



Industry Report:

Cannabis Beverages: Analyzing category & brand performance

Introduction

At Headset, we've been tracking the recreational cannabis industry since 2015. Since then, we've been hearing something along the lines of: "beverages are about to take off." This prediction makes sense; cannabis is a legal vice quickly gaining ground as an acceptable alternative to alcohol. Substitution of cannabis for alcohol has become so popular, the [term "Cali-Sober" popped up to describe the behavior](#). As consumers look to replace alcohol, what better way to substitute the intoxicant than in the same form factor?

However when we look at the data, as we always do, these predictions haven't really panned out. Over the last five years, Beverage market share has maintained about 1% of total recreational cannabis sales, with sales to the category growing at roughly the same pace as the total market.

But today, for the first time in a long time, our Headset analysts are bullish on Beverages. Between advancements in THC infusion technology, and a myriad of new brands catering to the occasional, low-dose consumer, there is a lot of reason to believe in the growth potential of this category. This report provides an understanding of where Beverages have been, where the category stands today, and where we believe it's going.

Ready to understand today's cannabis Beverage landscape and inform your business strategy with reliable data? Read the report and [sign up for a demo of Insights Premium](#) to learn how your business can leverage cannabis category data in real-time.

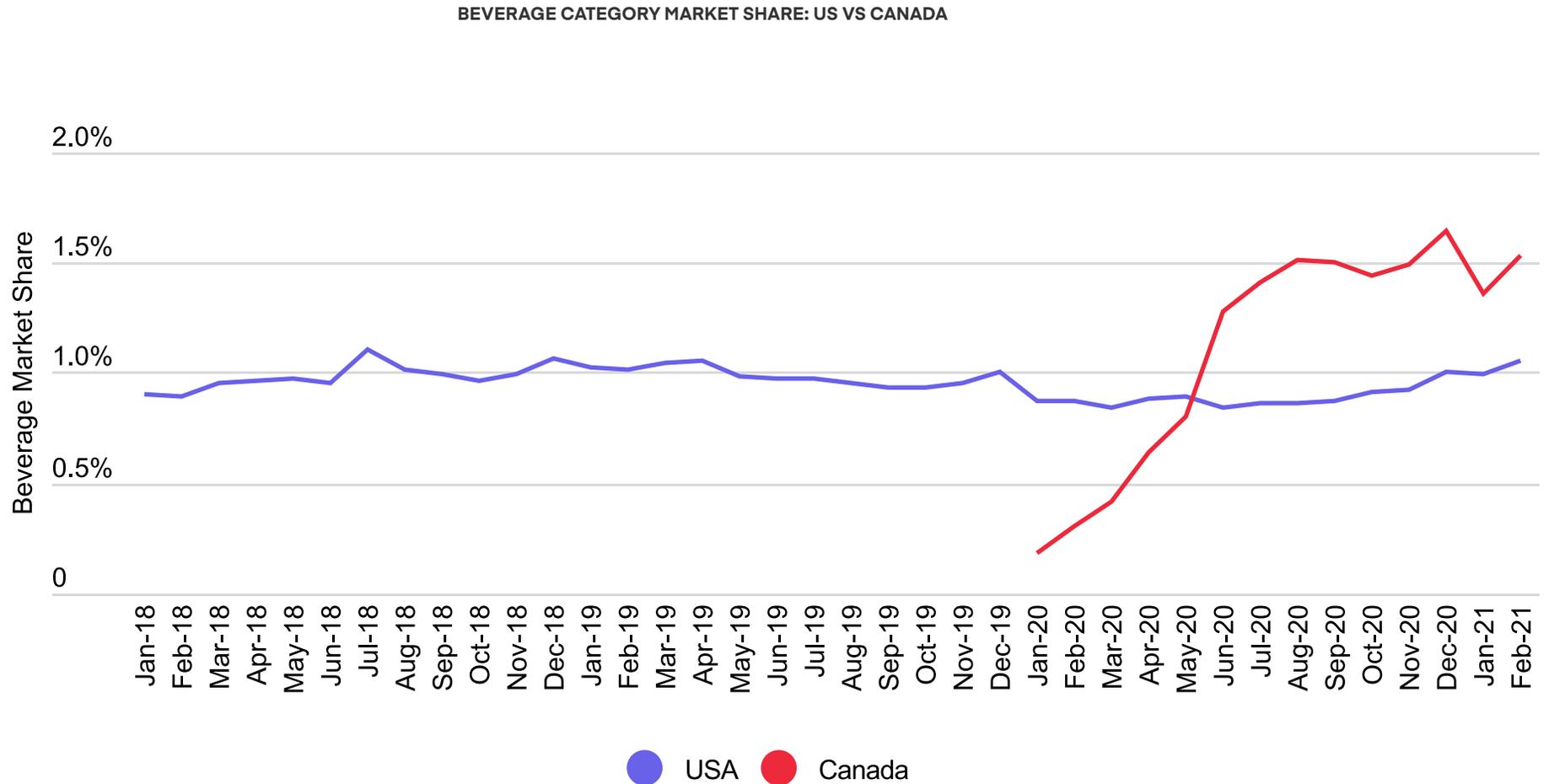
Executive Summary

While market share for the Beverage category has held steady over the past few years, there have been increases in basket penetration and customer trial rates with different trends in the US and Canada that indicate future growth for the category. In Canada, for example, basket penetration for Beverages rose quickly in the first half of 2020 and stabilized at around 4.5%. In the US, however, basket penetration had a more gradual increase over time from 1.6% in January 2018 to 2.8% in February 2021. This means that Beverages are making their way into more and more baskets as time goes on. Beverage sales trends also differ from state to state in the US. In Washington, for example, 100mg Beverages dominate the market while in California, sales to products of 12mg or less make up more than a third of the Beverage market. Looking at the top brands in California specifically, we see different brands finding success by occupying a certain niche within the category. [Keef Cola](#), for example, offers value-priced products. [CANN's](#) product prices, on the other hand, can be almost eight times higher than the market average and caters to those looking for a more premium product.

