



## On-Trade/Off-Trade: a balancing act for drinks' suppliers

Whitepaper / January 2021

# INTRODUCTION

## How have government restrictions on the hospitality industry impacted the drinking habits of consumers? What does the timeline of recovery look like for the on-trade?

With the hospitality industry shuttered or operating under government restrictions for much of the last nine months, 2020 has been a catastrophic year for the UK on-trade.

In this whitepaper we consider how consumers have responded in terms of their drinking habits and the interplay between the on- and off-trade sectors. We also look forward, thinking about the recovery of the pub sector and consumers' intentions for the future.

We will quantify the impact that the pandemic has had on the pub sector; how this has affected consumers' drinking habits at home; the balance between in- and out-of-home occasions; we will look forward with a timeline for the recovery of the on-trade and some emerging opportunities for the sector; and finally we consider some opportunities in the off-trade including Low2No and hard seltzers.

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**“With the hospitality industry shuttered or operating under government restrictions for much of the last nine months, 2020 has been a catastrophic year for the UK on-trade.”**



# £14bn wiped off the value of the UK pub sector in 2020

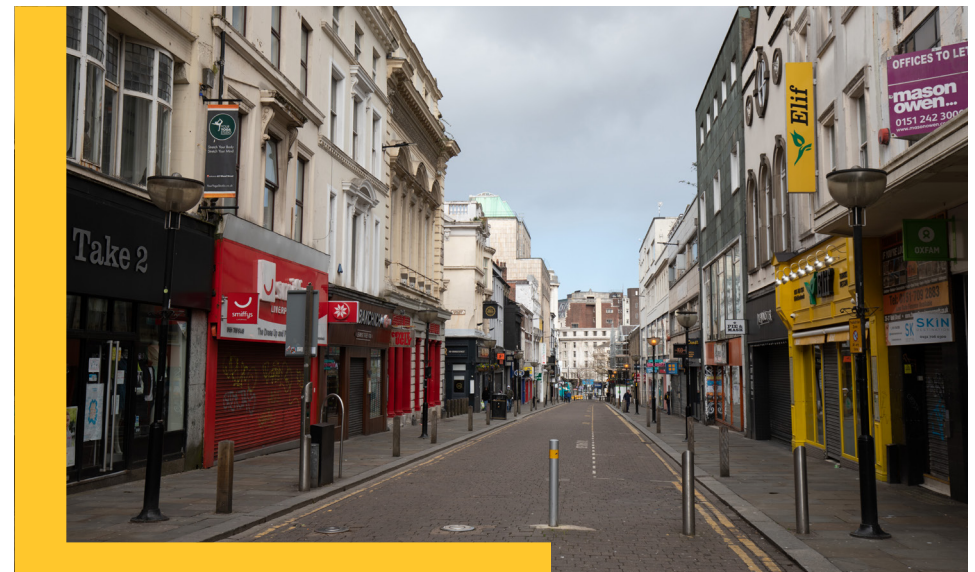
**The catastrophic impact of 2020 is translated to a £14bn decline in market value. What do operators think is the biggest impact of coronavirus on their business?**

With many months of lost trade, capacity restrictions and the 10pm curfew, total sales for [the UK pub market will reach just £9bn in 2020, a decline of -61% vs. 2019](#). We're also seeing outlet decline creep up again – a long term trend that had been stabilising in recent years – with the number of outlets falling -2.2% vs. the previous year, as business becomes unsustainable for some.

When asked about the biggest impact of coronavirus on their business, pub operators who responded to our exclusive survey were most likely to cite low consumer confidence and fear of going out (42%). The impact of government restrictions on trade was the next biggest impact (23%), followed by a loss of income (15%). Buoyed by government initiatives such as Eat Out to Help Out and the furlough scheme, consumer confidence saw a modest uptick in the summer months. However, this has fallen back to -33% in November 2020, driven by concern about individuals' personal financial situation as the recessionary impact of the pandemic is felt.

