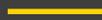




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WONDERWORKS TREND REPORT

LIFTING THE HAZE

Demystifying the world of CBD in drinks and
establishing a new functional-led category

January 2020



DEMYSTIFYING THE WORLD OF CBD IN DRINKS ESTABLISHING A NEW FUNCTIONAL-LED CATEGORY

In 2018 we examined what threats or opportunities the changing laws around recreational cannabis consumption could pose towards the drinks industry.

18 months later and there's no sign of the feared stampede of negative impact, but the hoofbeats of opportunity are definitely audible in the distance.

Anxiety about the cannabis derivative, CBD, stealing market share was – and remains – well founded. The argument goes that consumer needs and consumption occasions across socialising, reward and wellness – currently very much the preserve of alcohol – could be met, or even surpassed, by products containing CBD.

We take a look at exactly what CBD is, how it is being embraced by the global drinks industry, and what the future might hold.

“Cannabis will ultimately culminate in a global paradigm shift that will radically disrupt traditionalist industries such as alcoholic drinks. Reshaping millennia-old drinking rituals and providing an alternative to social lubrication occasions, cannabis should be either embraced as a symbiotic opportunity or faced as a potentially detrimental antagonist for an alcohol industry already on the defensive.”

Spiros Milandrakis, Euromonitor's Industry Manager for Alcoholic Drinks¹

Special thanks

Craig Hutchinson | Creator of Maria & Craig's Distilled Non Alcoholic CBD Botanical Spirit & Ceder's Distilled Non Alcoholic Gin

Sally Wynter | Founder of MUHU, sweet hibiscus gin with added CBD

Tom Lorimer | Sales Director, OTO

What are we actually talking about – Cannabis, CBD, THC, Hemp, Marijuana, weed?

Cannabis is a flowering plant (which can look very weed-like) with three main species: Indica (marijuana), ruderalis & sativa (hemp & marijuana). It is mostly harvested for its fibre – hemp – for use in applications such as clothing, construction materials and biofuel.



All species of cannabis contain cannabinoid compounds, a variety of molecules that have been found to react with cells in the brain and nervous system. There are over 100 different cannabinoids, but the two most extensively researched and used are tetrahydrocannabinol (THC) and cannabidiol (CBD).

THC is the psychoactive chemical part of the plant responsible for the 'high' commonly felt when consumed. 5mg would be the approximate amount of THC required to produce a light 'buzz' equal to that from a glass of wine or can of beer.

CBD is extracted from the leaves, resins and flowers of the plant and, importantly, contains no psychoactive properties whatsoever.



So if CBD doesn't get you high, what's all the fuss about?

In an industry where producers and consumers are always chasing the next big thing, CBD rides into the drinks sector on the back of the gin craze. One significant trend dominated that market, while two other buzzwords are now in common parlance. Each maps perfectly on to CBD:

Botanicals

'In the know' gin drinkers became more educated about botanicals as they endeavoured to keep ahead in an impossibly cluttered marketplace. Gin one-upmanship is the perfect springboard into exploring more botanicals, including CBD.

Plant-based

What could be more plant-based than CBD in a society where dedicated spaces are popping up in supermarkets and convenience retailers everywhere, urging us to adopt a more plant-based diet to save the planet?



Wellness

This is where CBD really comes into its own. 'Naturally sourced relaxation' is the benefit being trumpeted by the drinks industry, just one claim for CBD among a whole host of positive effects that highly respected scientific research has shown it to have on the human body: from reducing pain and inflammation to treating nausea and vomiting, reducing the occurrence of epileptic fits, and improving

poor mental health such as anxiety and depression. **And if that wasn't enough, CBD has also been found to be a more powerful anti-oxidant than vitamins E and C, making it a natural supplement with a number of positive attributes.** Primed and ready, consumers are a curious bunch, and familiarity with these terms should mean initial barriers are easier to overcome.

CBD offers real functional benefits. It's a risqué treat: newly legal and available, it's a novel experience beyond the everyday. CBD has mystique and sex appeal: begging to be experimented with by the innovative bartender, and to be the trend-led drinker's latest discovery.

Will it be good for me?

