INNOVATION INSIGHTS:
New Ideas in Distilling
Innovation Insights:
Scottish Distillers Association
October 2019
Innovation is a key driver of growth in the food and drink industry, increasing productivity, sales and, ultimately sustainability. The Innovation Insights Team has researched and published articles that analyse and describe food and drink innovations across every aspect of the food and drink sector, in order to stimulate new thinking and identify opportunities and markets.

This research report has been created to analyse current and forecasted innovation in the spirits sector, focusing specifically on developments in low and no-alcohol distilling and also the use of unique and original flavours and botanicals.

The report is designed to be used to help with planning for the sector in Scotland and by individual distillers, suppliers of ingredients, the wider supply chain in Scotland and its supporters.

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Executive Summary

Low-/no- alcohol market

➢ In Scotland, alcohol sales have dropped in volume (-1.7%), but have seen major increase in value sales (+6.1%), indicating that Scottish consumers drink less but better

➢ The current UK low-/no- alcohol sector is worth £108m and continues to grow, especially the spirits sector has seen immense growth over the past year

➢ The consumers, who are moderating their alcohol intake, are in general more health-conscious, primarily in the age of 18-34 years and belong to the more affluent consumer group

➢ Modern consumers are more adventurous and like to try new and more interesting non-alcoholic drinks. They are looking for a variety of low-/no alcohol options and are not longer satisfied by just fruit juices, soft drinks and water

➢ Large players as well as small operators are tapping in to the low-/no- alcohol trend investing in new product innovations, such as gin, rum, vodka, aperitif alternatives

➢ The low-/no alcohol sector is still in early stages of its life cycle, but it has seen major investment in innovation. However, there is still room for growth in both the on- and off-trade

Botanical and flavour innovation

➢ The rise of premium soft drinks/mixers and spirits has led to innovation in flavour profiles and the use of unique botanicals in drinks, as consumers are becoming more adventurous with their drink choices

➢ Distillers and bartenders are increasingly experimenting with rare and native botanicals, also more savoury and distinctive flavours in drinks to identify new flavour potentials that satisfy the modern consumers tongue

➢ Native botanicals from Nordic countries, such as Sweden, Finland, and Norway, are gaining popularity in the UK. As well as Japanese flavours are currently being in focus in the drinks sector

➢ Recently, CBD and hemp have become a popular ingredient compound in food and drink. Large and smaller businesses are tapping into this emerging market and invest in CBD- and hemp-infused beverages
Low-/no-alcohol innovation in the spirits sector
Context
In Scotland, the value of alcohol sales has increased +6.1% YoY, worth £1.5bn. However, volume of alcohol sales has dropped by -1.7% YoY driven by less buyers buying into the category.

People in Scotland drink less alcohol compared to last year. Driven by less buyers purchasing into the category and less packs sold per trip. However, consumers spend more money on alcohol with an average price increase of 7.9% per pack.

NB: See explanation example of each measure in Appendix.
Source: Kantar Worldpanel 2019
In the UK, the off-trade low- and no-alcohol sector worth £108m in 2019
The spirits sector has seen immense growth over the past year accounting for £5.7m sales

<table>
<thead>
<tr>
<th>Alcohol Type</th>
<th>2017 Value (£m)</th>
<th>2018 Value (£m)</th>
<th>2019 Value (£m)</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lager</td>
<td>£30m</td>
<td>£37m</td>
<td>£50m</td>
<td>+339%</td>
</tr>
<tr>
<td>Lower-alcohol wine</td>
<td>£39m</td>
<td>£36.4m</td>
<td>£33m</td>
<td></td>
</tr>
<tr>
<td>No-alcohol wine</td>
<td>£7.5m</td>
<td>£9.3m</td>
<td>£11.4m</td>
<td></td>
</tr>
<tr>
<td>Ale</td>
<td>£2.5m</td>
<td>£4.8m</td>
<td>£8.3m</td>
<td></td>
</tr>
<tr>
<td>Spirits</td>
<td>£1.3m</td>
<td>£5.7m</td>
<td></td>
<td>+339%</td>
</tr>
</tbody>
</table>

* MAT 52 w/e 27 May 17, 26 May 18, 25 May 19
NB: No-alcohol wine includes wine with an ABV to 0.05%, lower-alcohol wine includes wine with an ABV of 0.06-5.5% ABV

Source: IRI/Mintel 2019
Low / no-alcohol
No and low alcohol plans are increasingly important
The trend towards reduced alcohol consumption is driven by growing health awareness