Consumer concern regarding returning to pubs is two-fold, both financial and risk aversion. Concerns about safety are still top of mind, with 23% of consumers stating that they are "trying to avoid going to busy places". This is particularly strongly felt amongst consumers aged 55-74. Meanwhile 35-54's are more likely to be concerned about their finances, with their primary barrier being that they are trying to reduce their spending. For younger consumers, it is the inability to go out in larger groups and the lack of spontaneity caused by having to make bookings that are key barriers to returning to pubs.

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# Consumers take advantage of cheaper drinks at home

**The closure of pubs and other hospitality outlets has forced consumers to adapt their drinking habits, with many noticing the positive impact it has had on finances.**

In addition to avoiding the risk of virus transmission and reducing discretionary spending, many consumers are recognising the differential in prices across the on- and off-trade. The high proportion of in-home occasions – as well as the pressure on household budgets – has sensitised the British public when it comes to the significant price gap between buying take-home alcohol at the supermarket vs. buying a round at the pub. [Around one in eight consumers cited “it’s much cheaper to drink at home”](#) as the main barrier to returning to pubs post lockdown, with 35-54’s most likely to agree with this sentiment.

Enforced time at home led to a number of significant changes in consumer behaviour, with 36% of consumers saying they did more scratch cooking, 29% did more of their grocery shopping online and 21% reported that they had purchased more local/British food through the first national lockdown. Consumers also admitted they snacked more (30%) and over one in five (22%) drank more alcohol – although a similar proportion (20%) said they had drunk less.

Whilst shoppers are increasingly likely to shop online, not all are choosing to buy alcohol through this channel. This is particularly true for beer shoppers, [70% of whom said that they prefer to buy the category in a physical store rather than online](#). When it comes to alcohol purchasing, convenience stores are benefiting from this reticence to buy online, with 26% of beer shoppers and 39% of wine shoppers saying that they are buying these categories at c-stores more than they did a year ago.

Unsurprisingly, price is the number one driver to purchase across beers, wines and spirits in the convenience channel. Within BWS, beer shoppers are the most price sensitive and so communicating value for money – and offering promotions – is essential to win this shopper. Spirits shoppers meanwhile are less price conscious and can be encouraged to trade up due to the importance of treating and gifting for this sub-category.

**Invaluable insight to help you maximise your opportunity within BWS in convenience**

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# 70% of beer shoppers prefer to buy the category in store rather than online

“The experience is critical to shoppers. 53% of beer shoppers list ‘a selection of brands’ as one of the most important drivers when purchasing the category from a convenience store. Retailers need to have an enticing range to draw shoppers into their store.”

# The interplay between in- and out-of-home and how this will evolve

**With operators forced to close dine-in operations at times, the opportunities for hospitality operators to drive sales has been limited. How has this impacted the balance of where consumers go for their meals?**

Lumina Intelligence uses its exclusive 'Dynamic Meal Equation' to explain the balance of where consumers' meals are taken – and how this has changed through the pandemic. With the typical adult eating three meals a day, food operators have 90 opportunities per month to appear on consumers' plates.

Grocery retail has always dominated this relationship and prior to coronavirus the ratio was 8:1 – with eight meals sourced from grocery retail/in-home preparation and consumption to each meal sourced out of home. This equated to 79 of those 90 meal occasions coming from grocery; ten from out of home - on premise or food to go occasions – and around one meal a month from foodservice delivery.

As lockdown took hold, in-home consumption – and therefore grocery retail – increased its dominance. Similarly, with limited alternative channels available, consumers sourced all their drinks from the grocery sector. Foodservice delivery increased in importance through lockdown one, largely as a 'treat'. As the hospitality sector reopened in July, some consumers returned to pubs and a minority of pubs have started

to offer delivery and takeaway services – in many cases for the first time.

With the rise in importance of the delivery occasion, it's interesting to note that at the end of 2019, just 2% of foodservice delivery orders included an alcoholic beverage. Conversely, a quarter involve a soft drink – no doubt boosted by meal deals and bundles offered by the likes of Dominos and McDonalds. This does suggest there is a significant opportunity for the BWS category to partner with delivery operators to drive uptake of alcoholic drinks – which would simultaneously increase basket spend.