It is difficult to ignore every single research study that has shown the benefits on the human body of some cannabinoids. However, their exact psychoactive properties remain poorly understood, and research is inconclusive on the effects of THC in particular.

So for now the excitement is focused on the functional benefits of CBD as listed above. In controlled application, the physical and mental health benefits of CBD have been proven to be far reaching when used at no more than the maximum daily dose of 200mg.

But isn't it illegal, or at least heavily regulated like alcohol and tobacco?

The legal standpoint on cannabis and the inclusion of CBD in products varies across all regions - and even within countries - around the world. Legislation also changes fairly rapidly as research continues to reveal the positive benefits from safe consumption:

- Canada has fully legalised cannabis for recreational as well as medicinal use. Its liberal approach is driving the availability of quality CBD, with consumer perception generally positive.
- The US has legalised the recreational use of cannabis in 11 states and medicinal use in 33 states (on last count). Euromonitor states that it expects the full legalisation of cannabis nationwide within the next five years.



- Australia has a confusing situation. Federal laws make medicinal cannabis legal nationwide but recreational use illegal. However, the state of Australian Capital Territory passed a law in September 2019 allowing the consumption of cannabis for recreational purposes from 31 January 2020, resulting in direct conflict between state and federal legal legislation.
- In the EU, while the laws around medicinal and recreational use of cannabis vary between countries, CBD is classed across the region as a 'novel food', with the rule that CBD products must contain less than 0.2% THC in order to be legal for consumption. Any food or drink product with CBD content is required to undergo stringent levels of testing – far beyond existing products in these categories – before approval is gained. However, the 'novel food' classification is being challenged and, as such, isn't currently being enforced.

Yee-haw! Welcome to the wild west

Lack of clear, consistent regulation has meant that the cannabis market could currently be seen as frontier territory when it comes to both production and marketing practices.

A number of innovators and entrepreneurs have brought CBD products to market in several categories across the food & drink, health & beauty and FMCG sectors. Some no doubt want to share the positive benefits of CBD with the masses and have high ethical values driving their businesses; others appear to be riding the wave of interest with products that deliver no therapeutic effects, yet still command a premium price.

CBD products are often marketed in a way that highlights their functional benefits, but there is still a long way to go to educate consumers and demystify the category so that people can make informed choices. Many products are unclear about the amount of CBD they contain. And other than vague claims around 'relax' and 'unwind' etc, there is often little to explain why CBD is even in some products.

We have seen a number of actions being taken over irresponsible marketing. For example, late in 2019, the Advertising Standards Agency ruled against Dead Man's Fingers after a complaint by the Scottish government around a small number of its advertising messages

Is it inevitable that there will be more negative headlines driven by those recklessly profiteering? It is currently down to the sectors that are including CBD in everyday products to ensure the efficacy and safe application of the cannabis molecule in individual products. The sooner the larger corporate entities get involved, the more quickly we are likely to see a stable and well regulated marketplace.

