calculated with reference to the total volume of alcohol consumption and the total number of adults. The 2011 Census of Population showed that there were more adults in Ireland in 2011 than was previously estimated in the annual CSO Population and Migration Estimates. Consequently the estimated populations for 2007 to 2011 have been revised by the CSO. These estimates are based on the revised population data published by the CSO for 2011 and 2012. (Estimates of Population and Migration 2012).

***Table 1 Volume of Total and Average Adult Alcohol Consumption 2011 and 2012***

	Peak average adult consumption 2001	2011	2012	% change (11/12)
Total Volume (MLPA)	Not applicable	42.255	41.943	-0.7
Per adult(LPA)	14.44	11.743	11.681	-0.5

*Source: Derived from Revenue Commissioners and CSO.*

Total volume decreased by 0.7%. The 2012 average adult alcohol consumption is 11.681 lpa. There is a small decrease in average adult consumption compared with 2011 of 0.5%. This compares with the peak level of average adult consumption of 14.44 lpa in 2001. The 2012 level of average consumption is 19% below the 2001 level.

#### 4. Product Mix

The official Revenue data divides alcohol into beer, cider, wine and spirits. Three of the four categories, beer, cider and wine, experienced declines in 2012 and spirits had an increase. The volume of beer consumption decreased by 0.9%. The wine volume decrease was 1.9%. Cider volume decreased by 3.4%. The spirits increase was 2.4%.

The consumption shares of the four product categories in 2012 were beer 46.6%, spirits 19.7%, wine 26.1% and cider 7.6%.

*Table 2 Product Category Mix and Growth 2010 and 2011*

	Beer	Spirits	Wine	Cider
% Share 2011	46.7	19.1	26.4	7.8
% share 2012	46.6	19.7	26.1	7.6
% Increase in volume 20011/12	-0.9	+2.4	-1.9	-3.4

*Source: Revenue Commissioners*

#### 5. Prices

Alcohol prices increased slightly in 2012 compared with the average of 2011. As measured by the Consumer Price Index (CPI) average alcohol prices in 2012 were 0.9% higher than in 2011. This compares with an overall CPI increase of 1.7%. On-licence prices increased by 1.7% and off- licence prices decreased by 1.1%.



**Table 3 Alcohol Price Change 2012 compared with 2011**

	% change
All Alcoholic Drink	+0.9
Off Licence	-1.1
On Licence	+1.7
CPI	+1.7

*Source. Derived from CPI, CSO.*

The price changes referred to above are average prices in 2012 compared with average prices in 2011.

The VAT rate on alcohol was increased from 21% to 23% from January 2012 and there were substantial increases in alcohol excise with effect from December 2012, beer excise increased by almost 22%, spirits by 18% and wine by 41%. Two of the main beer suppliers increased prices by the equivalent of 4 cent per pint towards the end of 2012.

## **6. Retail Sales in Bars**

The volume of bar sales decreased by 5.0% in 2012 following a decrease of 5.5% in 2011 according to the CSO and the value of 2012 sales declined by 3.8%. The value decline is smaller than the volume decline because of the increase in bar prices in 2012 which were mainly due to indirect tax increases and also supplier price increases. The bar sales index published by the CSO covers all bar sales including food, soft drinks, cigarettes and any off licence sales as well as bar sales of alcohol. The industry view is that food sales volume performed better than drinks sales volume in 2012 but that food sales still decreased.

Consequently, the decline in alcohol sales volume in bars was a little higher than the overall bars Retail Sales Index figure compiled by the CSO. Based on industry information it is estimated that the volume decline in alcohol sales in bars was approximately 6 % in 2012.

The difference between the value and volume changes in bar sales implies a price increase of about 1.2% which is lower than the CPI based figure of 1.7%. This difference is mainly explained by the price changes of food and other products which are included in the retail sales figures.

**Table 4 Retail Sales in Bars % Change 2012 compared with 2011**

	Volume	Value
2011/12	-5.0	-3.8

*Source. CSO*

The 2011 volume of bar sales is only 67 % of the 2007 level. Since the end of the economic boom the bar sector has lost one third of its sales volume with a consequent substantial negative impact on employment.

The recent annual volume decreases in bar sales were 2008, 6.9%, 2009, 10.0%, 2010, 10.4%, and 2011 5.5%

## **7. Off- Licence Performance**

The off- licence share of alcohol consumption has increased over the medium term. All of this increase has been taken by the multiples sector and the role of the independent off-licence sector has decreased. Official comprehensive data on off-licence volumes are not available but it is possible to make a reasonable estimate using the Revenue data and the Index of Retail Sales.

Overall bar sales volume declined by 5.0%. Allowing for a slightly larger alcohol decline the alcohol volume decline was about 6%. The overall market (on and off-licence sectors) decreased by 0.7%.

The off- licence sales volume is estimated to have increased by 3% based on the official figures for overall clearances and bar retail sales (adjusted for non- alcohol sales). The off-licence market accounts for about 60% of total alcohol consumption. This market segment is dominated by the multiples, discounters and symbol groups who have gained from the increased off-licence sales. The independent specialist off-licence sector continues to face closures and substantial sales volume declines.

## 8. Value of Sales

The volume decrease was 0.7% in 2012 compared with 2011 with a price increase of 0.9% which resulted in a value increase of 0.2%. The CSO estimate of alcohol personal expenditure was €6.377 billion in 2011. This suggests an expenditure level in 2012 of €6.390 billion including excise and VAT. When indirect tax is excluded the market value decline is greater.

*Table 5 Value and Volume Changes in the Alcohol Market 2012*

	%
Volume change	-0.7
Value change	+0.2
Value Estimate 2012	€6.390 billion

*Source: Revenue Commissioners and CSO*

## 9. 2013 Prospects

As already noted, the Irish economy will grow by a small amount in 2013. Overall consumer expenditure volume will decrease slightly or remain unchanged. Disposable and discretionary income will continue to be under pressure.

The April 2013 Central Bank economic forecasts indicate that total employment will increase slightly by 0.3%. The unemployment rate will decrease slightly to 14.5%.

The volume of GDP will increase by 1.2% while GNP will increase by 0.6%.

Further decline in the employment intensive on-licence part of the drinks industry can be expected in 2013 but this should be at a lower rate than in 2012.

Unfortunately the early indicators for 2013 for bar sales from the Retail Sales Index are disappointing. In January 2013 bar sales volume dropped by 6.9 % compared with January 2012 and in February the drop was 3.1 % compared with February 2012. The two value declines were 4.2% and 0.3%. Off-licence volume should increase. The overall market will be hit by the very large increases in excise levels but the large multiples/symbols are likely to maintain the strategy of low alcohol prices despite the excise increases. Overall, the alcohol market will decline slightly due to reduced average consumption and loss of consumers through emigration. The on-licensed sector will continue to decline but at a lower rate than in 2012 and off licence sales will increase in the multiple/symbol sector but the independent and specialist off-licence sectors face continuing decline and severe pressure.