With many consumers still fearful of returning to busy venues; and others recognising the better value offered by purchasing take-home options, how do we expect this equation to bear out? Much depends on the economic recovery given that alcohol and 'going out' are discretionary items. Market recovery relies on both economic growth and the public becoming less concerned about the risks of going out, which will of course be boosted by the rapid roll-out of an effective vaccine.

# 2%

**At the end of 2019, just 2% of foodservice delivery orders included alcoholic drinks**



# The recovery of the on-trade and future opportunities

**As lockdown 3.0 begins, the challenges facing the on-trade will continue for the early part of 2021. Market recovery in 2021 is reliant on the easing of restrictions.**

Eased restrictions will be crucial for 2021 growth and our forecast suggests that the pub market will regain £9bn of its lost value – although this growth doesn't represent a return to the pre-virus pub market value. Easing of coronavirus restrictions including the 10pm curfew and local closures will be crucial – and much uncertainty remains. We anticipate the sector will not return to its previous value until 2024.

However, many innovative operators are already finding ways to tap into latent consumer demand for the pub experience – [78% of consumers said that they missed going for a drink at a pub or bar during lockdown](#). Of course, operators need to ensure that they offer a safe environment with socially distanced seating, hand sanitising stations, one-way systems and contactless payment some of the areas that consumers highlight that they'd want to see in place.

We have identified three areas that offer promise for future growth in the sector: digital innovation; delivery and takeaway services; and creativity with outdoor space, events and sports to offer experiences that cannot be recreated at home. The former offers

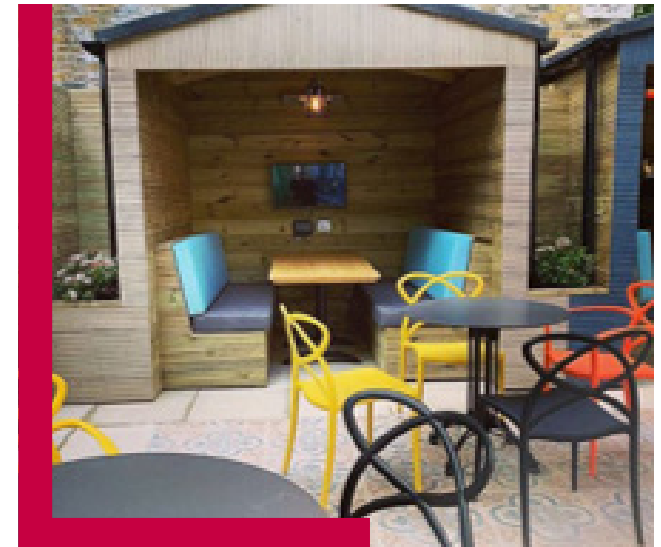
the opportunity to create customer engagement, better understand their behaviour and wants, as well as the practical benefit of limiting contact through services such as booking, ordering and payment.

We've seen more pubs offering a food delivery service through 2020, providing a valuable revenue stream when outlets could not offer on-premise dining. Takeaway drinks services have also been well received by consumers, with around 15% of consumers saying they had used such a service. This is a great way of driving sales and keeping front of mind, with cocktails working particularly well.

Finally, a critical way to lure consumers back to the on-trade will be offering activities and experiences. This could be televising sporting events to provide fans with an experience whilst spectator crowds are limited, tapping into the social environment a pub offers. Events such as quiz nights, film nights and tastings all offer consumers a reason to visit. Meanwhile, covering and heating outdoor spaces can boost capacity and offer a cosy and safer space (that meets the requirements of higher tiers).

**78%**

**of consumers said that they missed going for a drink at a pub or bar during lockdown**



# Off-trade opportunities include Low2No and hard seltzers

**Whilst many consumers have increased their consumption of alcohol since lockdown started, a significant proportion have reduced, increasing the opportunity that Low2No offers retailers.**

As we've already seen, the grocery channel has seen a significant boost in alcohol sales – ONS data showed that spend on alcoholic beverages for at-home consumption grew by +13.7% in Q2 2020. From our own data, we know that BWS missions have increased since the first lockdown, also reflected in retailers purchasing more of the category through the wholesale channel.