65% of UK consumers are trying to lead a healthy lifestyle

- 1 in 5 adults in the UK don’t drink alcohol and 25% of UK adults try to drink less
- 12.5% of Scottish adults don’t drink alcohol (552,000 adults)
- 2 in 5 alcohol drinkers are moderating in Scotland

Moderating alcohol consumer*

- 44% of UK consumers reduce their alcohol intake to manage weight**
- 47% of UK consumers reduce their alcohol to improve their health**
- 38% of UK consumers reduce their alcohol intake to manage weight**
- 34% of UK consumers reduce their alcohol to save money**

Base: * 1,976 UK internet users aged 18+; ** 650 UK internet users aged 18+ who have limited/reduced the amount of alcohol they drink in the last 12 months

Source: Mintel 2018/2019, Kantar Worldpanel 2019
In the UK, the soft drinks and mixer category is worth £4.5bn
Strong growth is coming from the premium sector (+33%), dominated by mixers growing by 81% YoY

Value of UK soft drinks and mixer category, April 2019

- **Total sector**
  - £ 4.5bn
  - (YoY +5.4%)

- **Premium sector** is worth £517m (YoY +33%)
  - Mixers: £323m (YoY +81%)
  - Flavoured carbonates: £47m (YoY +6%)

458 new soft drinks launches in the last 3 years

Rising demand for premium soft drinks/mixers

- Rising gin trend has a knock-on effect on mixer category.
- More consumers select premium mixers with their premium spirit.
- Fevertree and Fentimans are currently most popular choice in terms of volume, but new launches in soft drinks/mixers are the response to the rising demand for new flavours and brands in the category.
- The premium soft drink consumer expects differentiated flavour experiences and premium quality options. While provenance/heritage, artisanal credentials and quality of ingredients are all important, for the majority of people, it’s flavour that is number one consumer preference driver.
- Rise of low-/no-alcohol drinks also boost the premium mixer market through the more common use of tonics in low- and no alcohol alternatives, such as ‘Spritz’ style drinks, aperitifs and mocktails.

*Sub-categories: mixers, juice, flavoured carbonates, water, lemonade
Source: Fentimans Report 2019
Complexity and creativity are key drivers in the low-/no- alcohol sector

People are looking for a variety of options when drinking alcohol/non-alcoholic drinks and are not longer satisfied by fruit juices, sugar soda and water. They want something more complex, more interesting, more in line with their tastes and preferences.

Alcohol is a major carrier for a variety of flavours and sensations. Without it, complex drinks can be more difficult to create. As the market evolves, exciting and creative options are increasingly in demand. Experimentation and innovation with unique flavours, techniques and functional ingredients are gaining popularity.

Developing a successful non-alcoholic drink requires passion, a high level of expertise and a distinctive sense of hospitality. Authenticity, and the story behind how and why drinks are created play a central role in the overall experience for bartenders and customers. Complexity of taste is complemented by complexity of technique, as it adds to the sense that the drink has been made with care and skill.

In recent years, the low-/no- alcohol sector has seen major growth and investment in innovation, leading towards a fast-evolving high-quality non-alcoholic spirit market.

The sector is still at an early stage and there is room for growth. 60% of the most influential bars in London don’t stock non-alcoholic spirits yet.

There is a rising demand from customers for more no-alcohol options and the enthusiastic hospitality industry is keen to provide great alternatives to alcoholic drinks.

Source: Distill Ventures Report 2019
Industry’s commitment to support responsible drinking behaviour
Some of global players’ initiatives to target the low-/no-alcohol market

- AB InBev targets at least 20% of its global beer volumes to be no- or low-alcohol variants by 2025
  - Pledged to spend $1 bn on marketing campaign to encourage smart drinking behaviours

- Diageo explores the market through its investment in Seedlip and other low-alcohol variants under brands Gordon’s and Guinness
  - Pernod Ricard launched its Celtic Soul brand in July 2019

- Carlsberg has committed to ‘zero irresponsible drinking’ by 2030
  - Aim to offer an alcohol-free alternative wherever its alcoholic drinks are being sold

Source: Mintel 2019
The low-/no-alcohol sector is still in the early stages of its life cycle
Consumers demand more sophisticated and appealing alcohol-free alternatives