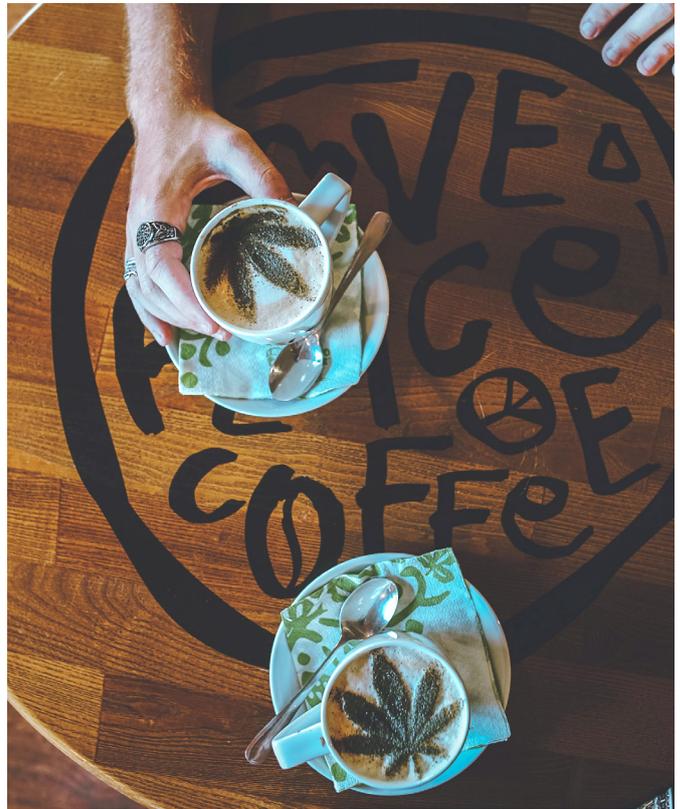


One of Dead Man's Finger banned Adverts

The science bit

Not all applications of CBD are equal, and beyond a recommended maximum daily dosage, there is little information out there about how best to consume it.

- Research has shown that the body absorbs CBD more easily from an infused liquid than from solid food. However, with up to 95% of the CBD molecule destroyed before it enters the bloodstream², it's important to understand the right way to consume CBD to benefit from it at low dosage levels.
- An Italian research study³ published in 2016 looked at variances when CBD and THC were presented in hot tea form. It found that functional benefits differed greatly – and in some instances reduced to nothing – when changing concentrations of cannabinoids and preparation methods were used: too much water/too much heat/not enough heat etc all resulted in varying degrees of efficacy. This clinical trial demonstrates one difficulty that drinks makers face: CBD molecules may be introduced into a product, but inappropriate handling may mean they don't actually survive to deliver functional benefits to the drinker.



- And it's not just about the format of the end product. How CBD is extracted, prepared and infused into a product also influences its efficacy in the human body. Nano and microtechnology are currently thought to be the best methods for ensuring that CBD molecules are extracted and treated in a way that ensures they are most effectively absorbed by the body.

What does all of this mean for the drinks industry?

Bloomberg reported that the global CBD market will be worth \$32 billion by 2022, with Euromonitor predicting incredible growth to \$166 billion by 2025. According to Zenith Global, sales of cannabis-based drinks are forecast to grow beyond \$1 billion by 2023.



The commercial opportunity seems too good to be true, but the global drinks industry does have a job to do to carve out a distinct space for CBD that doesn't have the knock-on effect of decline in demand for its existing product ranges.

The biggest threat is likely to come from the 'relax consumption moment' that (illegal) cannabis has traditionally played into. If consumers opt for now-legal cannabis rather than alcohol or soft drinks, then drinks consumption could decline. Perhaps that is why the sector is leading the charge around incorporating CBD rather than trying to compete head on.

What is interesting is that CBD is finding its place across the entire spectrum of drinks – less category of its own, more an additional layer in all categories – meaning there's no imperative for consumers to change their drinking habits in order to join in, and no end of opportunity for innovation and growth.

A win:win product?

Alcohol brands simply can't make claims about health benefits. But Low, No and CBD brands can. As we have seen with consumers embracing broad lifestyle choices such as wellness, and so choosing to drink less alcohol as a result, the demand for drinks – and the price that consumers are prepared to pay for them – hasn't dwindled. Even when there's not a drop of alcohol in sight, consumers will pay a premium for indulgent, grown-up choices. The quest for 'experience in the drinking occasion' has helped to underpin both demand and price. Sales in bars and the at-home consumption of adult drinks aren't declining. They are, in fact, in growth.

More and more products are coming on to the market. Innovation is responding to consumer interest, which in turn is fuelling more innovation. Drinks are more special than ever in appearance, flavour and story, and even in sustainable credentials.

This has laid the foundation of opportunity for new ingredients. With its acknowledged functional benefits, CBD is baying to be a major source of innovation – a whole new avenue for the drinks industry to explore, explode and entertain consumers with, and no negative effect on potential profit margins.





Who's in?