Methodology

Unless otherwise indicated, US data includes recreational sales from California, Colorado, Massachusetts, Michigan, Nevada, Oregon (including Medical sales), and Washington. Data for Canada includes recreational cannabis sales from Alberta, British Columbia, Ontario (private non-[OCS.ca](#) sales only), and Saskatchewan.

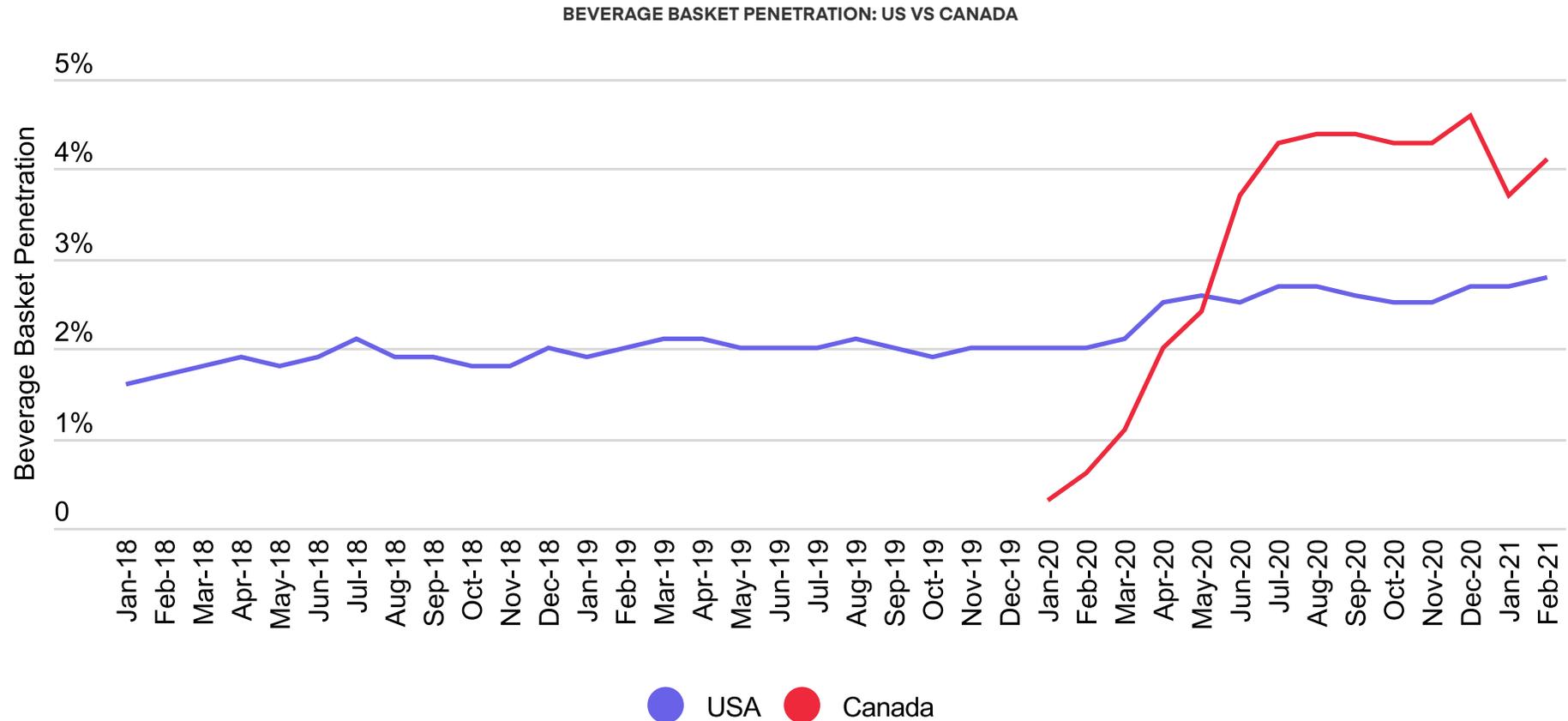
Beverage market share in US and Canada



In this first graph we can see that in the US, the Beverage category’s market share has held fairly steady between 0.85% and 1.1% over the last several years. In fact, market share to the category was slowly decreasing through late 2019 and early 2020 before maintaining just below 0.9% during the beginning of the COVID-19 pandemic. However, the category has been regaining ground since Q3 2020 and looks well positioned to reach an all time high as the US reopens post-COVID.

Canada’s market share to Beverages surpassed the US in only five months and seems to be stabilizing around 1.5% of total sales.