<table>
<thead>
<tr>
<th>Low-/ No-alcohol Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The low-/no-alcohol sector is still early in its life cycle, but more and more distillers and producers are tapping into this promising future trend with low-/no-alcohol gin, rum, vodka, aperitifs and other spirits</td>
</tr>
<tr>
<td>• Distilled alcohol alternatives are an entirely new category and education is required in every sector: from distillers, trade, bartenders to consumers. Putting the same attention to detail into making alcohol-free drinks as you would for alcoholic drinks is key to satisfy the growing thirst for no-alcohol options of the modern consumer</td>
</tr>
<tr>
<td>• The mindset of the consumer has changed, it’s all about ritual, the serve, taste and adult price point. Consumers palates are changing with more focus on botanicals and less the sweet-tasting cocktails. In the next few years, the sweet and sticky mocktails are likely to be replaced with low-ABV, no-ABV and non-alcoholic spirits on the menu</td>
</tr>
<tr>
<td>• However, innovation in non-alcoholic cocktails currently only scratches the surface and there is room for growth</td>
</tr>
</tbody>
</table>

Source: [www.thespiritsbusiness.com](http://www.thespiritsbusiness.com); [www.morningadvertiser.co.uk](http://www.morningadvertiser.co.uk)
No-alcohol spirits attract the attention of large players

<table>
<thead>
<tr>
<th>World’s first distilled non-alcoholic spirit ‘Seedlip’</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seedlip has become the first company to launch a distilled, sugar and additive-free non-alcoholic spirit, launched in 2015, and Seedlip is the first non-alcoholic brand acquired by Diageo in 2019. Seedlip comes in three varieties with different use of botanicals:</td>
</tr>
<tr>
<td>Spice 94: lemon peel, cardamom and cascarilla tree bark</td>
</tr>
<tr>
<td>Garden 108: floral blend of peas and home-grown hay</td>
</tr>
<tr>
<td>Grove 42: bitter orange, mandarin, blood orange, lemongrass, ginger &amp; lemon</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Ceder</th>
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<tbody>
<tr>
<td>Pernod Ricard is distributor for South African/Swedish brand Ceder in the UK. Ceder, available in 3 variants using South African botanicals (Classic, Wild, Crisp) was launched in July 2018</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Celtic Soul</th>
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<tbody>
<tr>
<td>Pernod Ricard launched Celtic Soul in July 2019, a distilled non-alcoholic dark spirit with a blend of vanilla spice and oak cask wood flavours</td>
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<thead>
<tr>
<th>Stryyk</th>
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<tr>
<td>Launched a range of non-alcoholic distilled spirits in 2018 that claims 100% natural ingredients, no added sugar and no artificial flavours. The brand has been developed over two years with the help of top bartenders and received a £1 million investment from AG Barr in June 2019. The product range includes a range of botanicals:</td>
</tr>
<tr>
<td>Not-Gin: juniper, basil and rosemary</td>
</tr>
<tr>
<td>Not-Vodka: cucumber, coriander and apple</td>
</tr>
<tr>
<td>Not-Rum: clove, oakwood and grapefruit</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Atopia</th>
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<tbody>
<tr>
<td>William Grant &amp; Sons launched Atopia, an ‘ultra-low alcohol spirit’ with an ABV 0.5% in June 2019. A natural distillation and botanical extraction process using spiced citrus and wild blossom</td>
</tr>
</tbody>
</table>

Source: Mintel 2019
Smaller operators are also tapping into this emerging market

**Temperance**
Temperance launched a gin-style 4.2% ABV ‘lower-alcohol spirit’ in July 2019. The distillery is using the same botanicals as Portobello Road gin, alongside with other techniques and ingredients like botanical hydrosols.

**Lyre’s**
Proof Drinks launched the non-alcoholic spirit and liqueur brand Lyre’s in July 2019, including alternatives for drinks such as gin, whisky, rum, sweet vermouth, amaretto and coffee liqueur. All made by using a range of extracts, essences and distillates to scope non-alcoholic cocktails.

**Three Spirit**
Three spirits, a plant-based ‘social elixir’, launched a non-alcoholic spirit in 2018. The drink features a variety of botanicals and extracts such as lion’s mane, cacao, yerba mate, passion flower and coconut vinegar.

**Caleno**
Caleno is a distilled infusion of juniper citrus and spice botanicals, described as a zingy, zesty and tropical non-alcohol spirit. Its key ingredient is inca berry.

