Inflation and the Beverage Industry

Executive Summary

Inflation has been the pandemic's economic analogue of Long COVID, and the beverage industry is suffering particularly debilitating symptoms. Supply chain bottlenecks and labor shortages have driven up production costs dramatically.

Consumers abandoned their favorite bars, pubs, and restaurants during the lockdowns, and imbibed their tipple at home. And many have stayed on their couches, daunted by the high and spiraling cost of drinking out and dining out. Many brands also took a hit at the retail level as customers switched to cheaper private labels and cut-rate outlets such as dollar stores.

The response from the industry has been ad hoc, with varying results. Manufacturers have switched to cheaper feedstocks, reworked beverage formulas, and experimented with different packaging approaches. The savviest have realized that great disruptions bring opportunities as well as pain, and have dramatically revamped market strategies, reaching out to customers directly through digital initiatives rather than relying on large sales teams and middlemen.

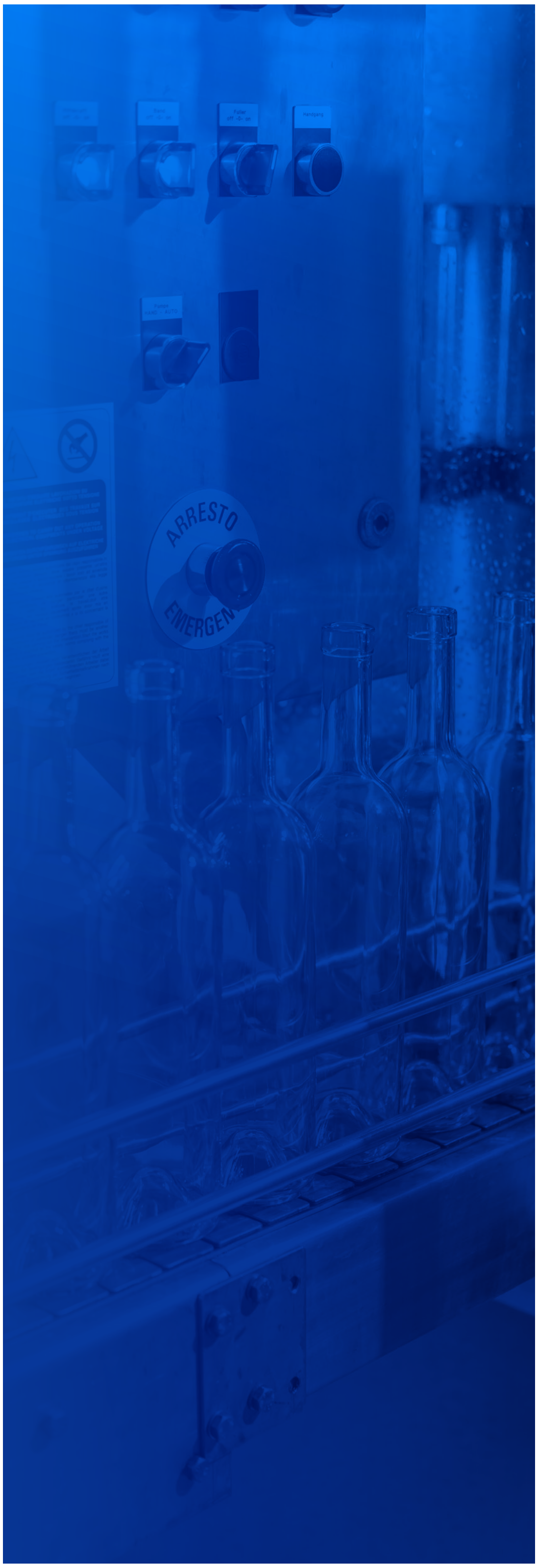
That requires investment, and perhaps more pain, of course. Recent surveys indicate inflation has hobbled many companies in their efforts to upgrade their digital assets. But as in virtually every other sector, the future of the beverage industry will be determined by big data, AI, and robust digital capability. For beverage companies, the ultimate decision isn't whether to commit; to survive, commitment is essential. The tough decision lies in choosing the right partner: a solutions developer that has the talent, resources, and dedication needed for a successful transformation.

Challenges and Opportunities

As anyone in business knows, inflation has been the "Long COVID" for the global economy. It spiked in the first year of the pandemic due to constricting supply chains, the rising price of raw materials, shrinking labor pools, and rising transport costs. And despite early prognostications that it would fade quickly, it endured and worsened.

By the summer of 2022 — spurred both by the lingering effects of the coronavirus and the Russian invasion of Ukraine — global inflation rates hit 8%. These reached 8.2% in the U.S., 9.1% in Europe and Central Asia, and 9.9% in the U.K. Inflation has moderated significantly in some nations due to tightening monetary policy, falling to 3% in the U.S. and 5.3% in the Eurozone.

But its impacts are ongoing and acutely felt in some sectors more than others. For the beverage industry, it remains a significant concern.



Cost Consciousness

In some markets, alcoholic beverages are a highly discretionary — even luxury — purchase, and popular brands have taken a corresponding hit. But even in **developed markets** like the U.S., consumers are buying down, turning to cut-rate retail outlets like dollar stores and seeking out private labels over established brands.

People enjoy packaged beverages, whether they're spirits, wine, beer, or soft and sports drinks. They'll continue to purchase them, even during periods of high inflation. But the data is also clear that brand preference is flexible. Cost counts.

The industry has hardly been static in its response, though no single approach prevails. The most successful strategies are both multiplex and flexible. They might include expanded packaging options, changes in formulas to take advantage of cheaper feedstocks, alternative transportation modes, or a shift in promotional programs and channel mix strategy.

