



Why Have Brown-Forman & Coca-Cola Chosen Mexico for their RTD Collaboration Debut?

by The IWSR Drinks Market Analysis, www.theiwsr.com

This week, The Coca-Cola Company and Brown-Forman announced plans to debut a Jack Daniel's and Coca-Cola co-branded canned cocktail in Mexico in late 2022. Earlier this month, The Coca-Cola Company's chairman and CEO also mentioned that the company is planning to release further RTD cocktail lines in Brazil, in addition to its Topo Chico and Schweppes products that were released in 2020. IWSR analyses why these two countries – Mexico and Brazil – are attracting RTD activity.

The RTD Opportunity

Mexico and Brazil are the two largest beverage alcohol markets, as well as the two largest RTD markets, in Latin America. However, cost of entry into the RTD category is high, and local distribution and logistical networks are critical to benefit from consumer interest in RTDs. For Brown-Forman and The Coca-Cola Company, established local bottling, logistics and distribution networks work in their favor.

While the RTD category in Brazil and Mexico has been around for decades, product quality, as well as product choice, has improved over time. In Brazil, the RTD market is dominated by FABs, while in Mexico, cocktails and long drinks hold the largest share. In both Brazil and Mexico, as well as in other parts of the region, hard seltzers have yet to gain real traction with consumers.

Demographic factors in Brazil and Mexico are also advantageous for RTD products, with both markets having sizeable legal drinking age (LDA) populations and relatively large proportions of younger LDA consumers, who are typically attracted to the new flavors and convenience offered by RTDs.

The Local Market Landscape: Brazil and Mexico

In Mexico, RTD growth has coincided with the strong development of the country's convenience store retail channel over the past decade, and consumer demand – along with industry investment in the category – has remained robust. RTDs have been a permanent feature in Mexico for the past thirty years. The size of the RTD market has nearly trebled in the last 20 years and doubled in the last ten.

Cost of entry into the category is high, and with local production essential to compete in price, strong established players dominate the market. RTDs were given an artificial boost in 2020 when the Mexican government banned beer production for two months.

Hard seltzers also entered the market in the second half of 2021 and brought with them new entrants to the RTD competitive landscape, such as Heineken, AB InBev, as well as The Coca-Cola Company. Hard seltzers have injected fresh interest into the RTD category – although question marks remain over their longevity and the extent of their future growth. Most hard seltzers in Mexico sell along the Mexico/U.S. border and Mexico City, where U.S. influences and exchanges are stronger.

Cocktails and long drinks account for roughly 50% of RTD volumes in Mexico. The segment saw sales volumes decline during 2021 (but is expected

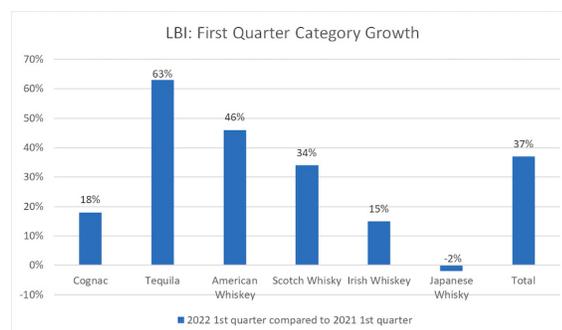
continued on page 2

Luxury Brands Continue Impressive Growth in First Quarter of 2022

The Luxury Brand Index (LBI), a tool created by the Distilled Spirits Council of the United States (DISCUS) to analyze sales of spirits brands by volume at the top end of the distilled spirits market, shows luxury brands grew 37% in the first quarter of 2022 compared with the same quarter of 2021.

"The gradual uptick in on-premise cocktail occasions continued to drive premiumization trends into the first quarter of 2022," said Christine LoCascio, DISCUS Chief of Public Policy. "Consumers who chose luxury brands when experimenting with at-home cocktails during the height of the pandemic have maintained their preference for these special brands while enjoying spirits at bars and restaurants."

2022 First Quarter Category Trends



Key highlights of the LBI 2022 First Quarter Report include:

- Consumer fascination with tequila continues to soar with the Mexican spirits achieving a 63% annual growth rate followed by American whiskey at 46%.
- With the lifting of the retaliatory tariffs in June 2021, Scotch whisky continues its strong rebound in the U.S. with a 34% growth rate after showing losses during the period when the tariffs were in effect.
- Cognac growth slowed slightly with an annual growth rate of 18%, Irish whiskey increased 15% and Japanese whisky remained nearly flat.

Five-Year Category Trends

Over the five years between the first quarter of 2017 and 2022, all spirits categories included in the LBI increased annual growth ranging from 5% to 46%, with an average rate of 23%.

continued on page 2