We've seen the Low2No category burgeon over the last few years, largely driven by a growing health movement, particularly amongst younger consumers. One of the challenges with Low2No is where to site it in store, with [38% of consumers defining such products as BWS, compared to 25% who consider the category to be part of soft drinks](#). Shoppers are therefore likely to need some help in finding these products, highlighting the importance of merchandising and clear signage.

Whilst many consumers have increased their consumption of alcohol since lockdown started, a significant proportion have reduced – spiking amongst 18-35's. Overall, the most common motivations when considering Low2No are health, a desire to try something new and ease of consumption in-home. For 18-24's health is the primary driver, but also price, seeing Low2No as a cheaper drink option. Meanwhile 25-34's are more likely to be driven by the desire to try something new.

Another key area for innovation this year has been hard seltzers, which have been gaining popularity in the US as a refreshing and convenient (ready-to-

drink) option that is also low calorie. Again, these drinks are most frequently purchased by younger consumers, specifically 25-34's, who are driven by a desire to try something new.

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This emerging category benefited this year from an increase in outdoor socialising, a legacy of coronavirus restrictions. Portable pack formats and the ready-to-drink nature of hard seltzers makes them ideal for taking to a park or outdoor space and this was a significant over-index as an occasion for consumers aged 18-24. Across the beers and spirits categories (less so wine), canned formats were particularly valued this year due to the ease with which they can be carried and cooled.



# Summary: the impact of coronavirus on the drinking habits of consumers

Overall, more shoppers have increased their BWS consumption than have reduced it, with the off-trade benefitting from greater at-home consumption – and a consequent challenge around sales mix for drinks suppliers.

The return of tighter restrictions for much of the country will inevitably see the continuation of this trend. In any case, we anticipate many consumers will opt to stay at home more – whether to avoid busy places or to save money; and the off-trade will continue to benefit from this.

Below are five key summary points from this whitepaper:

## **£14bn wiped off the value of the UK pub sector in 2020**

Total sales for the UK pub market in 2020 reached just £9bn in 2020, a decline of -61% vs. 2019 and equating to £14bn in lost revenue due to enforced closures, capacity restrictions and curfews. In addition to further lockdowns impacting trade, consumers remain concerned about risk aversion as well as their personal finances.

## **Consumers take advantage of cheaper drinks at home**

The differential in prices across the on- and off-trade has always existed, but as consumers spend more time at home and with increased pressure on household budgets, the British public has been sensitised to this price gap. We've witnessed some significant changes in consumer behaviour due to the pandemic, including increased scratch cooking and more online shopping. However, many consumers prefer to buy alcohol in a physical store, with convenience stores in particular benefitting from this reticence to buy BWS online.

## **The interplay between in- and out-of-home and how this will evolve**

Lockdown has led to an increase in the dominance of grocery retail as the source of meals, with fewer alternatives available due to the closure of much of the hospitality industry. The delivery occasion has also risen in importance and offers an opportunity for BWS as a small minority of delivery occasions currently include alcohol.

## **The recovery of the on-trade and future opportunities**

Eased restrictions will be crucial for 2021 growth and whilst we anticipate some recovery of lost value, we do not expect the pub sector to return to its previous value until 2024. Innovative operators are focusing their energies on digital innovations; delivery/takeaway services and the creative use of outdoor space and events to deliver experiences that can't be replicated at home.

## **Off-trade opportunities include Low2No and hard seltzers**

The on-trade's loss has inevitably been the off-trade's gain with huge growth of alcohol for at-home consumption reported in 2020. Innovation is critical to meet the consumer need for variety and experimentation and two sub-categories stand out. Low2No alcohol products remain an opportunity, especially amongst younger consumers attracted by its health credentials as well as being a cheaper drink option. Meanwhile the portability of ready-to-drink hard seltzers has tapped into a key legacy of the pandemic, outdoor socialising.

# Discover the difference Lumina Intelligence can make to your business

Get a full picture of out of home food & drink consumption in the UK. Understand consumer behaviour, trends, drivers of change and key perceptions across all UK eating and drinking out channels.

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# Get in touch

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