A Transformed Marketplace

But one thing is clear, notes Mykhailo Maksymenko, the CPG Industry Expert and Salesforce Practice Head for Customertimes, a leading digital solutions consultancy: the pandemic and the inflation it engendered changed everything. It created a shift in the foundational realities for the beverage industry, and the strategies that were successful three years ago will no longer work today.

"For example, companies had a go-to-market approach of following the trendiest bars and restaurants on social media, and trying to work with them on promotional programs," Maksymenko says. "That strategy collapsed when people stopped going to bars and pubs because of COVID. And the subsequent behavioral change has had long term effects. **Bars and restaurants are still struggling for trade, and they're simultaneously dealing with profound labor and cost issues of their own."**

That didn't change the need to imprint brand awareness among consumers, of course — but it did require beverage companies to drastically alter their promotional spend.

"Inflation is impacting return on investment, and that's going to continue," Maksymenko says. "But you still have to commit to maintaining product awareness. One thing we're seeing is some brands shifting their emphasis from bars and other on-premise venues to sporting events. People still fill stadiums, and they watch games on TV. It's no coincidence that we've seen a dramatic increase in promotional tie-ins with specific events and teams."

Keeping Pace with Technology

That said, inflationary pressures have strained marketing budgets across the beverage sector, a trend that's unlikely to change in the immediate future. But economic challenges necessarily point to possible solutions—and for the beverage industry, the best hope for recovery and consolidation lies in new technologies.

Maksymenko says. "Essentially, sellers and distributors are being displaced. That's creating some really powerful opportunities that can help offset the inflationary burden."

Beverage manufacturers can now tailor their efforts with ever-increasing demographic specificity, reaching audiences that are especially welcoming to their messages, Maksymenko adds.

"That not only decreases costs by cutting out middlemen," he says. "It makes for highly refined and effective outreach, significantly improving ROI."

Further, some manufacturers are enhancing revenues by expanding their premium programs.

"They've developed brands that you can only purchase by belonging to a club," Maksymenko says. "Bacardi is one example — they've launched a program that requires fee membership to buy ultra-premium rums. That aura of exclusivity is highly appealing to consumers, and it's been very successful in building interest and loyalty for the Bacardi brand generally."

The Age of the Influencer

Manufacturers can also reap enormous benefits by actively cultivating the influencer community, Maksymenko notes. “In a very real way, influencers are replacing sellers,” Maksymenko says.

“The most successful influencers embody the gold standard of marketing: trust. Their followers care about their opinions and preferences, including the products they recommend. Also, influencer recommendations propagate — not just among their followers, but through the friends and acquaintances of their followers, and their friends and acquaintances. This potential for the exponential expansion of messaging wasn’t really possible through the old marketing mechanisms.”

Procrastination Is Not a Strategy

The inflation that has bedeviled the beverage industry, then, also has had an upside: it forced the development of new technologies and new ways of thinking to combat rising costs, dwindling consumer spend, and shrinking revenues.

It's a brave new world, one with both risks and opportunities — but the laurels will go to those who are not daunted by the former and invest boldly in the latter.

The challenge lies in avoiding a "doom loop" of reduced investment in new technologies because of declining revenues.

According to a **survey** of 500 food and beverage business leaders conducted earlier this year by Censuswide and Adventoris, **one in six companies confirmed that inflation had throttled new digital technology investment, allowing the ascendance of more technologically adroit competitors.**

The study also confirmed that **20% of F&B companies lagged significantly in their digital capability**, and that inflation was the prime factor in stymying upgrades.

For beverage companies, this data points to an immediate and pressing priority, says Maksymenko: do not become a digital technology laggard.

“Everything we’ve talked about — new promotional approaches, going directly to the consumer and avoiding sellers and other middlemen — is predicated on powerful digital assets,” Maksymenko says. “You just can’t compete without them.”

Maybe you could get by with a depersonalized mass emailing pre-pandemic. But now you have to skew it to personal profiles that can be constantly refined, and you need to be able to painlessly adjust your product messaging to specific dates or events — Christmas Eve and brandy and rum for holiday drinks, for example.

That all requires huge data sets, and increasingly, AI expertise. Despite the pressures of inflation, you must maintain your technological edge.”

Get Help

Most companies don't have enough in-house talent to do that — meaning a skilled and reliable digital technology partner is essential.

"At Customertimes, we've found our beverage industry clients are grappling with multiple challenges right now," Maksymenko says. "Inflation is really hurting them, the supply chain and labor issues driving it aren't going away anytime soon, and the marketplace in general is in flux. So, they have to identify — or create — opportunities. And invariably, those opportunities are best exploited through powerful digital solutions. If you don't have that capability in your company, you need to secure the services of a capable partner."

Prior to the recent and ongoing inflationary surge, Maksymenko says, "Marketing accounted for 45% of the cost of a beverage company's product. That's slowly dropping, thanks largely to new strategies based on digital applications. And that trend is much more significant than it may seem initially. First, this decline is occurring in a stubborn inflationary environment. Second, a small drop in marketing costs — even, say, 2% — represents an enormous savings. You can't afford to pass that up."

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Mykhailo Maksymenko

Practice Head
Practice Salesforce

Mykhailo Maksymenko is passionate about leveraging technology to help organizations achieve their goals and optimize their customer relationship management processes. He’s an authority in the consumer-packaged goods (CPG) sector and excels at supporting CPG businesses find new venues for success.

With a track record of excellence and a commitment to delivering the highest quality solutions, Maksymenko continues to be a key influencer in the realm of Salesforce and B2B technology.

Reach out to him for a discovery call on how you can take your CPG business to the next level.

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