Beverage basket penetration in US and Canada

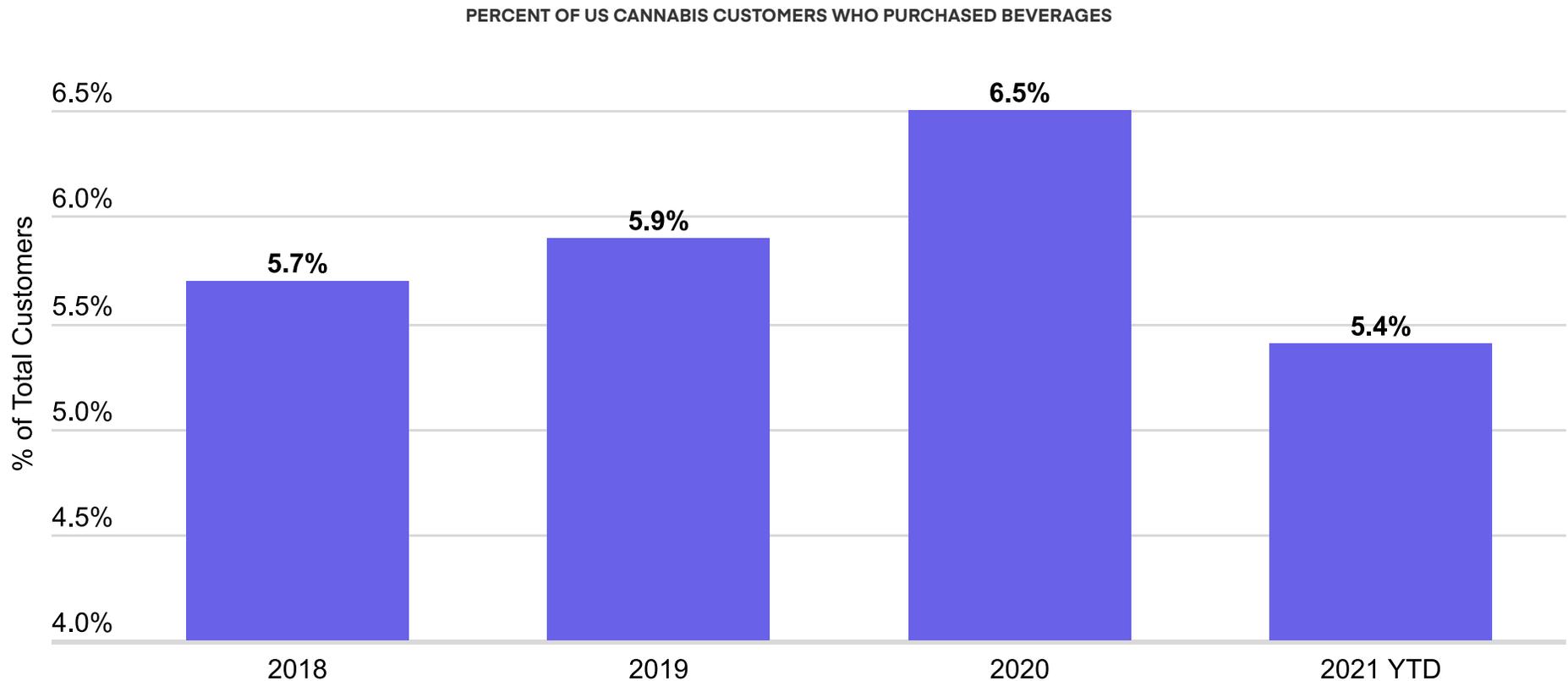


In this graph, we are viewing the basket penetration of Beverage products by month. This can be interpreted as: if there were 100 total cannabis transactions, how many contained a Beverage?

The trend in Canada looks very similar to the previous market share graph - rising quickly through the first half of 2020 and then stabilizing by late summer, this time at about 4.5% of baskets.

The basket penetration trend in the US, on the other hand, looks different from the trend in category market share. Here we can see a relatively steady march upwards over time rising from 1.6% in January 2018 to 2.8% in February 2021. Even though market share hasn't drastically increased, Beverages are making their way into more and more baskets each month, indicating that more customers than ever are trying THC-infused Beverages.

How many consumers purchase Beverages in the US?

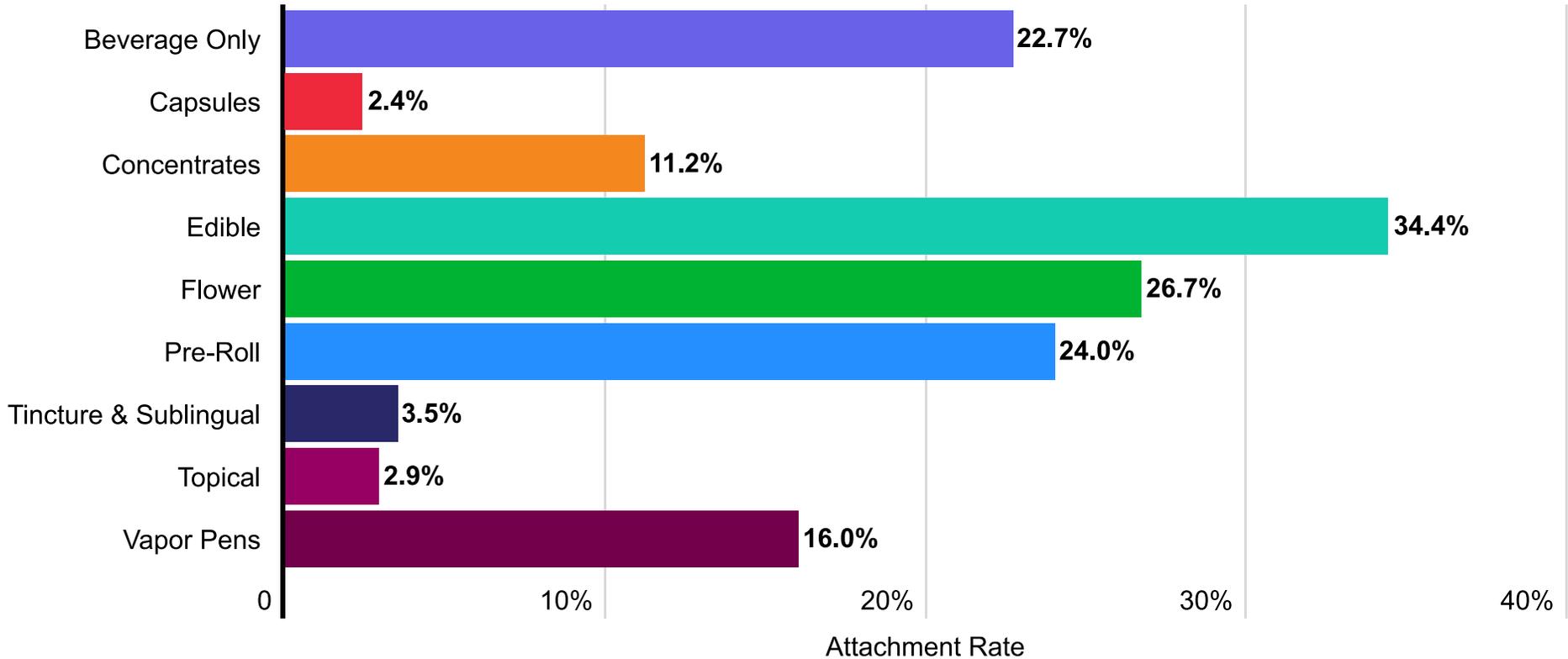


Further evidence for a bullish attitude towards Beverages can be found when we look at the proportion of customers who purchased at least one Beverage within the last four calendar years. Here we can see that there was a 10% increase in the rate of purchase from 2019 to 2020. If that growth rate were to maintain, then at least 7% of customers in 2021 will purchase a Beverage.

