



ESSENTIAL CANNABIS

INSIGHTS

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IS LEGAL CANNABIS A THREAT TO ALCOHOL SALES?

It's no surprise to anyone that the giants of the alcohol industry have trained a keen eye on legal cannabis since the launch of the first Adult-Use markets. With BDSA's Market Forecast showing that the US legal cannabis industry is on track to total ~\$46 billion by 2026, many in the alcohol and beverage space see cannabis as a unique opportunity to expand and reach new consumers. On the other side of that coin, others in the alcohol industry are increasingly wary of the potential threat that rising cannabis consumer penetration spells out to alcohol sales. Consumption of cannabis by alcohol consumers is on the rise per BDSA Consumer Insights data, and some consumers are reporting consuming specific types of alcoholic beverages less often, but consumer attitudes also show that consumption occasions for alcohol and cannabis differ enough that the current threat to alcohol sales posed by legal cannabis is small.

Across Adult-Use markets, BDSA Consumer Insights data show that past six-month consumption has risen rapidly, from 32% in Spring 2018 to 47% in Fall 2021

Rapid Growth of the Cannabis Consumer Base

Cannabis consumption is on the rise across the US, from the very youngest new markets to the states with the most established industries. Across Adult-Use markets, BDSA Consumer Insights data show that past six-month consumption has risen rapidly, from 32% in Spring 2018 to 47% in Fall 2021. Arizona, Colorado, Michigan, Nevada, and Oregon have all cracked the 50% threshold for past six-month consumption. Notably, the young Arizona market has seen consumer penetration rise a whopping 31% since Spring of 2018, indicative of a trend seen in other markets of increased availability leading to faster growth in consumer penetration.

Cannabis and Alcohol Co-Consumers

One demographic that has seen a swift rise in cannabis consumption is alcohol consumers. BDSA Consumer Insights data from Fall 2021 show that the ~55% of alcohol consumers in states with access to legal, Adult-Use cannabis report consuming cannabis in the past six months, a 7% increase from the previous Fall. While consumption of alcohol by cannabis consumers remained flat over that same period, the number of cannabis consumers who report co-consuming cannabis with certain types of alcohol has also seen an appreciable rise.

While past six-month co-consumption stayed constant, there is a rising trend of pairing cannabis and certain alcohol products for the same occasion. Between Fall 2018 and Fall 2021, the share of cannabis consumers reporting pairing cannabis with wine rose ~10% to total ~20% of all cannabis consumers. Rise in cannabis/alcohol pairing was comparable with cocktails and craft beer over that same period.

Cannabis as a Threat to Alcohol Sales: Consumption Occasions Matter!

With this rise in co-consumption by alcohol consumers, some in the bev/alc space have reasonable concerns about how the interaction with cannabis may blunt (pun intended!) alcohol sales. Cannabis consumption may be seeing a surge, but it's important to note that cannabis does not challenge all use occasions associated with alcohol.

When we segment alcohol consumption occasions, some are clearly safer from being cannibalized by cannabis consumption. High energy social occasions such as bar nights, special events, and date nights present a lower risk of cannabis impact to alcohol sales, while consumption for health/wellness, creative endeavors, and certain outdoor activities are more often cannabis specific. The occasions that present the greatest potential "risk" to alcohol are the "in-betweens," such as unwinding at the end of the day or just hanging out.

After a long day at work, taking care of the kids, or just managing your day, it's not uncommon for adults to look to beer, wine, or spirits to promote relaxation. But the line is blurring with as many co-consumers saying this time is a cannabis occasion as they say it is an alcohol occasion. The "Unwind Time" is higher risk as cannabis products are more accessible and many consume to relieve stress, sleep better, and relax. This potential "risk" spans multiple consumer segments seeking these benefits.

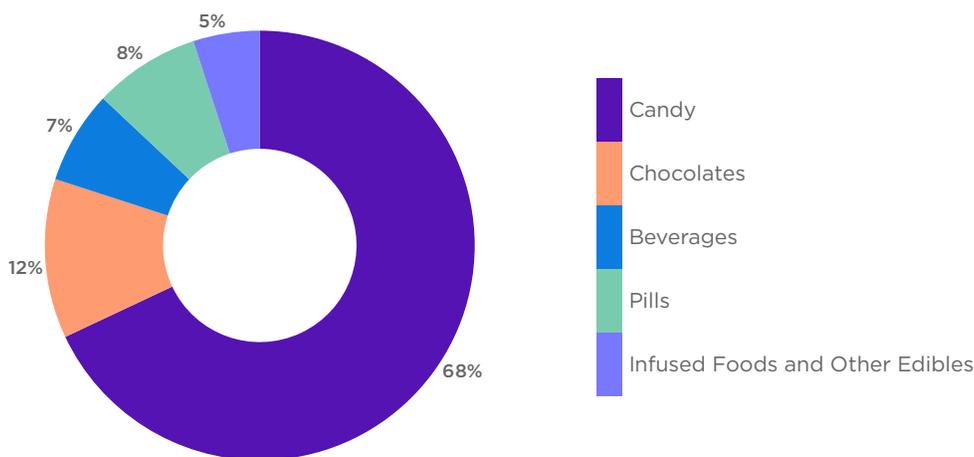
Hanging out with friends and enjoying a cold beer is a common alcohol occasion in the US. These situations are a time for connections and are rooted in personal experience. They often occur in more personal settings but can extend into public spaces. Beer, particularly Craft beer, is a common beverage for these situations. Cannabis may challenge the craft beer space during these occasions, as nearly 40% indicate these moments are also a cannabis occasion.

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What about cannabis beverages?

Though beverages still make up a small (~7% share) of cannabis edible dollar sales, beverages saw a +65% year-over-year increase in dollar sales in 2021 across BDSA tracked markets, a sizable jump compared to the 30% increase in total edible dollar sales over that same period.

Dollar Sales by Edible Subcategory



Source: BDSA Retail Sales Tracking, Full year 2021 Dollar Sales: AZ, CA, CO, OR, NV, MD, MA, MI, MO, IL, FL, PA

Some may expect to see cannabis beverages as the top choice for consumers looking to substitute cannabis for alcohol, but BDSA Consumer data suggests that is not always the case. “Relax/be mellow” is the most highly cited benefit of inhalable consumption, which makes inhalables a likely choice for occasions such as “Unwind” and “just handing out,” the most likely “threat” occasions to alcohol sales. While new fast-acting technology such as nano-emulsion continues to improve consumer experiences with beverages, beverages continue to compete with inhalables for the same need states. Continued growth in the cannabis beverage space will also be encouraged by brands investing in consumer education, and delivering products that provide consumers with consistent, repeatable experiences.

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