An attractive industry with a runway for growth

Drinking occasions and practices vary depending on local culture and traditions. We believe that drinking in a responsible way can be part of a balanced lifestyle in many societies around the world.

Our markets are shaped by long-term consumer, economic, cultural and social trends, and the regulatory environment. Premium total beverage alcohol has remained resilient during Covid-19 and the long-term trends for our industry remain attractive.

Retail sales value of global alcohol market

£728 billion

Equivalent units of alcohol sold

5 billion

New legal purchase age consumers expected to enter the market by 2031

600 million

Read more about our strategic priorities on pages 23-35 and our principal risks and risk management on pages 45-55

Tanqueray Flor de Sevilla Gin and Tonic cocktails

1. IWSR, 2020
2. IWSR, 2020
3. World Bank, 2021
CONSUMERS WANT TO ‘DRINK BETTER’
Consumers are seeking new experiences and higher quality products.
When it comes to beverage alcohol, consumers are ‘drinking better, not more’ – increasingly choosing brands and categories that offer superior quality, authenticity and taste. This premiumisation trend is supported by product innovation and fuelled by higher levels of prosperity and disposable income, coupled with a greater desire to explore new experiences, ingredients and serves for social occasions.

Impact
Over the last 15 years, brands in higher price tiers have consistently grown volume faster than those in lower price tiers. Consumers are buying a broader range of premium products, including no- and lower-alcohol drinks, that reflect their diet and lifestyle choices and their interest in natural ingredients and craft production.

Our response
We have built an industry-leading portfolio of Reserve brands. We have done this through focussed investment, brand building, the creation of a dedicated management team and, in many countries, a dedicated route to market. Through the development of our Reserve portfolio, we are able to influence the evolution of both mass and high-end luxury spirits across different categories and occasions, including super premium Scotch and tequila.

This market dynamic aligns with these strategic priorities: Sustain quality growth, Embed everyday efficiency, Invest smartly, Promote positive drinking

AN EMERGING MIDDLE CLASS WHO CAN AFFORD INTERNATIONAL-STYLE SPIRITS
Global population growth and economic development continue to drive the emergence of consumers with a higher disposable income.

These consumers are seeking new, aspirational experiences and driving demand for quality drinks at a range of price points. They are also moving away from illicit alcohol, which is estimated to account for around 25% of global alcohol sales despite the associated health risks and loss of tax revenue for governments.

550m consumers expected to join ‘middle class and above’ income bracket by 2031
World Bank, 2021

CONSUMERS ARE INCREASINGLY CHOOSING SPIRITS
Consumers who drink alcohol are increasingly choosing spirits over beer and wine.
This is a long-term trend. In markets where spirits is a less mature category, mainstream brands can offer quality and affordability. In more mature markets, premium core and Reserve brands offer variety and new experiences.

+9% increase in spirits share of total beverage alcohol
IWSR, 2020, for the period 2010 to 2020

Impact
Gin and ready to drink are examples of categories benefitting from switching. In the United States, this trend has accelerated during the pandemic, with consumers increasingly choosing spirits in the ‘at home’ occasion. This year, in the United States, spirits penetration grew nearly three times as fast as beer and twice as fast as wine. In many emerging markets, spirits penetration is still low compared to developed markets, providing the potential for future growth.

CONSUMERS ARE CHANGING HOW THEY SOCIALISE
Consumers in developed markets are moving away from high-energy, late-night occasions towards more informal, food-related occasions.

They are increasingly interested in drinks that fit occasions before, during and after meals and in choices that suit ‘at home’ and ‘outdoor’ occasions, which have grown significantly during Covid-19.

+12% increase in spirits’ share of ‘with meal’ occasions in Great Britain
Kantar, 2021 for the period 2018 to 2021

Impact
Spirits, which are versatile and adaptable, are benefitting from the trend away from high-tempo socialising, as consumers discover new serves which are suitable for a broader range of occasions in which to enjoy our brands.
Scotch in China: positioned for premiumisation

Greater China has the largest and fastest-growing super premium and above spirits segment in the world1 – and our portfolio of super premium and luxury Scotch whiskies is helping us meet Chinese consumers’ desire to ‘drink better, not more’.2

Our super premium and luxury Scotch portfolio includes Johnnie Walker, which is Greater China’s biggest Scotch brand by volume and retail sales value.3 It also includes fast-growing brands such as Mortlach and Talisker, and The Singleton, which is Greater China’s largest single malt brand by volume.4

The growth of Johnnie Walker Blue Label over the last four years shows how we are harnessing the trend of premiumisation through the combination of an outstanding liquid, powerful brand building and innovation driven by insights into local culture.