With less than three months of 2021 in the books at the time of writing this report, the fact that 5.4% of customers have already purchased from the Beverage category indicates the strong positive trajectory for this category.

What else is in a basket with Beverages?

CROSS-CATEGORY ATTACHMENT RATES TO BEVERAGE BASKETS 2020 (CA, CO, NV, OR, WA)

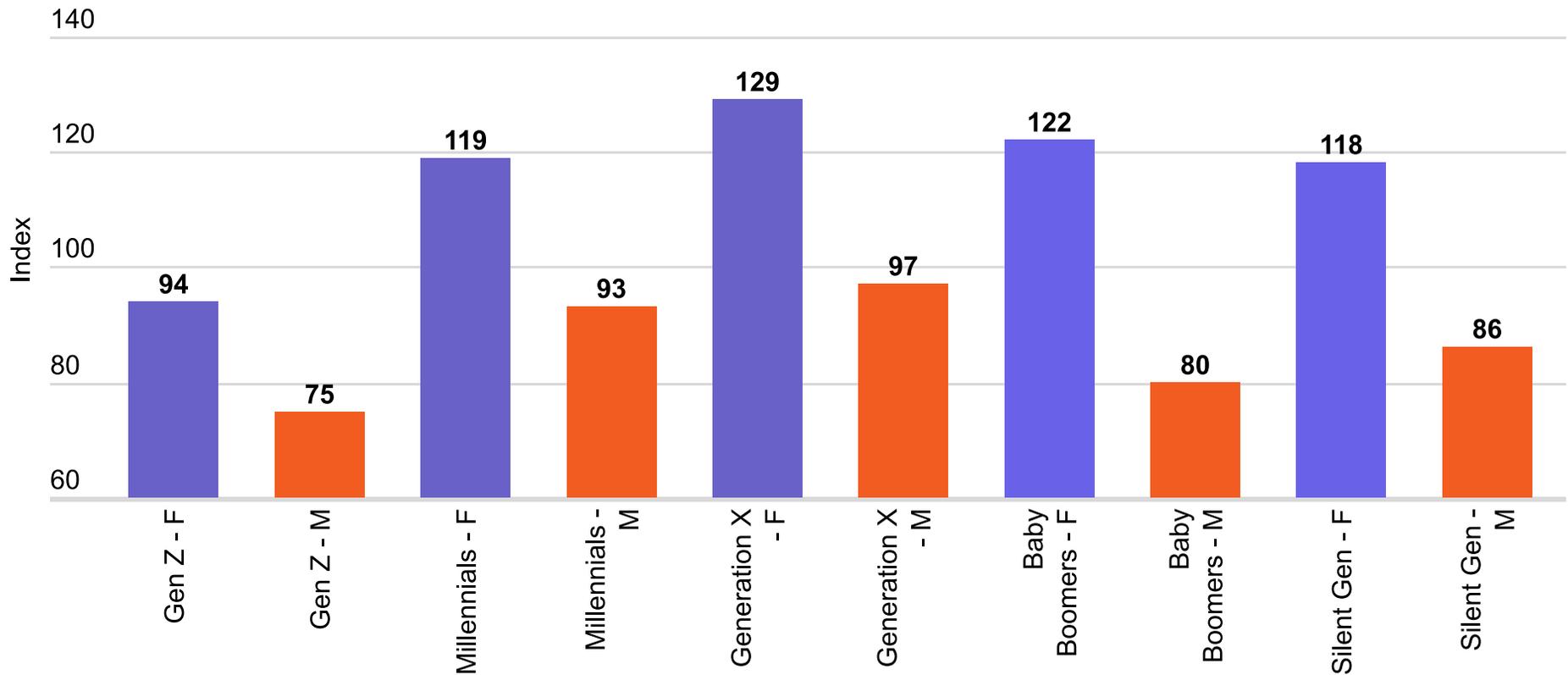


Now that we've established the positive trajectory of the Beverage category in general, let's dive into how Beverages are purchased. In this graph, we can see the attachment rate of all other categories to Beverage baskets during 2020.

Edibles are present in more than 1/3 of Beverage baskets, indicating that there are frequent 'ingestible' customers who are looking for multiple non-inhalable options in the same purchase. Also notable is the fact that only about 23% of total Beverage baskets contain only Beverages. This indicates that Beverages are still often add-on purchases rather than trip-drivers.

Who purchases Beverages in the US?

BEVERAGE SALES INDEX BY DEMOGRAPHIC GROUP 2020 (CA, CO, NV, WA)