It's hardly surprising that many of the major drinks companies are innovating around CBD. It's going mainstream, and quickly:

- In the US, Molson Coors and Constellation Brands are both investing in the category, and there are even rumours that Coca-Cola is interested (although the company has so far denied this).
- In the UK, Dead Man's Fingers by Halewood International is a CBD-infused rum available in mid-range supermarket, Sainsbury's.
- A number of smaller players and start-ups are fuelling products coming on to the UK market: Botanic Lab Dutch Courage botanical tea drink is now available via on-demand delivery service, Deliveroo and in store at WHSmith.
- CBD drinks are available on a growing number of menus in bars and restaurants across the UK.

So, where are we heading with CBD?

We predict that

- CBD will remain fairly niche for the next year or so (although for those of us in the drinks industry, it will feel like it is everywhere)
- Innovation will ramp up left, right and centre, including all the major brand owner companies as well as the entrepreneurial start-up crowd
- Riding off the back of both consumer interest and established players in the No and Low category, we'll see a faster pace of innovation and adoption – although how much sticks and establishes as a major opportunity in the long term remains to be seen
- Shift in regulation, public perception or unfortunate PR from misuse could all bring the fledging industry to a grinding halt.

But that's where the established players must step up and take a lead...

We challenge the drinks industry to

- Grasp this opportunity positively and drive innovation to bring new functional benefits, flavours and drinks experiences to the marketplace
- Think carefully about the marketing: trading in an unregulated void presents both threat and opportunity
- Shout the benefits of CBD to avoid the risk of it being a trend that never took hold
- Use marketing in a responsible way to educate and inspire the masses and do what our industry does best: harness creativity to drive amazing liquid formulation, evolve iconic brands, shape culture and drive huge profits, and create job opportunities and spin-off markets that all make the world a more enjoyable, more creative and, in this case, more positive place!

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What do people in the industry think?

What are your predictions for this category and what are the next big trends driving growth?

“Continued growth for CBD brands, although bumpy at times as regulation catches up. As we reconnect with nature, and re-learn that there are other natural botanicals that provide functional benefits, I see more adults switching away from alcohol into new botanical / functional categories, as long as they still receive a sophisticated and intriguing, adult drink experience.”

Craig Hutchinson, Creator of Maria & Craig's Distilled Non Alcoholic CBD Botanical Spirit & Ceder's Distilled Non Alcoholic Gin.

“We're going to see a lot of growth in the functional food and drinks category. This will include CBD in different doses for different need-states - a bit like we're seeing in tea, where there is a certain blend to help you wake up, to energise you and to help you sleep. By the end of the year I expect other cannabinoids, such as CBG, will start to share some of the limelight as consumers become more educated about the plant as a whole.”

Sally Wynter, Founder of MUHU, sweet hibiscus gin with added CBD.

“Although the UK was a little slow off the mark, it is spearheading seismic innovation, in areas such as drinks, which has begun to move the global conversation on from just tinctures and vapes. Increasing product accessibility will only bolster consumer demand and is essential for this category to cement itself in mainstream FMCG.”

Tom Lorimer, Sales Director, OTO.



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Our Wonderworks opinion.

We believe that the drinks industry has the power to do big things. The two greatest impacts it could have in the next 10 years would be to use its power to influence protecting the planet and to assist with people's wellbeing.

Alcohol has its place. CBD has its place. Water and soft drinks have their place. The challenge is open to us all to make products widely available, with the right education to allow the benefits of every drink to play its part.

There is a lot of research needed, of course, and no doubt regulation will be imposed, but for those curious drinks innovators – producers, bartenders, baristas and consumers – the future certainly looks full of possibilities.

We'll just leave this here...

“In the future, consumers will have a pick-me-up cannabis beverage when they wake up, jump in the shower using cannabis toiletries, take a cannabis supplement with lunch, consume cannabis sports nutrition after the gym, head out in the evening for a non-alcoholic THC drink and go to bed at the end of the day with a THC or CBD sleeping aid.”

Euromonitor International⁴

1. <http://go.euromonitor.com/rs/805-KOK-719/images/wpCannabisDisruption-Final.pdf>
2. <https://www.nextcbd.com>
3. <https://www.degruyter.com/view/j/cclm.2017.55.issue-10/cclm-2016-1060/cclm-2016-1060.xml>
4. <https://blog.euromonitor.com/legal-cannabis-the-billion-dollar-market-set-to-disrupt-consumer-goods>



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