Source: Mintel 2019
Low-/no-alcohol offerings are set to grow in the on-trade
However, there is still room for innovative alcohol alternatives to grow

Some of the UK’s most influential bars & restaurants have championed the growth of non-alcoholic drinks from the very beginning and bartenders have welcomed the opportunities non-alcoholic drinks have provided for creativity and innovation in their offering

83% of bar managers in Los Angeles agree that non-alcoholic drinks are part of a growing trend

55% of venues in London are either dedicating section of their menus to non-alcoholic drinks, or creating stand-alone menus for them

23% of the most influential venues in London report better sales of non-alcoholic drinks than last year

42% of the wider London on-trade are expecting non-alcoholic spirits to be key in their next 12 months sales mix

There is demand for more exciting and high-quality non-alcoholic offerings. Consumers are looking for an up-trade to the standard cola and lemonade. There are more premium soft drinks and low-/no-alcohol offerings on the menu than ever before. However, there is still room it increase availability of alcohol alternatives on the on- and off-trade
Sainsbury’s delivers innovative ways to support the low-/no-alcohol trend
Alcohol-free bars are opening across the UK, most recently in Dublin with its ‘The Virgin Mary’ bar

“The Clean Vic” by Sainsbury’s

Sainsbury’s ran a pop for 2 days, near their head office in Holburn with 20+ no and low alcohol options available. A choice of beers on tap and cocktails, bespoke beer mats and the offer of salty snacks
➢ This supported premium positioning of no & low alcohol products equivalent to alcoholic choices
➢ Knowledgeable staff offered product explanations and recommendations

No & Low Alcohol Performance
+31.8% category growth (12 week period)
+33% customers searching for non-alcoholic products online

“The Virgin Mary” Ireland’s no-alcohol bar

Dublin has opened Ireland’s first permanent booze-free bar ‘The Virgin Mary’ this year, offering a selection of non-alcoholic cocktails, beers and wines

Health has become a key focus within the hospitality industry and offering a different style of venue for non-drinkers

Source: IGD Inside Sainsbury’s pop-up no & low alcohol pub (July 2019), www.thespiritsbusiness.com
Flavour and botanical innovation in the spirits sector
Distillers and bartenders are experimenting with unique botanicals and flavours
Ranging from seasonal summer and winter fruits to native and rare berries

Rise of premium soft drinks/mixers and spirits, in particular gin, has led to flavour/botanical innovation. Consumers demand more adventurous flavours and are interested in experimenting with new flavours and drinks

Summer berries
Rhubarb, raspberry, strawberry and blueberry are continuously popular gin flavours, in particular in the summer season

Greenall’s launched a blueberry gin, Black Cow launched a strawberry flavoured vodka made from left over/ misshapen strawberries

Cloudberry
The cloudberry is native in Nordic countries (Sweden, Norway, Finland) and the Baltic states

Cloudberry is used as a flavouring for making akvavit and other liqueurs (Lapponia cloudberry)

Sixling Cloudberry infused Irish gin is Ireland’s first and only cloudberry gin

Orange/ mandarin
Orange and mandarin are popular flavours in preparation for Christmas

Barentsz gin, Whitley Neill Blood orange, Tanqueray Flor de Sevilla are just some of the brands tapping into the citrus flavour

Orange/ mandarin

Rowan berry
The rowan tree is native to the UK and is usually found in the Scottish Highlands

Ben Lomond Gin, Avva Gin, Rock Rose Gin and Caorunn are some of the Scottish distillers using native rowan berry.

Source: Fentimans Report 2019
Botanicals from the Nordic countries are increasingly being used on the British menu

Scandinavian culture is increasingly aspirational to the British consumer

Scandinavian cuisine is associated with purity, simplicity, freshness and seasonal foods, inspired by high-class restaurants such as ‘Noma’ in Denmark and ‘Faivken’ in Sweden and world’s best bars, such as Himkok in Norway

Consumers travel, experience local cuisines and return home seeking to replicate their food experiences

Bringing more unusual flavours on the British menu, such as sea buckthorn, liquorice, cloudberry and lingonberry

Source: Fentimans Report 2019
Consumers palates are shifting from sweet to more savoury flavours

- Consumers are increasingly concerned about both artificial sweeteners and sugar in drinks
- There is a shift from the common flavours associated with sweet drinks in favour of more savoury flavour profiles and ingredients
- Consumers are becoming more accustomed to vegetal and savoury flavours such as pea, celery, beetroot, basil, rosemary, across the entire drinks market
- Savoury flavours will play a major role in future soft drink and flavoured spirit innovation

Source: Fentimans Report 2019
Japanese botanicals are set to grow in the UK drinks sector

With the 2019 Rugby World Cup and 2020 Olympics both to be held in Japan, a surge of interest in Japanese culture is expected