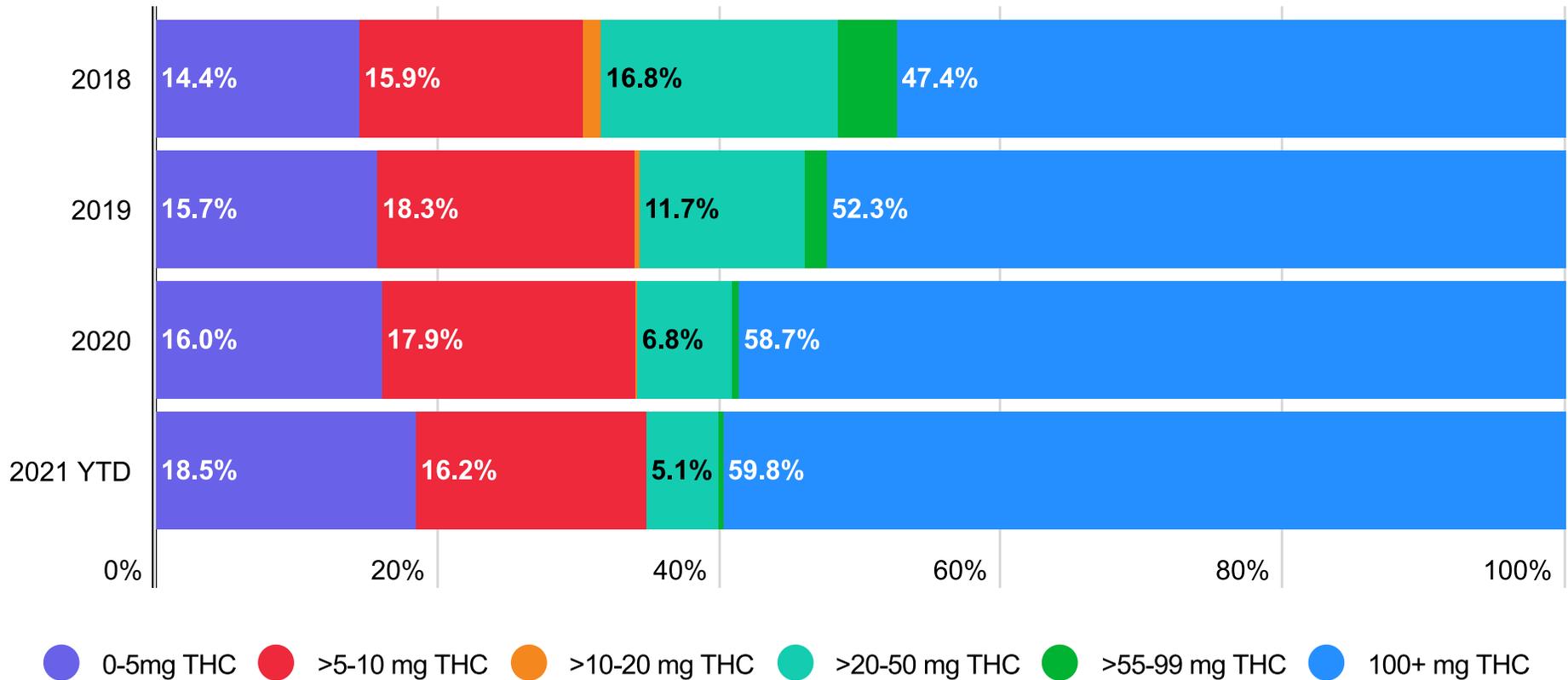


Which demographic group purchases THC-infused Beverages? The short answer is everyone! But of course that's not the whole story. This graph shows the sales index to Beverages across age group and gender. The index is a value that compares the demographic group's wallet share to Beverages to the overall market share of the category. If the index value is greater than 100, that group of customers spends relatively more than average on Beverages. If the index value is less than 100, they spend less than average.

Here we can see that within every age group, Female customers are more likely to spend relatively more on Beverages than their Male counterparts. In fact, Gen Z Females are the only Female group to under-index to the category. Gen Z Males spend the least on Beverages while Millennial and Gen X Males only slightly under-index to the category.

What types of Beverages are most popular?

BEVERAGE SALES SHARE BY PRODUCT SERVING SIZE/DOSAGE (CA, CO, NV, OR, WA)

