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Alcohol Market: Companies Reducing Output, Consumers Going For Frugal Alternatives

Today there are two interrelated ongoing processes on the Russian alcohol market: retail sales and output volumes are sliding simultaneously. There are multiple reasons for this, but, speaking of production, its dynamics are primarily determined by soaring excise rates and minimal cost of production. Most consumers, in their turn, are changing their preferences, more and more often going for low-alcohol and budget-friendly drinks.

According to the Federal Service for Control of Alcohol and Tobacco Markets (FSAT), over January-July of this year alcohol sales (excluding beer, beer drinks, cider, poire and meads) versus the same period of 2024 contracted by 12,1%, down to 114,7 million dekaliters (dal).

Russians bought 4,2% less vodka: its sales volumes over the seven months amounted to 41,4 million dal; cognac and brandy sales were down by 9,8% (7,1 million dal); grape wines – by 1,5% (32,2 million dal); champagne – by 3% (11,4 million dal); fortified wines – by 11,8% (673,8 thousand dal); fruit-based alcoholic beverage sales plunged by four times (1,6 million dal). By the way, the share of brandy makes up for 9,3% of the total natural volume of alcohol sales in the RF. On this metric, brandy is only behind vodka (26,5% of sales) and beer (43,2%). Such a significant decline in demand, the most visible in the hard liquor category, is attributed by experts to the rise of the Minimum Retail Price (MRP) starting from January 1 by 17,12%, up to ₽472 per 0,5 liter; for cognac – by 17,09%, up to ₽651.

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Speaking of production, according to the FSAT, it contracted over January-July by 13%, down to 88,7 million dekaliters. Vodka production plunged by 9,1%, down to 37,9 million dal; cognac and brandy production was down by 19,3%, to 4 million dal. The production of alcoholic beverages with an alcohol content of over 9% by volume amounted to 56,5 million dal, which is 7,6% lower than the last year's figure. Liquors and spirits, just the opposite, demonstrated growth by 4,3%, up to 9,69 million dal. Grape wine and sparkling wine (Champagne) production rose by 12,6% correspondingly (up to 20,92 million dal) and15,8% (до 8,7 million dal).

According to Pavel Shapkin, head of the Center for National Alcohol Policy Development, the FSAT explains the overall situation by the two drivers: the 15% indexation of excise rates and the almost 17% increase of the MRP. Winemakers stand apart, because the state made a concession for them: manufacturers of still and sparkling wines get an excise tax deduction, if they use domestic grapes. There is yet another reason for sliding output volumes – young people consume less hard liquors. This trend, observed not only in Russia, but in many other countries as well, is motivated by a desire for a healthy lifestyle and the goal of saving money.

"For the next two years the Tax Code envisions higher excise tax rates, and correspondingly, market realities will push people towards cheaper alternatives, - says Pavel Shapkin. – Since January 1, the MRP for vodka and spirits and liqueurs has gone up by ₽50 per 0,5 liter, and it has a major impact on the final price".

Transition To Southern Consumption Model

But there are also other aspects, directly and potentially influencing the market situation. The overall 13% output reduction over the seven months could also be caused by overproduction of distilleries and warehouse overstocking in expectation of the New Year holidays, assumes Ruslan Bragin, hard liquor marketing expert, member of the Guild of Marketers. In other words, there are lots of product in stock and these need to be sold, but warehouse capacity is limited. Each enterprise follows its own marketing plan, has arrangements with restaurants, hotels, retailers. Moreover, volumes of exports to unfriendly countries have plunged at the background of the sanctions. And there were restrictive measures in place from August to December 2024 on the imports from these countries in the form of very high duties: 20% of the customs value for hard liquor and 25% of the customs value for wine, which has subsequently had a major impact on domestic sales dynamics.

From a purely consumer perspective, many Russians are completely abandoning alcohol or are switching over to more

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affordable alternatives. First, this is happening due to a growing mismatch between purchasing power and prices. Second, people are choosing essential products, which definitely exclude alcohol: meat, potatoes, cereals, bread, milk, eggs, says the analyst. Moreover, people have got rather tired of regular vodka, of which there are 6 thousand brand names as per the GOST standard. More and more often consumers choose colored flavored drinks – herbal and berry cordials and infusions. Besides, healthy lifestyle is becoming increasingly popular: not only young people but older people as well are less tolerant of alcohol now. And of course, as Bragin sums it up, we should keep in mind the state regulation factor: in December 2023 the RF Government approved the National Strategy for Reducing Alcohol Consumption up to 2030, which is the guiding document for the FSAT activities.

In the opinion of Pyotr Shelish, Co-chairman of the RF Consumers' Union, the data on the 12,1% sales reduction proves a start of the transition of Russians from the Northern alcohol consumption model, prioritizing hard liquors, to the Southern model, where wines, beer and low alcohol beverages are preferred. "That can only be welcomed, - says the expert. – Just for the simple reason that the Southern model does not involve so many deaths from accidental alcohol poisoning and alcohol-related diseases, as does the Northern model".

As for the position of the alcohol industry on the domestic economy map, it is rather small: its share of the GDP is below one percent and is on an obvious downward trend.

Premium Segment Contracted

As Pavel Shapkin pointed out, unlike other countries, where consumers increasingly gravitate toward more expensive alcohol, Russia displays an opposite trend. The premium segment has significantly shrunk after the exit of transnational brands from the country, the sanctions have made logistics much more complicated, there are issues with interbank payments. This makes the efforts for localizing production of vermouths and liqueurs much harder. At the same time, production of tequila from distillates, imported from Mexico, is now up and running. Naturally, this tequila is cheaper than the original one. Production of spritzes – low-ABV sparkling wine and mineral water-based cocktails is perceived to be a promising area, though it would require a heated discussion on taxation: spritzes are not mentioned either in technical regulations or in the Tax Code. Plus, there is a growing segment of alcohol-free whisky, cognac, gin and wine. The popularity of these drinks across the world is measured in triple digits.

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Today, says the expert, Russians are purchasing alcohol not so much in line with their taste preferences, but keeping the price considerations in mind. The demand is shifting over to ciders, meads, pina colada, gin and tonics. Wine is a different story altogether. Less than half of the wines on the domestic markets are imported, and about 60% of their volume are still and sparkling wines from Italy, Spain and France and some other European unfriendly countries, priced at over ₽700 per bottle. These have their own audience – these are middle class consumers, mostly women. Wines from Chile, Argentina and other countries of the New World, imported into Russia via Turkish and Georgian seaports (more complex logistics), take up only about 10-12% of the total volume of imports.

At the same time, according to Shapkin, domestic wine makers are almost on par in quality with their foreign colleagues, and are beyond competition in terms of price, and the share of wine on the domestic alcohol market will be going further down. On top of all that, people are curious to taste exotic foreign products, for example, Soju, a traditional Korean alcoholic drink, made from sweet potatoes or grain. Russia has also learned to replace products, which used to be imported, and would cost more, accordingly – primarily whisky, gin and rum. Though, these are finished blends, imported into the country and bottle domestically.

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