Japanese whisky industry has been booming for years and its reputation and quality being leveraged in other spirit categories by brands such as Ki No Bi, Roku, Nikka

Japanese quality and tradition are key attributes for both cocktails and spirit mixers

Yuzu, cherry blossom, green tea, jasmine, bergamot, pomelo, turmeric and cardamom are some of the potential flavours in the spirits and mixer sector

Source: Fentimans Report 2019
Fermented drinks are expected to rise in the next few years
Due to its health credentials and distinctive flavour profiles

Fermentation
Fermentation has been around for thousands of years and is experiencing a new trend in the food and drink scene. Everything from beer to bread, sauerkraut to kombucha, rely on fermentation processes to not just preserve food and drink, but to deliver complex and distinctive flavours with simple ingredients. As the industry gains greater understanding of fermentation techniques and unusual flavour profiles, there is a shift from sugary drinks to more sour, bitter and aromatic drinks. We expect to see new flavours and textures as well as entirely new categories of drinks.

Fermented alcoholic drinks
Since recent years, the progressive cocktail scene has begun to return to fermentation processes that offer a diversity of ingredients and create new flavour profiles, such as fruit wines, meads and vinegars that are becoming more common as cocktail ingredients.

Fermented soft drinks
Fermentation-based drinks are also growing rapidly in the non-alcoholic sector, such as apple cider vinegar and kombucha that have found a widespread acceptance for its health credentials and unusual acidity.

Fermented by-products
From a sustainability point of view, fermentation of by-products and ingredients that would otherwise go to waste are being highlighted and can become a good starting point or key flavour provider for new products.

Fermentation lab
Following the footsteps of Scandinavia’s iconic Restaurant Noma, Restaurant Cub in Hoxton is building a fermentation lab to explore how ingredients can be creatively manipulated to create new flavours via fermentation.

Source: Fentimans Report 2019
CBD and hemp-infused drinks are currently a major focus in the drinks industry

Driven by its health benefits and unique compounds

Recently, CBD has become a buzz word in the beverage industry and has gained major popularity among consumers

Cannabidiol (CBD) is the non-psychoactive compound in cannabis, which claims to have major health benefits to help ease anxiety, inflammation, acne, pain and cramping

Large players, such as Diageo and AB InBev, but also small operators have tapped into this market investing in hemp-infused or CBD-infused beverages

Source: www.thespiritsbusiness.com; www.morningadvertiser.co.uk
Fentimans launched an endangered botanical cocktail campaign over Easter this year
Highlighting the importance of rare and endangered botanicals in the UK

Manufacturer Fentimans has launched a ‘Save the Botanical’ campaign in the UK on-trade, which aims to highlight endangered British plant species through bespoke cocktail menus, with each drink named after a rare British plant. Fentimans partnered with the wild plant conservation charity ‘Planetlife’ to compile a list of rare botanicals in the UK.

Fentimans partnered up with leading cocktail bars across the UK, including Public in Sheffield, Cottonpolis in Manchester, Her Majesty’s secret Service in Bristol and Heads + Tails in London, all serving ‘Save the botanical’ gin and tonic.

56 North gin bar in Edinburgh supported the campaign to save endangered Scottish plants.

Source: www.thespiritsbusiness.com
Appendix
Explanation of Key Measure Tree

The Measure Tree enables you to identify areas of focus to grow, or address the decline, of a product. It gives you details of each contributing measure to overall performance. The Attribution Bar allows you to quickly spot which base level measures (the measures in the Measure Tree with the shaded backgrounds) drive the growth or decline of the product.

1. The boxes of the Measure Tree break the defined market’s spend progressively down by its component parts to the base level measures (Penetration, Frequency, Trip Volume, Price, Total Households/Individuals).

2. Actual value of the measure.

3. The measures contribution to the overall performance of the selected product.

4. Percentage growth/decline for the defined period.

5. The Attribution Bar illustrates the relative attribution of the base level measures to the overall performance of the product.

Definitions/Calculations

- **Spend**: Monetary value purchased [of the defined market] in the considered time period.
- **Volume**: Physical quantity purchased [of the defined market] in the considered time period.
- **Average Price (per Volume Metric)**: Average price paid for a defined volume in the considered time period.
- **Buyers**: Number of households/individuals that purchased the defined market in the considered time period.
- **Frequency (purchase)**: Average number of purchase trips [for the defined market] per buyer in the considered time period.
- **Trip Volume (Volume Metric)**: Average volume [of the defined market] per purchase occasion in the considered time period.
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