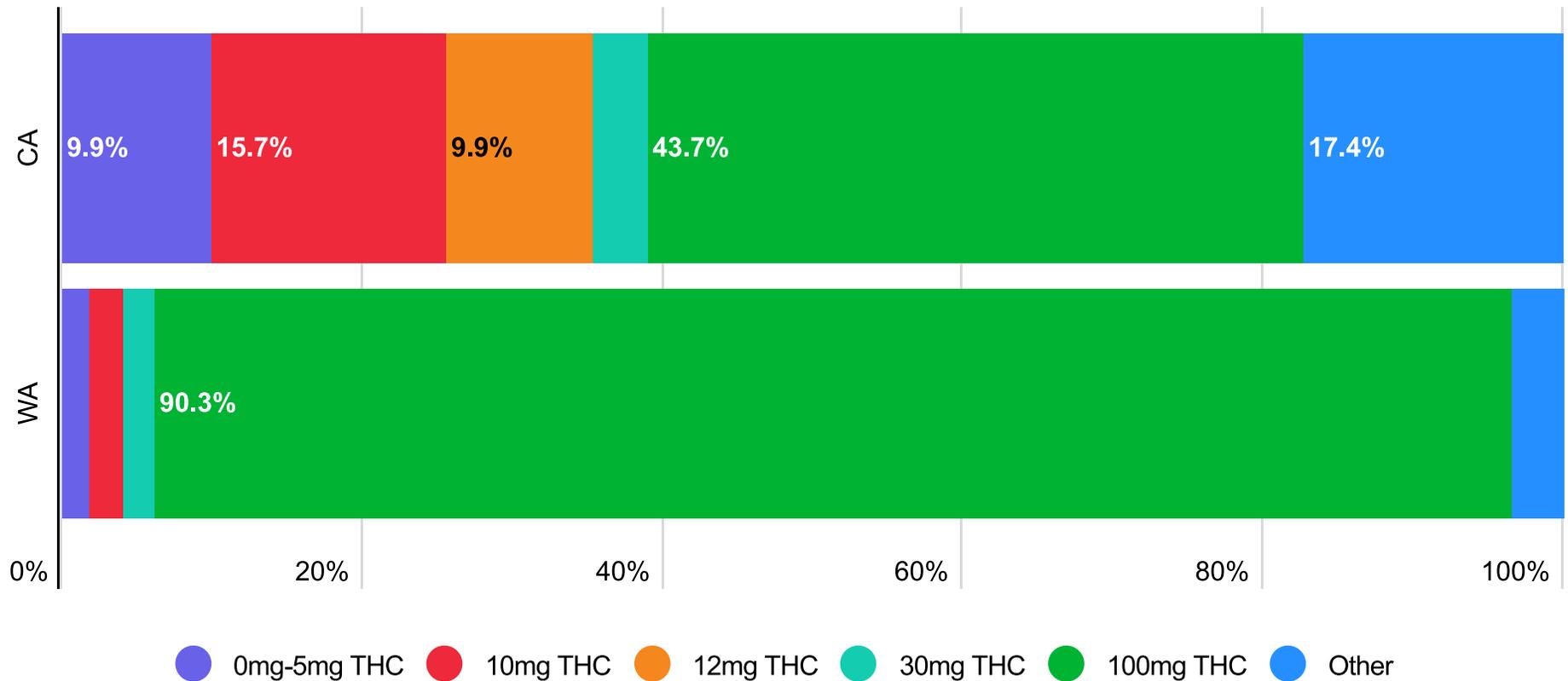


To help us understand which types of Beverages are becoming more or less popular, let's evaluate the trends in sales share by serving size or 'dosage'. For the purposes of this chart, the serving size for Beverages is calculated as (total milligrams THC per package / number of servings in the package). For example, both a single 10mg THC iced tea and a 60mg THC six-pack of sodas would fall into the red '>5-10mg THC' section of the graph.

As we move from 2018 to 2021 YTD, the two opposite ends of the serving size spectrum are gobbling up the market. It appears that consumer preference is solidifying around two distinct options: 100mg THC for maximum possible potency or a 10mg (or less) serving. In fact, most of the growth in the 10mg or lighter section over the last few years has come from the 0-5mg 'microdosed' cohort of Beverages, which has risen from 14.4% category share to more than 18% of sales this year to date.

Package size trends in Washington and California

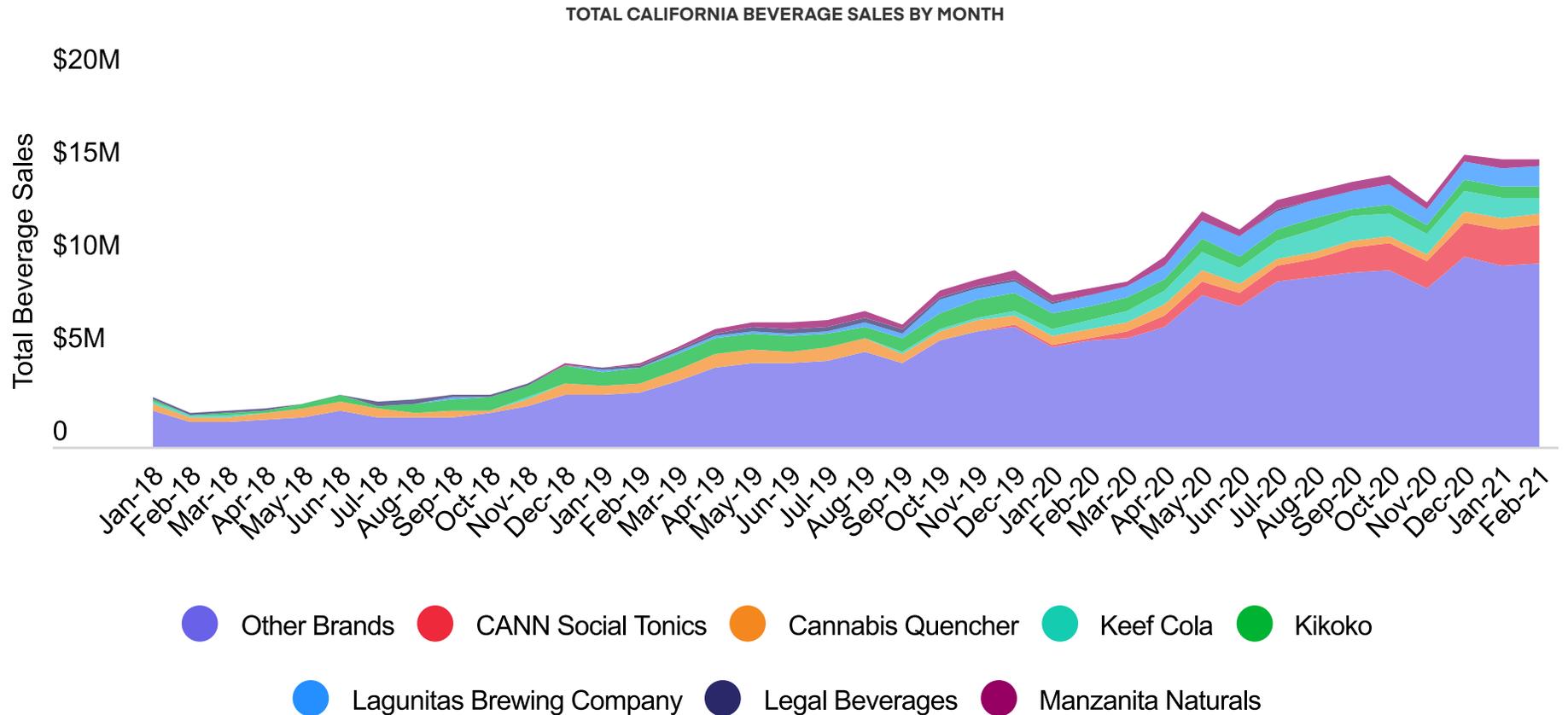
2020 BEVERAGE SALES SHARE BY PACKAGE SIZE CA VS WA



So far we have looked at Beverage sales trends that include sales from multiple markets, but it's important to remember that each state, like a castle surrounded by a moat of federal prohibition, is unique. In this chart, we examine the 2020 sales share to various Beverage package sizes between two very different markets: California and Washington.