This year, the brand launched a series of eye-catching innovations, including the Forbidden City Edition and a limited edition Chinese New Year bottle celebrating the Year of the Ox – both of which sold out quickly. These innovations combine Chinese consumers’ deep pride in their culture with their demand for unique products that suit gifting and business entertainment occasions. They also trigger a desire to explore and learn about Scotch whisky. We are helping to grow that consumer interest, working with key customers and consumers on product education and mentoring events. For example, we have held 13 Whisky Summits across China and reached over 15,000 people through our Diageo Whisky Academy since 2017.

1, 2, 3, 4. IWSR, 2020
We are proud of our brands and we want them to be enjoyed responsibly. Through our work, we are aligned with the United Nations’ and the World Health Organization’s goal of reducing harmful drinking by 10% by 2025. We also advocate policies and industry standards, including minimum legal purchase age laws and maximum blood-alcohol concentration driving limits, in countries where these are not already in place.

210,443Δ young people, parents and teachers educated on the dangers of underage drinking this year

Diageo, 2021

**Impact**

While most people who choose to enjoy alcohol do so responsibly, the misuse of alcohol can harm individuals and those around them, damage our industry’s reputation and make it harder for us to create value.

**Our response**

We want to offer consumers the opportunity to ‘drink better, not more’ – an approach that is rooted in our social values and aligns with our business model as a producer of premium drinks. We are committed to promoting moderation while campaigning to reduce harmful drinking and improving laws and industry standards. Our approach to positive drinking, described on pages 30-31, includes ambitious targets for areas in which we can have the greatest impact in reducing harm: drink driving, underage drinking and binge drinking.

This market dynamic aligns with these strategic priorities:

- Sustain quality growth
- Embed everyday efficiency
- Promote positive drinking

**CONSUMERS EXPECT BUSINESSES TO ACT RESPONSIBLY**

Consumers, like all stakeholders, are increasingly challenging businesses to show how they make a positive impact across all aspects of society.

They rightly expect to see that businesses are generating wealth, fostering inclusion and diversity, respecting human rights, supporting their communities and acting on important societal and environmental issues, including climate change and water stress.

89% of people say companies and brands have a responsibility to take care of the planet and its people

‘Regeneration Rising’, Wunderman Thompson, 2021

**Impact**

Earning trust and respect is fundamental to achieving our ambition. We know our brands must continue to play an active role in society to meet consumer demands. This must be underpinned by a business that reduces environmental impact and promotes inclusive economic growth, while making sure to do business with integrity and respect for human rights.

**Our response**

The 25 goals in our ‘Society 2030: Spirit of Progress’ plan provide a platform for many of our global brands’ sustainability programmes, such as Johnnie Walker’s ‘Next Steps’ initiative and Talisker’s partnership with Parley to rewild the oceans. This year, in response to Covid-19, we have supported increased investment in WASH (water, sanitation and hygiene) programmes and we have taken our commitment to a thriving hospitality sector a step further through our $100 million ‘Raising the Bar’ fund, which includes our $20 million Community Fund in the United States in support of social justice initiatives.

This market dynamic aligns with these strategic priorities:

- Sustain quality growth
- Invest smartly
- Promote positive drinking
- Champion inclusion and diversity
- Pioneer grain-to-glass sustainability

Online, on-demand, on track: accelerating Diageo’s e-commerce strategy

The online market for alcohol sales has changed and we have accelerated our approach to digitalising our engagement with consumers all over the world. Our e-commerce retail sales are still relatively small – but they are growing rapidly, expanding by around 70% over the last year across 13 key markets, including the United Kingdom, Germany and China.

As well as building e-commerce opportunities with existing retail customers, we are developing new channels and partnerships, including on-demand.

On-demand platforms take consumers’ orders and find brick-and-mortar retailers to fulfil them in a fast delivery service model. Investing in partnerships with on-demand platforms at the right time can help give us first mover advantage. That is what we have done in the United States through our partnership with Drizly, a leading on-demand alcohol delivery service.

As well as increasing sales, channels like Drizly give us a greater ability to connect with consumers who are looking to discover more about our brands and who tend towards whiskeys, tequilas and higher-priced products. They also support brand building through features such as customised notifications and on-site marketing.

Our investment in e-commerce is driving results. Between July 2020 and June 2021, five Diageo brands were in the top ten spirits brands sold on Drizly, including two of the top three.1 And on China’s largest platform, T-Mall, Diageo is the market leader in whisky, with a 24% market share.2

1. Drizly, 2020
2. Smartpath, 2021