The absolute dominance of 100mg products in the Washington market immediately stands out. With 9 out of every 10 dollars being spent on Beverages going to a 100mg product, there isn't much room for anything else. Or perhaps this indicates a tremendous opportunity for Washington Beverage brands as, in contrast, sales to products of 12mg or less make up more than a third of the California Beverage market.

How Beverage brands are performing in California

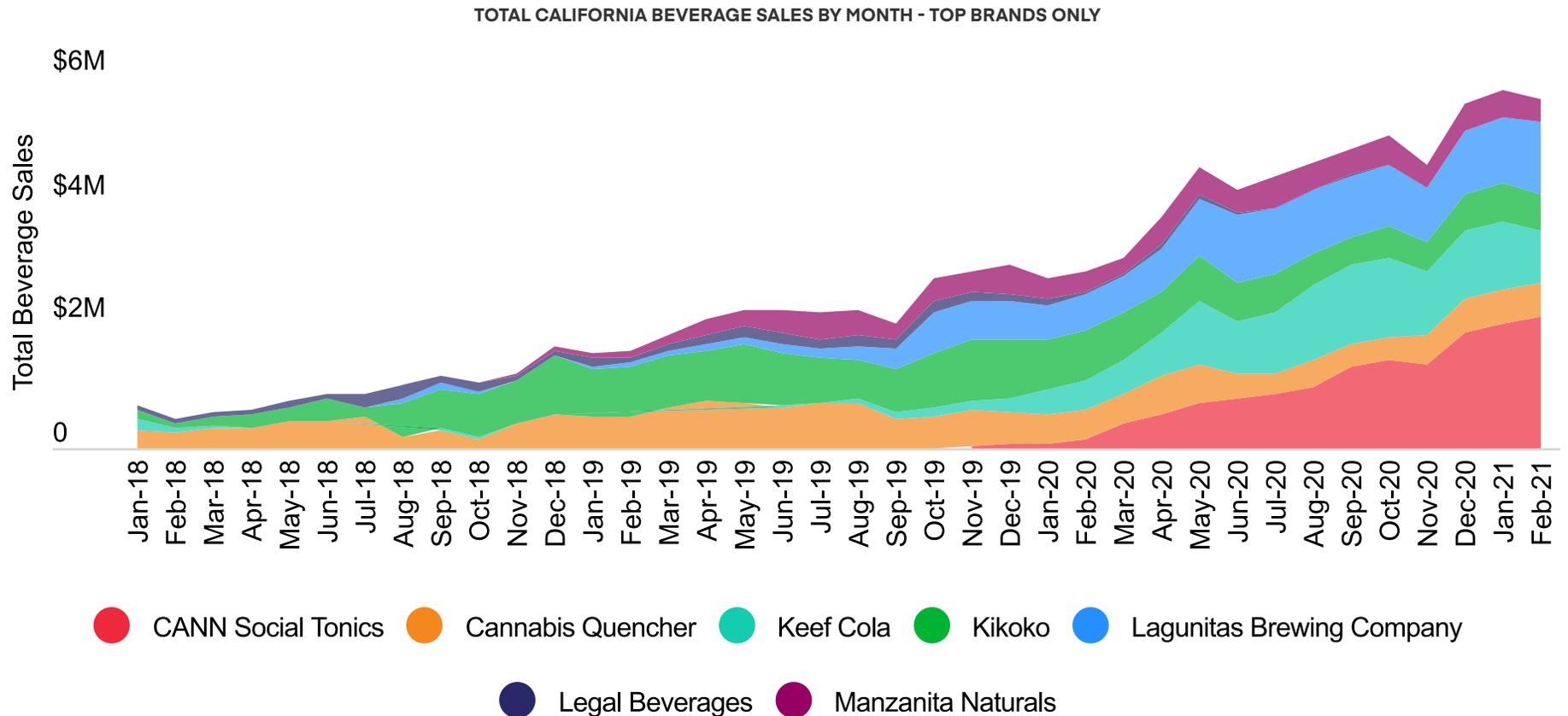


In order to more closely examine the unique and diverse California Beverage market, we have highlighted the sales of seven brands who have broken into the category's top three by sales within the last three years. The purple section of the graph shows the total sales of all other brands in California combined.

First, the incredible growth over the previous three years can't be ignored. California Beverage sales in January 2021 clocked in at \$15.5M, nearly six times greater than the \$2.7M recorded during January 2018, the first month of recreational sales.

It is also worth noting that there has been an overall decrease in brand consolidation over the years. In 2018, 32% of sales went to the top three Beverage brands ([Kikoko](#), [Cannabis Quencher](#), and [Legal Beverages](#)), but in 2020, only 22% of sales went to the top three brands ([Keef Cola](#), [CANN Social Tonics](#), and [Lagunitas Brewing Company](#)). This indicates an increasingly diverse playing field as brands develop products that resonate with different types of Beverage customers.

Top Beverage brands in California

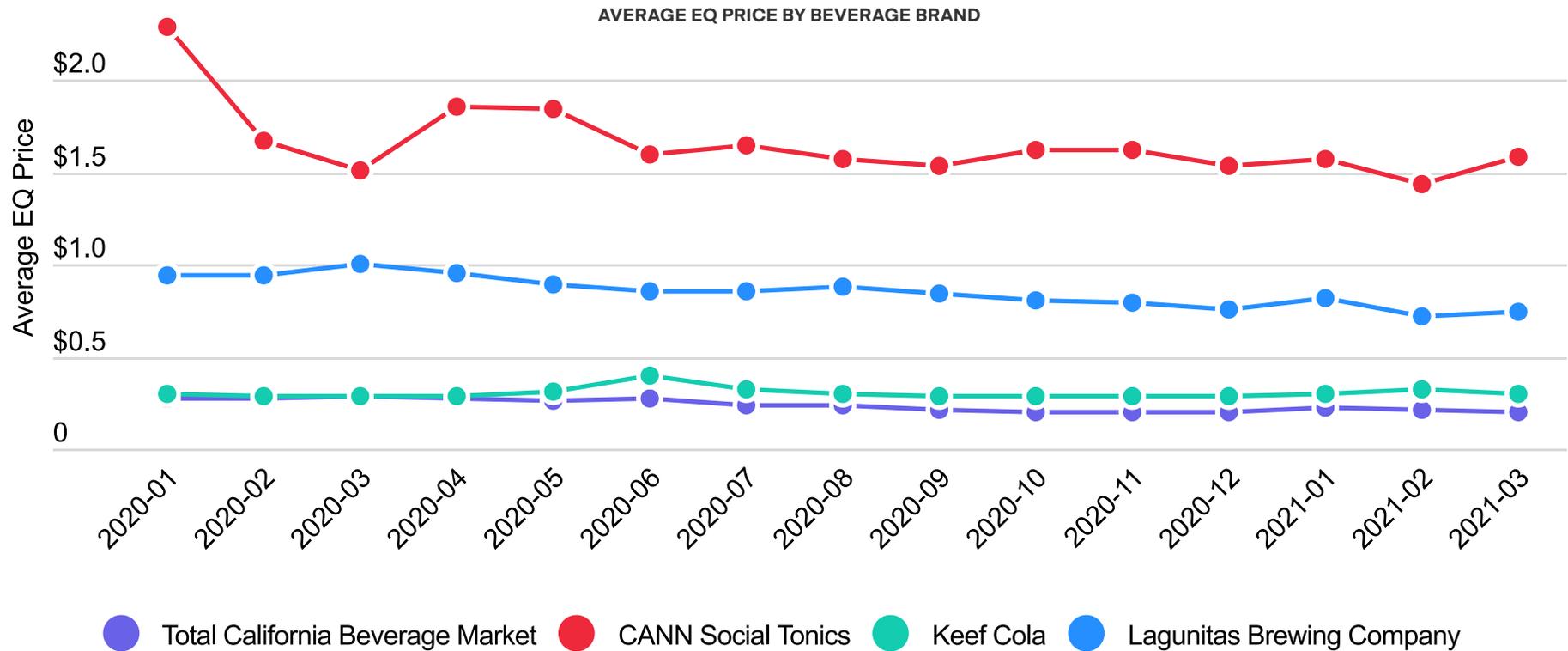


By removing the sales to 'Other Brands' from the chart, we can more closely evaluate the performance of the [top players in the California market](#) over the last few years. Here we can see that some brands, like [Kikoko](#) and [Cannabis Quencher](#) have maintained relevancy over time, despite ceding market share to new brands who entered the market later. [Legal Beverages](#), on the other hand, was unable to keep up, falling from the third top selling Beverage brand in 2018 to a market exit in 2020.

There are also some newer success stories. [Lagunitas Brewing Company's 'Hi-Fi Hops'](#) sells only products containing 10mg of THC or less per serving. [Keef Cola](#), a legacy brand originating way back in the medical cannabis markets, was relaunched in California in 2019 and quickly rose to a prominent position by offering affordable soda, mocktail, and flavored water products in both 10mg and 100mg package sizes.

[CANN Social Tonics](#) has been a brand difficult to ignore in the cannabis industry, from it's glitzy celebrity investments, to it's rapid ascension to the top of the California Beverage market. Despite extremely high EQ prices (see following slide), and with less than a year and a half in the market, CANN has pulled away as California's top Beverage brand by an increasingly wide margin.

Top Beverage brands: Average price per mg of THC



This graph shows the average EQ price (price per milligram of THC) by month for each of the top three California Beverage brands, as well as the total market’s average EQ price.

Here we can see that each brand has its own lane within the market. Keef Cola offers a value-priced product with EQ prices only slightly above the market average. Lagunitas, with two of their three products having 5mg of THC or less per serving, has an average EQ price about four times higher than the market average. CANN has EQ prices almost eight times higher than the market average. Their 2mg THC ‘social tonics’ are typically sold in 6-packs (12mg THC total) for a few dollars more than the average price of a 100mg Beverage.

Hard seltzer is [seeing astronomical sales growth over the last few years](#) in the alcohol industry. It isn’t surprising that the top Beverage brand in the largest US cannabis market is succeeding by bringing the viral form factor to cannabis. And while CANN has seen the greatest success, other prominent brands are jumping into the ‘cannabis seltzer’ arena. [Pabst Blue Ribbon recently launched a 5mg seltzer in California](#), and [Rebel Coast](#) pivoted from their line of cannabis-infused wines to canned seltzer products. If the future of cannabis seltzer is as bright as its alcoholic inspiration, there will be room for quite a few brands going forward.

Conclusion

Beverages are a unique category within the cannabis industry. In the previous slides, we examined Beverage sales trends in the US and Canada, and found unique differences within different markets and brands. To keep track of the promising growth of Beverages and brands in the industry, as well as other categories and market data, [sign up for demo of Insights Premium](#).

Key takeaways & recommendations

- Cannabis Beverage market share has held fairly steady in the US over the last several years, but steady increases in basket penetration and customer trial rates indicate a promising future for the category.
- Beverages are still very much 'add-on' purchases, most often in baskets with other product formats, and should be positioned on shelves as such. Retailers should consider placing them close to the register for easy cross-selling.
- Consumer preference towards Beverages is less split by demographics than some other categories. However, Beverages are relatively more popular among Female and Gen X customers.
- The Beverage market is increasingly consolidating into two product types:
 - a) Products with the maximum THC per dose (usually 100mg THC depending on the local regulations).
 - b) Products with 'microdosed' servings (5mg THC or less) catering to a consumer with limited cannabis tolerance and attempting to provide an alternative to an alcoholic beverage.
- Individual state markets are still separated by the reality of federal prohibition, and can be extremely different from one another.
- Two out of the three top Beverage brands in California are finding success with the 'microdosed' products aimed directly at alcohol-replacement.
- The alcoholic hard seltzer segment has seen massive growth in sales over the past few years, and there are several prominent brands bringing this popular format to cannabis.